South Cambridgeshire Hall
Cambourne Business Park
Cambourne
Cambridge
CB23 6EA

t: 01954 713000
f: 01954 713149
www.scambs.gov.uk

South Cambridgeshire District Council

21 November 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 **Tuesday, 28 November 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

This page is left blank intentionally.

Agenda Item 4

South Cambridgeshire District Council
Final Audit results report

Year ended 31 March 2021

20 November 2023

Building a better working world

20 November 2023

Dear Audit and Corporate Governance Committee Members

We are pleased to attach our Final Audit Results Report which provides an update to our Audit Results Report dated the 3 October 2023 and on the position of our audit following the conclusion of the majority of the outstanding audit procedures stated within that report.

We have substantially completed our audit of South Cambridgeshire District Council's 2020/21 financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report. We will provide a verbal update at the 28 November 2023 Audit and Corporate Governance Committee as to the status of the outstanding procedures detailed on page 5 of this report.

We intend to issue an unqualified audit opinion on the financial statements in the form at section 03 of this report.

We will report an exception in relation to the value for money arrangements as a result of the Council's weaknesses in preparing 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

Contents

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.psaa.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 26 July 2023 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

We have now substantially completed our audit of South Cambridgeshire District Council's 2020/21 financial statements for the year ended 31 March 2021.

The Council published its draft financial statements in January 2023. Management provided us with a revised version of the financial statements in June 2023. Our audit procedures and the conclusions reported within this report are on the June 2023 revised version of the financial statements.

The outstanding audit procedures at the date of this report are as follows:

- Completion of Leases testing. In our Audit Results Report dated 3 October 2023 we reported a disclosure misstatement regarding leases, as the Council holds a number of leases with third parties but these had not been disclosed in the draft financial statements. Management has prepared the required lease note and are collating evidence to support the disclosure.

Closing Procedures:

- Review of the final version of the financial statements. We are continuing to work with officers to agree a final version of the financial statements;
- Completion of subsequent events review;
- Receipt of the signed management representation letter; and
- Final Manager and Engagement Partner reviews.

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	(No change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our testing and found no indication of management overriding controls.
Misstatements due to fraud or error - the inappropriate capitalisation of revenue expenditure	(No change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital. Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements relating to street lighting expenditure of £1.33 million as the expenditure was incorrectly classified as REFCUS and the year end accrual raised was overstated. Further details of the adjustment can be found in section 04 of this report.
Valuation of Investment Properties	(Change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our testing of the valuation of Investment Properties. We have engaged our own internal valuers to review the assumptions and methodologies employed by the Council's external valuer on all investment property assets. We identified that the valuation of three investment property assets fell outside of a reasonable valuation range resulting in a £8.59 million adjustment to the financial statements. Further details of this adjustments can be found in section 04 of this report.

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.

Inherent Risks	Findings & conclusions
Accounting for Covid-19 related Government grants	(Change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our testing over COVID-19 government grants. We have identified a number of misstatements regarding these grants including incorrect classification of grants under principal arrangements and as non-ring fenced grants in the comprehensive income and expenditure statement. Further details of the adjustment can be found in section 04 of this report.
Presentation and disclosure of accounting items	(Change in findings & conclusions from our 3 October 2023 Audit Results Report) From audit procedures completed 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.
Capital accounting entries	(No change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our testing of capital accounting entries and identified a number of misstatements: • Capital financing, £5.00 million • Capital expenditure classification, £0.33 million • Investment Property classification, £6.03 million • Leases, the Council require a lease note to reflect lease arrangements identified for non-current assets. Further details of the adjustment can be found in section 04 of this report. We also identified a number control observation which are detailed in section 06 of this report.

Executive Summary

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

Inherent Risks	Findings & conclusions
Valuation of other land & buildings and housing	(Change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our testing on the valuation of other land & buildings and housing assets. We identified that the valuation of Housing assets was understated by £12.9 million as the indexation rates applied to the Council's housing assets for valuation purposes were lower than reported industry rates as provided by Land Registry and other valuation bodies. We also identified that a number of Beacon groups incorrectly included a mix of property types, resulting in a further valuation misstatement to housing assets of £0.30 million. Further details of the adjustment can be found in section 04 of this report.
Pension Liability Valuation & other pension disclosures	(Change in findings & conclusions from our 3 October 2023 Audit Results Report) We have completed our audit work in this area. The Council obtained an updated IAS19 report as the Pension Fund auditor reported a difference in asset values between the original estimate included in the IAS19 report and the actual year end values. This resulted in a £0.85 million decrease in the pension liability. Further details of the adjustment can be found in section 04 of this report.

Executive Summary

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

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:

- 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 which we expect to be adjusted for by management. We have identified one audit difference that management is not proposing to adjust for.

Details of audit adjustments can be found in section 04 of this report.

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 06.

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.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The WGA group audit team have confirmed they do not require any further work or submissions from component auditors on WGA returns for 2020/21.

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

Fees

The audit risks and issues we have reported to the Committee in our Audit Planning Report, the July 2023 Progress Report, this Audit Results Report and the additional time required to perform the audit has given rise to an additional fee associated with the completion of the audit.

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

Significant risk

Fraud 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.

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.
- Inquired of 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?

(No change in findings & conclusions from our 3 October 2023 Audit Results Report)
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.

Significant risk

Fraud Risk

Inappropriate 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.

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 and Revenue Expenditure Funded from Capital under Statute (REFCUS) 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?

(No change in findings & conclusions from our 3 October 2023 Audit Results Report)

We have completed our work in this area.

We have not identified any Property, Plant and Equipment additions that were incorrectly capitalised.

Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements relating to street lighting expenditure of £1.33 million. The expenditure was incorrectly classified as REFCUS as the street lights belonged to the Council and therefore did not meet the statutory definition of REFCUS. We also identified that only part of this expenditure related to 2020/21 overstating the accrual by £0.79 million in short-term creditors. Further details of the adjustment can be found in section 04 of this report.

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

Significant risk

Significant Risk

Valuation of investment properties

What is the risk?

During the 2019/20 the Council purchased three investment property assets totalling £24.6 million, in 2020/21 the Council purchased a further three investment properties totalling a further £25.4 million. At the balance sheet date of the 31 March 21 the Council investment property portfolio has been revalued to £75.5 million which equates to a £24.0 million increase in their valuation.

The valuation of these investment properties represent a 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 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.

Significant risk (Valuation of investment properties – continued)

What are our conclusions?

(Change in findings & conclusions from our 3 October 2023 Audit Results Report)

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 investment properties, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

We have engaged our own internal valuers to review the assumptions and methodologies employed by the Council's external valuer on all investment property assets. Our internal valuers have completed their work on the valuation of investment property assets and identified that three of the Councils assets did not fall within a reasonable range resulting in a decrease in the valuation of investment properties of £8.59 million:

- 270 Cambridge Science Park: Council value £26.45 million - Reasonable Range determined: £16.55 million to £18.70 million
- 296 Cambridge Science Park: Council value £11.33 million - Reasonable Range determined: £8.60 million to £9.05 million.
- Vitrum Building: Council value £12.51 million - Reasonable Range determined: £13.00 million to £13.95 million.

The findings which have resulted in the above misstatements include:

- Assets were incorrectly valued as freehold properties when the property is held on long leaseholds.
- Valuations did not fully reflect the particulars of leases in place regarding voids, rent free period and the occupation/vacancy at the balance sheet date.
- Valuations did not include the required a deduction for purchaser costs. Purchaser cost deductions typically range from 5.7% to 6.5% of the gross valuation.
- For the Vitrum Building valuation, the square footage used in the valuation was lower than that actually lettable at the property.

Further details of the adjustment can be found in section 04 of this report.

We have not identified any misstatements regarding the processing of accounting entries in the financial statements.

We have reviewed the disclosure and have found these to be adequate.

We identified that one land asset valued at £6.03 million held as an Investment Property in the draft statement of accounts did not meet the classification of an investment property as per the CIPFA Code of Practice and should be classified as a Surplus asset. Further details of the adjustment can be found in section 04 of this report.

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?	What did we do?
Accounting for Covid-19 related Government grants In 2020/21 the Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements. We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.	• Obtained and reviewed the Council's assessment of grant accounting and classification of grants received; • Sample tested of Government grant income to ensure correct classified as specific or non-specific in nature; and • Sample tested Government grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.

Other inherent risks

Accounting for Covid-19 related Government grants (continued)

Conclusions

(Change in findings & conclusions from our 3 October 2023 Audit Results Report)

We have completed our work in this area.

In our July 2023 progress report we reported that we had identified a number of COVID grants (£5.00 million) that had been incorrectly accounted for in the financial statements. Further investigation by the Council and audit identified that the grant working papers provided for audit were incorrect and the £5.00 million identified was an incorrect posting to earmarked reserves thought to be related to unspent COVID-19 grant. The posting should have been to transfer £5.00 million to capital financing rather than to earmarked reserves and did not relate to COVID grants.

We identified that grants were incorrectly classified as either non-ringfenced within net cost of services and/or incorrectly classified as grants under principal arrangements rather than agency grants. The accumulated adjustment required to amend the draft statement of accounts for these is a £0.80 million classification between Net Cost of Services and Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement

We also identified that the grant note 28 for 'Grants Credited to Services - Covid Support Grants' was understated by £3.03 million as did not include all grants received by the Council during 2020/21.

See section 04 for further details on the audit adjustments.

Other inherent risks (continued)

What is the risk/area of focus?	What did we do?
Capital Accounting Entries In 2018/19 the Council implemented a new fixed asset register (FAR). We found that the Council had a lack of understanding of how the new FAR operated resulting in multiple attempts to produce reports from the new FAR that reconciled with the closing balances from 2017/18, the Council's trial balance and the statement of accounts. In the 2019/20 audit we identified a significant risk over capital accounting entries due to the findings in 2018/19. Our work in 2019/20 showed an overall improvement in the Council's process's for managing and accounting for its fixed assets. We did however identify a number of significant audit adjustments relating to entries in the fixed asset register resulting in a significant level of additional work. Given these prior year findings there remains an inherent risk that capital accounting entries and disclosures may be materially misstated in 2020/21.	• Undertook a detailed review of the reports from the CIPFA Asset Management System and ensured capital balances internally reconciled and were 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 2020/21 Statement of Accounts and the trial balance.

Other inherent risks (continued)

Conclusions

(No change in findings & conclusions from our 3 October 2023 Audit Results Report)

We have completed our audit procedures in this area.

We undertook a detailed review of the reports from the CIPFA Asset Management System and found that capital balances internally reconciled. From our review of the CIPFA Asset Management System we identified:

- A number of land assets were being incorrectly depreciated.
- A number of assets had been incorrectly depreciated in the year of acquisition which is not in line with the Council's depreciation policy which requires assets to be depreciated in the first full year of ownership.
- Travellers' site assets have been included as Land assets only and as such no depreciation is being charged. However, the sites includes buildings and infrastructure elements to the assets which should be depreciated.

The in year impact of these findings is not above our reporting threshold but the cumulative impact in future years could lead to a significant impact on the accounts, and as such we have reported a control observation in section 06.

We did not identify any misstatements regarding the opening balances within CIPFA Asset Management system.

Our testing of in year movements within the CIPFA Asset Management system identified that:

- Capital financing was understanded by £5.00 million, this balance having been incorrectly posted to Earmarked reserves as management initially thought this related to unspent COVID-19 grant funding.
- £0.33 million of capital expenditure on Intangible Assets had been incorrectly classified as Property, Plant and Equipment

Further details of the adjustment can be found in section 04 of this report.

We did not identify any misstatements regarding the consistency between the CIPFA Asset Management System, draft 2020/21 Statement of Accounts and the trial balance.

We identified that the Council holds a number of leases including finance leases as lessee and operating lease as lessor that have not been disclosed in the financial statements and therefore lease disclosure notes are required to be included in the amended financial statements. Management is currently undertaking a review of its asset base to determine the extent of the Council's lease arrangements and to prepare the required lease disclosures.

Other inherent risks (continued)

What is the risk/area of focus?	What did we do?
Presentation and disclosure of accounting items In the 2019/20 audit we included an inherent risk over the presentation and disclosure of accounting items. Our audit procedures in 2019/20 identified a number of audit adjustments required to bring the financial statements in line with the requirements of the CIPFA Code of Practice and the underlying accounting standards. Since 2019/20, and in periods before this, the Council has continued to strengthened its finance team and put in place processes to improve how the statement of accounts are populated and to improve the overall quality of working papers and evidence to support the statements. At the planning stage we believe that the audit risk over the presentation and disclosure of accounting items remains an inherent risk for 2020/21. Throughout the audit 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.	• 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 commenced the detailed audit work and provided feedback as to their quality to management; and • Lowered our testing threshold across the financial statements to 50% of materiality.

Conclusions

(Change in findings & conclusions from our 3 October 2023 Audit Results Report)

We have completed our work in this area.

From audit procedures completed 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.

Other inherent risks (continued)

What is the risk/area of focus?

Valuation of Other Land and Buildings (OLB) and housing

OLB at £31 million and housing at £520 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.

ISAs (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?

- 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 were carried out with sufficient frequency to ensure that carrying values were not materially different from market value;
- Considered if there were any specific changes to assets that occurred and that these had been communicated to the valuer;
- For housing assets tested a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; and
- Considered specifically the use of indices to derive the 31 March valuation;
- Considered appropriateness of changes to useful economic lives as a result of the most recent valuation; and
- Tested that accounting entries have been correctly processed in the financial statements.

Conclusions

(Change in findings & conclusions from our 3 October 2023 Audit Results Report)

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.

The Council values its housing assets annually. Approximately 80% of the housing stock is revalued using indexation techniques with full valuation methodologies being applied every 5 years. We identified that the indexation rates applied to the Council's housing assets were not in line with reported industry rates as provided by Land Registry and other valuation bodies. The Council applied average indexation rates of 3.9% for houses and 0.9% for flats versus industry standards of 6.9% and 3.6% respectively, resulting in a valuation misstatement of £12.9 million. We also identified that a number of Beacon groups incorrectly included a mix of property types, resulting in a further valuation misstatement to housing assets of £0.30 million.

Further details of these adjustment can be found in section 04 of this report.

Other areas of audit focus (continued)

What is the risk/area of focus?	What did we do?
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 £82 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.	▸ Liaised with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Cambridgeshire District Council; ▸ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; ▸ Employed our internal EY pensions team to calculate an estimate of the Council's pension liability by running their own 'actuarial model' and comparing this to that produced by the Council's actuary; ▸ Considered the impact of the recent 2022 triannual valuation on the Council pension liability; and ▸ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Conclusions

(Change in findings & conclusions from our 3 October 2023 Audit Results Report)

We have completed our work in this area.

We have received the assurance from the Cambridgeshire Pension Fund auditors in regard to the information supplied to the actuary, and confirmed there are no findings impacting on the Council's accounts. The Pension Fund auditor reported a difference in asset values between the original estimate included in the IAS19 report and the actual year end values. The Council obtained an updated IAS19 report which results in a £0.85 million decrease in the pension liability and will amend the accounts to reflect the updated asset values. Further details of the adjustment can be found in section 04 of this report.

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.

Our procedures to determine our own estimate for the Council's pension liability found that the liability calculated by the actuary fell within our reasonable range.

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

The pension liability and related disclosures in the draft statement of accounts were based on an IAS19 report which used the March 2019 triennial valuation to estimate the Council's pension balances. In March 2023 the Council's actuary released the March 2022 triennial valuation. We performed audit procedures to assess the impact of the most recent triennial valuation. No misstatements to the pension liability were identified as a result of the March 2022 triennial valuation.

03 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 2021 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
- the related notes 1 to 38 and notes G1 to G5 to the Group Accounts
- 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 to CF2

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 2020/21.

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 2021 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 2020/21.

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 Authority and 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 (C&AG) 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

In auditing the financial statements, we have concluded that 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 appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Finance and Section 151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

DRAFT

Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, 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 contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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

Exception report

Report on the Council's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weakness in the Authority's arrangements for the year ended 31 March 2021.

Significant weaknesses in arrangements

Governance
Our judgement on the nature of the weakness identified:
The 2020/21 financial year is the sixth 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 2019/20 value for money conclusion 'except for' qualification, the Authority has made further progress with the arrangements for preparing its 2020/21 statement of accounts. However, the unaudited statements were not published until 23 December 2023 due to the continued impact of historic delays and difficulties faced by officers in providing evidence to support the statements. The length of time that has passed since the 2020/21 financial year 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 evidence on which our view is based is:

- Publication date of the 2020/21 draft financial statements.
- Council committee papers setting out continued delays and the Council's plans to catch up with the financial statements preparation and audit cycles.

The impact on South Cambridgeshire District Council:
Failure to improve on the Council's ability to report financial information in a timely fashion may limit the Council's ability to make informed decisions and deploy resources sustainably.

The action South Cambridgeshire District Council needs to take to address the weakness:
The Council needs to 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.

Audit Report

Our opinion on the financial statements

The issues are evidence of weaknesses in proper arrangements for how the body ensures it makes informed decisions and properly manages its risks, including having effective processes and systems to supports it statutory financial reporting requirements.

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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014; and

We have nothing to report in these respects

Responsibility of the Head of Finance and Section 151 Officer

As explained more fully in the Statement of the Responsibilities set out on page 9, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Audit Report

Our opinion on the financial statements

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the authority and determined that the most significant are:
  - Local Government Act 1972,
  - Local Government and Housing Act 1989 (England and Wales),
  - Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
  - The Local Government Finance Act 2012,
  - The Local Audit and Accountability Act 2014, and
  - The Accounts and Audit Regulations 2015.

In addition, the authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

- We understood how South Cambridgeshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the Head of Internal Audit, those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the authority's committee minutes, through enquiry of employees to confirm authority policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

- We assessed the susceptibility of the authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested the appropriateness of the journal and that it was accounted for appropriately. We assessed accounting estimates for evidence of management bias and evaluated the business rationale for significant unusual transactions.

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.

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.

DRAFT

Our opinion on the financial statements

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether South Cambridgeshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether 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 2021.

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, 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.

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.

Certificate

We certify that we have completed the audit of the accounts of South Cambridgeshire District Council and Group 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 the Authority 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)
XX XXXX 2023

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 differences in the draft financial statements that have been adjusted for by management.

1) **Pension Liability:** The Pension Fund auditor reported a difference in asset values between the original estimate included in the IAS19 report and the actual year end values. The Council obtained an updated IAS19 report which results in a £0.85 million decrease in the pension liability. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet – Pensions Liability £0.85 million
Credit: Comprehensive Income and Expenditure Statement –Actuarial (Gains)/Losses on Pension Liability £0.85 million

2) **Bad Debt Provision:** We identified that the Council had double counted the Housing Benefit Overpayment provision within the bad debt provision: The adjustment required to amend the draft statement of accounts and remove the duplicate entry is:

Debit: Balance Sheet – Debtors and Prepayments £0.28 million
Credit: Comprehensive Income and Expenditure Statement – Net cost of services £0.28 million

3) **COVID grants:** We identified that grants were incorrectly classified as either non-ringfenced within net cost of services and/or incorrectly classified as grants under principal arrangements rather than agency grants. The accumulated adjustment required to amend the draft statement of accounts for these misstatements is:

Debit: Comprehensive Income and Expenditure Statement – Net Cost of Services - Finance £0.80 million
Credit: Comprehensive Income and Expenditure Statement – Taxation and Non-Specific Grant Income £0.80 million

We also identified that the grant note 28 for 'Grants Credited to Services - Covid Support Grants' was understated by £3.03 million as did not include all grants received by the Council during 2020/21.

4) **Investment classification:** Our testing of investments identified that one investment of £2.50 million had been incorrectly classified as short term when the investment confirmation showed that this was long term in nature with a maturity date over 12 months from the balance sheet date; and one investment of £1.00 million which had been incorrectly classified as long term when the investment confirmation showed that this was short term in nature. The resultant adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet – Long Term Investments £1.50 million
Credit: Balance Sheet – Short Term Investments £1.50 million

Summary of audit differences (continued)

5) **Street lighting expenditure:** Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements relating to street lighting expenditure. The expenditure was incorrectly classified as REFCUS as the street lights belonged to the Council and therefore did not meet the statutory definition of REFCUS. We also identified that only part of this expenditure related to 2020/21 and therefore the accrual raised was overstated by £0.79 million in short-term creditors. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet – Short Term Creditors £0.79 million
Credit: Comprehensive Income and Expenditure Statement – Net cost of services £0.79 million
Debit: Useable reserves – General Fund - £0.79 million
Credit: Unusable reserves – Capital Adjustments Account - £0.79 million

6) **Capital financing:** In our July 2023 progress report, we reported that we had identified a number of COVID grants (£5.00 million) that had been incorrectly accounted for in the financial statements. Further investigation by management and the audit team identified that the grant working papers provided were incorrect and the £5.00 million was an incorrect posting to earmarked reserves thought to be related to unspent COVID-19 grant funding. The posting should have been to transfer the £5.00 million to unusable reserves, Capital expenditure charged against the General Fund, rather than to earmarked reserves and did not relate to COVID grants. The adjustment required to amend the draft statement of accounts is:

Debit: Reserves – Earmarked Reserves £5.00 million
Credit: Reserves – Unusable Reserves Capital Adjustment Account (Capital expenditure charged against the General Fund) £5.00 million

7) **Capital expenditure classification:** We identified that capital expenditure on intangible assets had been incorrectly included within Property, Plant and Equipment. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet - Intangible Assets £0.33 million
Credit: Balance Sheet - Property, Plant and Equipment £0.33 million

8) **Investment Property classification:** We identified that one land asset held as an Investment Property in the draft statement of accounts did not meet the classification of an investment property as per the CIPFA CODE of practice and should be classified as a Surplus asset. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet - Property, Plant and Equipment Surplus Assets £6.03 million
Credit: Balance Sheet - Investment Properties £6.03 million
Debit: Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure £0.63 million
Credit: Comprehensive Income and Expenditure Statement – Revaluation of Property, Plant and Equipment £0.63 million

9) **Investment Property valuation:** We identified that three of the Councils Investment Property assets did not fall within a reasonable range resulting in an overall decrease in the valuation of investment properties. The adjustment required to amend the draft statement of accounts is:

Debit: Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure £8.59 million
Credit: Balance Sheet - Investment Properties £8.59 million

Audit Differences

Summary of audit differences (continued)

10) **Operating Income and Expenditure:** We identified that the Council had incorrectly calculated their share of income due from the NNDR3 return in respect of Enterprise Zones as disclosed in note 9. The adjustment required to amend the draft statement of accounts is:

Debit: Comprehensive Income and Expenditure Statement – Taxation and Nonspecific grant income £0.53 million
Credit: Comprehensive Income and Expenditure Statement – Other operating expenditure and income £0.53 million

11) **Housing asset valuation:** The Council values it's housing assets annual, for approximately 80% of the housing stock this is undertaken using indexation techniques with full valuation methodologies being applied every 5 years. We identified that the indexation rates applied to the Council's housing assets were not in line with reported industry rates as provided by Land Registry and other valuation bodies. The Council applied average indexation rates of 3.9% for houses and 0.9% for flats versus industry standards of 6.9% and 3.6% respectively. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet - Property, Plant and Equipment Housing Assets £12.92 million
Credit: Comprehensive Income and Expenditure Statement – Revaluation of Property, Plant and Equipment £12.92 million

12) **Housing asset Beacon classification:** From our testing of housing assets we identified that a number of Beacon groups incorrectly included a mixture of property types resulting in a £0.30 million understatement of their value. Beacon groups should contain properties with homogenous attributes, such as number of bedrooms, location and property type (flat, house, bungalow, etc), as the same valuation is applied to each property within the Beacon group. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet - Property, Plant and Equipment Housing Assets £0.30 million
Credit: Comprehensive Income and Expenditure Statement – Revaluation of Property, Plant and Equipment £0.30 million

Summary of audit differences (continued)

13) **Disclosures:** We identified a significant number of audit adjustments to the disclosures 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.

Note 6 Expenditure Funding Analysis

A number of amendments required to the Expenditure Funding Analysis Note 6 of the Draft Financial Statements including:

- A number of the 2019/20 comparative balances reported in the 2020/21 statement of accounts did not agree to the audited 2019/20 statement of accounts and require amendment back to the audited position.
- Expenditure and Funding by Nature note – Interest and Investment Income overstated by £3.01 million with a corresponding understatement in Fees, Charges and Other Service Income. We also identified this incorrect classification in the 2019/20 financial statements as part of the 2019/20 audit.
- Expenditure and Funding by Nature note – Other Service Expenditure overstated by £0.18 million with a corresponding understatement in Employee Expenses.
- Expenditure and Funding by Nature note – Precepts and Levies overstated by £0.23 million with a corresponding adjustment to Business Rates Income and Expenditure.

Note 34 Capital Commitments

The capital commitment note was incorrect and should disclosure commitments of £9.51 million.

Note H2 Housing Revenue account – Housing stock values

The value of Council Dwellings disclosed was understated by £0.26 million and the value of other land and buildings overstated by £16.28 million.

Note 15 and Note 33 Financial Instruments

A number of disclosure misstatements within the financial instrument notes in the statement of accounts including:

- The amount disclosed for debtors was overstated by £5.71 million and for creditors was overstated by £7.04 million, as these incorrectly included statutory balances.
- No disclosure had been included in the Financial Instruments note for interest accrued on investments and loans.
- The amount disclosed for customer debtors in the financial instruments note 22 was understated by £1.24 million.

Note 29 Related Party disclosure

The related part note was not in line with the requirements of the CIPFA Code of Practice as it did not include disclosure of total income and expenditure with related parties. We also identified this in the 2019/20 financial statements as part of the 2019/20 audit. In addition, we identified that the note omitted two related parties for organisations where the Council had in year transactions and where the organisations were listed within the Councillors register of interests.

Note 16 Short term Debtors and payments in advance

The note did not disclose the provision for bad debt relating to Council Tax Arrears (£0.08 million) and NDR Arrears (£0.44 million) as these were incorrectly included within the Sundry Debtors line of the disclosure note.

Leases

We identified that the Council holds a number of leases with third parties including finance leases as lessee and operating leases as lessor. These have not been disclosed in the draft financial statements and therefore lease disclosure notes are required to be included in the amended financial statements. Management is currently undertaking a review of its asset base to determine the extent of the Council's lease arrangements and to prepare the required lease disclosures.

Unadjusted Audit differences

We identified one unadjusted audit difference. We will require management to include its rationale for not adjusting for these differences in their Letter of Representation:

1) **Capital creditors:** Our testing of capital accruals within Short Term Creditors identified that capital accruals had been incorrectly calculated resulting in an overstatement of the year end accruals balance. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet – Short Term Creditors £0.14 million
Credit: Balance Sheet – Property, Plant and Equipment £0.14 million

05 Value for Money Risks

Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

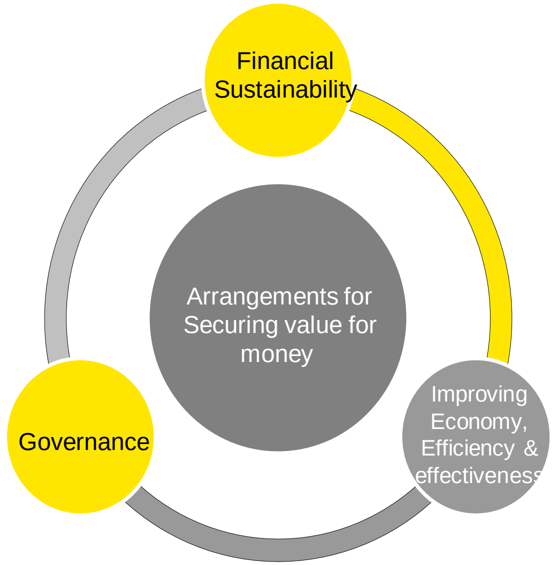
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money

Status of our 2020/21 VFM work

In our Audit Planning Report we recognised a significant risk in respect of the VFM criteria Governance - Informed decision making and the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities.

The next slide provides further detail on the risk identified.

In light of 2020/21 being the sixth 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 plan to report an exception in the Council's value for money arrangements to make informed decisions as a result of having reliable and timely financial reporting.

Other VFM reporting:
The Council implemented a 4 day working week trial in January 2023 which is planned to run to the end of March 2024. The Council has been subject to increased scrutiny and media coverage regarding this trial including the issue of a non-statutory Best Value Notice. We recommend that the Council continues to consider the impact of guidance and any statutory direction it may receive to ensure proper governance over these arrangements and continued delivery of value for money in its services.

What is the risk of significant weakness in arrangements?	What reporting criteria does the risk affect?	What are our findings?
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.	Governance - Informed decision making – reliable and timely financial reporting that supports the delivery of strategic priorities.	2020/21 is the 6th year running that the Council has failed to publish approved accounts by the target date outlined in the A&A Regs. In concluding the 2019/20 audit 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 put in place adequate arrangements to 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 to 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. During the 2020/21 audit process we have continued to see improvements but the Council continues to struggle in some areas to provide evidence to support the assertions being made in the accounts. We have raised recommendations in section 06 of this report to improve the overall approach to financial reporting within the Council.

06 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.

<u>Underlying accounting records and supporting evidence</u>

The audit of the financial statements has 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.

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

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 continued improvement in the Council's 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.

Recommendations:

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

We 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 and 2019/20 Audit Results Report. Management are following up the below recommendation with its financial system provider to implement the reconciliation process from the financial year 2022.

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.

Debtors

We identified that the Council do not perform any regular reconciliation of the debtors subledger to the general ledger.

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

Employee contracts

We identified that the Council did not hold signed contracts for one employee. Management followed up on the issue and found that there are likely to be other instances where signed employment contracts are not held as the Council does not mandate signing of employment contracts as it is assumed that if an employee continues to work they are deemed to be fulfilling their contract.

Recommendation: We recommend the Council revisit their controls over employee contracts. Whilst there is no legal requirement to obtain signed employment contracts, it is prudent for the Council to require its employees to sign and return a copy of their written contract to avoid any ambiguity about what has been agreed between the employer and employee.

Assessment of Control Environment

Review of CIPFA Asset Management System

From our review of the CIPFA Asset Management System we identified:

- A number of land assets were being incorrectly depreciated.
- A number of assets had been incorrectly depreciated in the year of acquisition which is not in line with the Council's depreciation policy which requires assets to be depreciated in the first full year of ownership.
- Travellers' site assets have been included as land assets only and as such no depreciation is being charged. However, the sites includes buildings and infrastructure elements to the assets which should be depreciated.

The impact of these findings is not above our reporting threshold in 2020/21 but the cumulative impact in future years could lead to a material impact on the accounts.

Recommendation: We recommend that the Council review the CIPFA Asset Management system and ensure that assets are being correctly treated.

Reserves

Our audit procedures on the Council's Capital Financing Requirement (CFR) as disclosed in note 30 identified that:

- There is a difference of £0.14 million in the opening CFR that the Council are unable to reconcile.
- The Minimum Revenue Provision (MRP) identified that the Council's Investment Properties had been attributed a 50 year rather than a 40 year life as required by the Council's MRP policy. Recalculation based on a 40 year life indicates an in year difference of £0.09 million.

Whilst the 2020/21 impact of these findings is immaterial on the Minimum Revenue Provision the cumulative impact may become material in future years.

Recommendation: We recommend that the Council reviews it's MRP calculation to ensure that the expenditure and financing has been appropriately recorded in accordance with the CIPFA Code of Practice and Capital Financing Regulations.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

This page is left blank intentionally.