

22 January 2018 Dear Audit and Corporate Governance Committee Members On 29 September 2017 I reported to the Committee the outstanding matters in relation to the audit of South Cambridgeshire District Council (the Authority) for the year ended 31 March 2017. I am now in a position to conclude the audit and issue an unqualified audit opinion. This report is a follow up to the Audit results report dated 26 September 2017. It focuses on providing an update to the Committee on the matters previously reported that prevented the Authority from publishing its statement of accounts. The 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. I plan to issue an unqualified audit opinion subject to receiving appropriate representations from management and the statement of accounts are approved by the Chair of the Committee and the Authority's Section 151 officer. I would like to thank the Authority's finance staff for their help and cooperation in completing the engagement. Yours faithfully Suresh Patel Associate Partner For and on behalf of Ernst & Young LLP United Kingdom

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

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

The "Terms of Appointment (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Audit and Corporate Governance Committee, other members of the Authority and management of South Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Corporate Governance Committee, other members of the Authority and management of South Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Corporate Governance Committee, other members of the Authority and management of South Cambridgeshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.





Overview of the audit

# Status of the audit

At the 29 September 2017 Committee we reported that the audit was in progress and we outlined the outstanding procedures. As at 22 January we have now completed these procedures and we aim to issue an unqualified opinion on the Authority's financial statements in the form which appears at section 02. This includes an unqualified value for money conclusion. We also except to issue the audit certificate at the same time as the audit opinion.

### Valuation of council dwellings

One of the main issues outstanding at the end of September was the valuation of the Authority's housing stock reported in the statement of accounts as £452 mn.

Our initial procedures included challenging management and its external valuation expert on the methodology used and the assumptions applied that underpinned the valuation report used to prepare the accounts. Whilst the methodology followed the standard beacon approach (whereby for example the value of a typical 3 bedroom mid-terrace is used as the basis for the value of a number of other 3 bedroom mid-terrace houses) our initial review of the details provided by the external expert for a sample of beacon properties highlighted potential anomalies due to the limited comparability of properties within the Authority's area.

As a result of these anomalies we engaged our own expert, EY Real Estates, and selected a sample of beacon properties for more detailed review. These procedures highlighted further anomalies in the valuations used by the Authority and some weaknesses in the methodology followed by the Authority's external expert, who was newly appointed for 2016/17. At that stage we concluded that based on the information provided by the Authority, there was material uncertainty over the valuation of council dwellings. Following our reporting of these matters to management, in November the Authority requested its external expert to undertake further work on the valuation of dwellings, including providing significantly more information on the rationale for the assumptions used on beacon properties. EY Real Estates then revisited the previously tested sample of properties using the new information. Our procedures now conclude that the valuation of the sample of properties tested generally falls within an acceptable range with the exception of one item. We have extrapolated this one item and report a projected misstatement of £1.02 mn. The Authority has determined it will not correct the projected misstatement on the basis of materiality, which we accept.

We conclude that the valuation of council dwellings in the statement of accounts is materially correct.



# Status of other previously outstanding audit procedures

- Completion of audit procedures on the Expenditure and Funding Analysis; Cash Flow Statement; PPE additions and valuations; Financial Instruments;
  Grant Received in Advance; Capital Expenditure and Financing; general financial statement procedures All now complete. The cash flow statement (the Authority's and the Group) was the final statement to be completed, made more complicated by the fact that the Authority restated the prior year.
- ▶ Review of the final version of the financial statements Completed on 22 January.
- Completion of subsequent events review Completed on 22 January.
- Completion of final review procedures Completed on 22 January.
- Receipt of the signed management representation letter Expected to be received by 24 January.
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts WGA) submission Completed on 22 January.

### Audit differences

The Audit results report included a number of audit adjustments that management had agreed to make to the statement of accounts. We have not repeated those here. In completing audit procedures since the end of September, in particular completing our review of the cash flow statement, we have identified further audit adjustments. We have included in Section 03 of this report the unadjusted items above the trivial threshold (£91k) and adjusted items above our determined level of materiality (£1.8mn) or where we deemed an adjustment to be significant for those charged with governance. We provide a summary here:

Unadjusted items - management have concluded that the following items will not be adjusted for on the basis that they are not deemed to be material.

- £1.02mn projected overstatement of the value of council dwellings (as outlined on page 5). There would be no impact on the general fund balance.
- £0.48mn proceeds from the sale of non-current assets. The journal relating to this item was initially incorrectly processed and recorded in the Comprehensive Income and Expenditure Statement (CIES) incorrectly as 'other corporate adjustments'. The CIES has now been corrected with the item now within 'other operating Income and Expenditure'. However, the initial error also impacts on the Movement in Reserves Statement (MIRS), the cash flow and HRA (presentational only) and has not been corrected, meaning the proceeds of sales, less the value of assets sold, does not equal the gain recognised. As a result, in our view there is inconsistency with the disclosures in the notes to the accounts but the reserve balances are materially correct.
- £0.932mn capital creditors included in the cash flow statement incorrectly as a non-cash movement rather than as an investing activity.

We outline the unadjusted errors in Section 03.

Adjusted items - we identified a large number of errors in the statements presented for audit, in particular in respect of the cash flow statement. None of the agreed adjustments made by management have impacted the Authority's general fund balance. We include details of the adjusted items in Section 03.



# **Summary**

#### Fees

In the Audit results report we highlighted that at the end of September we outlined the reasons that had led to us to report additional audit fees of up to £15,000. Since then we have:

- Engaged with management on the issues we identified on the valuation of council dwellings, including engaging EY Real Estates which resulted in a report to management highlighting weaknesses in the Authority's expert's approach. We also engaged EY Real Estates to review the additional information provided by the Authority's expert to management.
- Addressed all the outstanding procedures outlined in the September report.
- Spent time working with the Authority to ensure the revised statement of accounts reflected all the issues identified during the course of the audit, in particular in respect of the cash flow statement, enabling management to prepare the final statement of accounts dated 23 January 2018.

As a result of undertaking the procedures outlined above we are seeking agreement with the Executive Director an additional audit fee of £30,000. The table below shows how the fees for 2016/17 compare to the prior year.

£ (exc VAT)	2016/17	2015/16
Scale audit fee	51,975	51,975
Additional audit fee	30,000	25,215
Total audit fee	81,975	77,190





# **Proposed Audit Report**

#### Our opinion on the financial statements

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

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

We have audited the financial statements of South Cambridgeshire District Council for the year ended 31 March 2017 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 35 to the Authority Accounts, including the Authority Expenditure and Funding Analysis and notes 45 to 47 to the Group Accounts,
- Housing Revenue Account and related notes 36 to 41; and
- Collection Fund and the related notes 42 to 44.

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 2016/17.

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

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

As explained more fully in the Statement of Responsibilities of the Executive Director (Corporate Services) as Chief Financial Officer set out on page 16, the Executive Director (Corporate Services) as Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

# Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Corporate Services) as Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# **Proposed Audit Report**

#### Our opinion on the financial statements

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Cambridgeshire District Council as at 31 March 2017 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 2016/17.

#### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

# Authority's responsibilities

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

# Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

# **Proposed Audit Report**

#### 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 criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, 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 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 2017.

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.

#### Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, 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 2017.

#### 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.

Suresh Patel for and on behalf of Ernst & Young LLP, Appointed Auditor Cambridge Office Date

The maintenance and integrity of the South Cambridgeshire District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# **Audit Differences**

# Summary of differences

We previously reported several audit differences which have been accepted by management and reflected in the final version of the statement of accounts. We record here the audit differences we have identified since the end of September.

# Unadjusted audit differences

- 1. Comprehensive Income and Expenditure Statement (CIES) A journal to transfer the HRA disposals to the CIES was incorrectly processed and the adjustment resulted in £0.48mn being included in Other Corporate Adjustments. This has now been corrected. However, corrections have not been made in the MIRS, cashflow statement and the HRA (presentational only). As a result there is an inconsistency between the disclosures in the MiRS, usable capital receipts reserve, CAA and the gain/loss on disposal of non-current assets in note 7.
- 2. Cash flow statement The surplus or deficit on the provision of services incorrectly includes a non-cash movement of £0.932mn relating to capital creditors which should have been treated as investing activity. As outlined above, the cash flow statement also does not reflect the £0.48mn increase in proceeds from disposals which is an investing and financing activity.
- 3. Property, plant and equipment As outlined on page 5, we identified a projected error of £1.02mn in the £452mn valuation of council dwellings which management have decided not to amend.
- 4. Disclosures

Note 22 - Related party transactions. The note refers to South Cambs Ltd but does not disclose the value of the associated transactions (the loan, interest and recharges).

Note 32 - Financial instruments. In the table of Fair Value Assets and Liabilities the Authority's external expert provided information on the fair value of intercompany loans to South Cambs Ltd in respect of current and long term investments. However the accounts show the carrying value and the fair value as the same figure. The fair values should be £0.164mn lower for short term and £1.143mn lower for long term. There is no impact on general fund.

Note 6 - Earmarked Reserves. The Authority has not included a description of each earmarked reserve as required by the CIPFA Code.

Group cashflow - Notes 13, 14 & 15. The Group cash flow statement on page 74 includes references to notes 13, 14 and 15. However, the references to notes 13 and 14 do not agree and as a result of these errors (and adjustments outlined below) only 1 of the 2 references to note 15 agree. The differences are not material and the Authority has decided not to make any corrections. There is no impact on the overall group cashflow statement.

Collection Fund - Disregard amounts of £1.847mn shown under charges to the collection fund includes £0.363mn which relates to transitional payment protection. In accordance with the CIPFA Code this should be disclosed within the income section of the collection fund. There is no impact on the fund balance.



# **Audit Differences**

# Summary of differences (cont'd)

### Adjusted audit differences

#### 1. Cash flow statement

At the time of the end of September audit results report the Authority had not completed preparing the cash flow statement. For 2016/17 the Authority decided to present the cash flow using the alternative approach allowed by the CIPFA Code. As a result the Authority restated the 2015/16 comparatives, necessitating audit review of the restated values. Our procedures identified the following errors which have been amended.

#### Note 13

- Interest paid of £7.2mn was misclassified as repayment of borrowing in 15/16 and 16/17.
- Impairment and valuation adjustments of £5.3mn were not separately identified in note 13 for 15/16
- 16/17 Depreciation in note 13 was understated by £3.6mn
- 16/17 increase in creditors was understated by £0.675mn (Being £1.9mn one way off-set by £1.2mn the other)
- The movement in the pension liability was misstated by £11.4mn in 15/16 and £2.3mn in 16/17
- Other non-cash items for 15/16 were amended as a result of the above errors.
- Proceeds from investments were overstated and investing activities understated by £3.5mn.
- £4.8mn proceeds from sale of PPE in 15/16 were omitted from the analysis of investing and financing activities included in operating activities in note 13; similarly 'other items for which the cash effects are investing or financing' were reduced by £2.4mn.

### Note 14

- Purchases and proceeds of short and long term investments were incorrectly stated. In 16/17 the amounts were quoted net leading to an understatement of purchases of £52.3mn and proceeds of £40.2mn. We also reported corrected errors in 15/16 in the Audit Results Report.
- Proceeds from the sale of property were understated by £5.3mn.
- Purchases of PPE were understated by £1.1mn in 15/16.

#### Note 15

Other payments for financing activities were overstated by £1.9mn. As a result the face of the cash flow showed an increase of £1.9mn for non-cash movements; an increase of £10.9mn for items in net surplus/deficit on the provision of services that should be investing/financing (2015/16: £7.2mn reduction); a £12mn increase in investing activities and £5.3mn increase in financing activities (15/16: £7.2mn reduction).



# **Audit Differences**

# Summary of differences (cont'd)

### Adjusted audit differences (cont'd)

2. Note 20 - Defined Benefit Pension Scheme

We identified errors in the movement in reserves section of this note. The Authority has amended the reversal of net charges from -£7.916mn to -£4,872mn and the total movement in reserves also amended accordingly.

3. Group CIES

The Authority did not present the initial Group CIES in accordance with the CIPFA Code as it brought the results in on one line and did not properly adjust for intercompany transactions. Following audit review this has now been corrected.

4. Group Cash Flow Statement

The consolidated cashflow incorrectly included movements in the intra-group loans and investments being Non Cash Movement of -£7.32mn, Investing £13.823mn and Financing -£6.503mn.

5. Agreement of the accounts to the trial balance

We identified that the income and expenditure in the CIES for Environmental Services was reported gross and therefore overstated by £4.29mn. As a result note 16b was also amended reducing other service expenditure and fees and charges by £4.29mn.

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