



**South Cambridgeshire
District Council
Audit results report**

Year ended 31 March 2017



EY

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Private and Confidential

26 September 2017

Dear Audit and Corporate Governance Committee Members

As at 26 September our audit of South Cambridgeshire District Council (the Authority) for the year ended 31 March 2017 remains in progress. The Council provided its statement of accounts for audit on 31 July and did not meet the end of June deadline for publishing its statements. We were required to delay the start of the audit due to capacity issues within the finance team and have also been required to input additional senior time to support the Council's preparation of supporting working papers and re-plan the scheduling of the audit. As a result we are currently seeking to agree with the Executive Director an additional audit fee in the region of £12,000.

Subject to the Council providing relevant information to enable us to conclude the outstanding matters listed in our report and the Committee approving the accounts and the management letter of representation, we will aim to issue an unqualified audit opinion on the financial statements in the form at Section 3 before the statutory deadline of 30 September 2017.

We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Suresh Patel
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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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.



01

Executive Summary



Executive Summary

Overview of the audit

Status of the audit

As at 26 September the audit remains in progress and we outline the outstanding procedures on page 6. Subject to their satisfactory completion, in particular the preparation of revised statements incorporating the agreed audit adjustments, we aim to issue an unqualified opinion on the Authority's financial statements in the form which appears at section 03. This includes an unqualified value for money conclusion. We also expect to issue the audit certificate at the same time as the audit opinion.

Summary of findings

The Council has experienced significant difficulties in maintaining sufficient capacity and capability in the finance team to prepare its statement of accounts and supporting working papers by the end of June deadline and to the quality standards we expect and assume to facilitate a smooth and efficient audit process. We reported our concerns to the March Committee and have maintained regular dialogue with management throughout the year and the finance team, including providing additional senior input to share our understanding of the prior year accounts and working papers preparation.

Audit work to date has identified errors in the accounts which although have a relatively small impact on the net worth of the Authority do impact on primary statements and notes. We outline these errors and resultant amendments made to the accounts in section 04.

As a result of the additional input of time we have made throughout the audit we are currently seeking agreement with the Executive Director an additional audit fee in the region of £12,000.

Scope and materiality

In our Audit Plan presented to the Audit and Corporate Governance Committee at their 31 March 2017 meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We have carried out our audit in accordance with this plan with no changes in our planned audit strategy.

We planned our procedures using a materiality of £1.688 million. We reassessed this using the actual results for the financial year and the materiality level increased slightly to £1.814 million. The threshold for reporting audit differences has also increased from £0.084 million to £0.091 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- ▶ Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- ▶ Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.



Executive Summary

Outstanding audit procedures

As at 26 September the following audit procedures remain in progress:

- ▶ 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;
- ▶ Review of the final version of the financial statements;
- ▶ Completion of subsequent events review;
- ▶ Completion of final review procedures;
- ▶ Receipt of the signed management representation letter; and
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission.

Audit differences

At the time of writing this report there are no audit differences arising from our audit which management has chosen not to adjust.

We have identified other audit differences which have changed the presentation of the Comprehensive Income and Expenditure Statement; Balance Sheet; cash flow statement; movement in reserves statement; and the notes to the financial statements which we wish to bring to your attention. These adjustments had minimal impact on the net worth of the Council and management have agreed to adjust the financial statements accordingly. Details can be found in Section 5 Audit Differences.

We will update the Committee on any further audit differences should they arise on completion of the outstanding audit procedures listed above.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of South Cambridgeshire District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" 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
- ▶ 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 the attention of the Audit and Corporate Governance Committee.



Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Plan we identified no significant value for money and following our review have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We are yet to complete our work on the Whole of Government Accounts (WGA) return, however, we expect the Council's final audited financial statements to be below the £350 million threshold requiring detailed procedures.

The Council was not able to publish a full set of Code compliant financial statements by the 30 June 2017 deadline. In our view, given the turnover and loss of key personnel in the finance team during 2016/17 and since the year-end; the lack of suitable internal replacements; the tighter deadline for accounts completion; and the introduction of a new ledger system; the Council is at risk of not meeting the earlier statutory audit deadline in 2017/18 of 31 July 2018.

The Council needs to take urgent action to strengthen capacity and capability in the finance team to prepare the accounts and supporting working papers.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work, 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 and which is unknown to you.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to highlight.





02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Risk of Fraud in Revenue Recognition

Revenue Recognition

What are our conclusions?

Our testing is ongoing in this regard but to date has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work had not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

We will update the Committee on any issues should they arise.

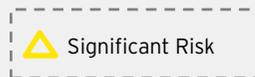
What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

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.

Having assessed the key income and expenditure streams of the Council, we judge that there is material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.



What did we do?

In order to address this risk we:

- ▶ Sample tested capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised using an increased sample size to reflect the risk.
- ▶ Scan reviewed other capital expenditure to identify items that may have been improperly capitalised.



Areas of Audit Focus

Audit issues and approach: Management Override of Controls

Management Override

What are our conclusions?

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.

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

What is the risk?

Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- ▶ Reviewing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.



Areas of Audit Focus

Audit issues and approach: Management Override of Controls (Cont'd)



Further details on procedures/work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- ▶ The valuation of Property, Plant and Equipment - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- ▶ Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.

Specifically in relation to liabilities (other than the net pension liability), we consider that accruals are a low risk of material misstatement as the majority are based on known values/invoices. We also do not consider deferred liabilities as a higher risk of material misstatement as they relate purely to the deferral of income and involve minimal judgement or estimation.

The provisions balance in the financial statements is £3.1 million at 31 March 2017 (£2.9 million at 31 March 2016). The majority of this balance relates to the provision for business rate appeals (£2.8 million) which the Council is required to estimate and include in the financial statements in accordance with the Code. We have not identified any significant issues with the Council's basis of calculation. We have considered the assumptions used in the calculation and consider them to be reasonable. We note that the Council uses an external specialist to assist in the calculation of the liability. We have assessed the work of the specialist, including considering their qualifications and experience with no significant issues identified. The remainder of the balance relates to other provisions which are immaterial.

We evaluated the remainder of the Council's estimates, including bad debt provision and depreciation, as low risk of material misstatement. No issues were noted in our work in these areas.



Areas of Audit Focus

Audit issues and approach: Presentation of the Financial Statements

Expenditure and Funding Analysis

What are our conclusions?

Our testing is ongoing. Our work to date identified material misstatements in the 2016/17 CIES as the Council's analysis was performed on a net basis. When we grossed up income and expenditure both were materially understated. We are yet to review the 2015/16 restated CIES.

The difference did not have any impact on the surplus/deficit on the CIES; the general fund or HRA balance.

We will update the Committee on any further issues should they arise.

What is the risk?

Presentation of the financial statements

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a new Expenditure and Funding Analysis note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and full retrospective restatement of comparatives. This restatement will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Reviewing the expenditure and funding analysis, CIES and new disclosure notes to ensure disclosures are in line with the Code;
- ▶ Reviewing the analysis of how these figures are derived, and how the ledger system has been re-mapped to reflect the Council's organisational structure; and
- ▶ Agreeing restated comparative figures to the Council's segmental analysis and supporting working papers.



Areas of Audit Focus

Audit issues and approach: Property, Plant and Equipment Valuations

Property, Plant and Equipment Valuations

What are our conclusions?

Our testing in this area is ongoing but procedures performed to date have not identified any material misstatements in the property, plant and equipment figures in the 2016/17 statement of accounts.

We will update the Committee on any further issues should they arise.

What is the risk?

Property, plant and equipment valuations

Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet.

Property assets are initially measured at cost and then revalued to fair value sufficiently regularly (at least every 5 years) to ensure that their carrying amount is not materially different from their fair value at the year end.

This is carried out by expert valuers and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.

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?

In order to address this risk we carried out a range of procedures including:

- ▶ Consideration of revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remain appropriate if circumstances change.
- ▶ The valuation expertise used by the Council.
- ▶ The reasonableness of the estimations and judgements used.



Areas of Audit Focus

Audit issues and approach: Pension Valuation and Disclosure

Pension Valuation and Disclosure

What are our conclusions?

Our testing did not identify any material misstatements in the pension valuation and disclosure in the 2016/17 statement of accounts.

What is the risk?

Pension valuation and disclosure

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement. The Pension liability is the largest value liability on the balance sheet. Due to the nature, volume and size of the transactions we consider this to be a risk.

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Liaising with the auditors of the Cambridgeshire Pension Fund (BDO), to obtain assurances over the completeness and accuracy of the information supplied to the actuary in relation to South Cambridgeshire District Council;
- ▶ Assessing the actuarial expertise used by Council and the reasonableness of the estimations and judgements used by the actuary. To do this we reviewed the conclusions drawn on the work of the actuary by the Consulting Actuary (PWC) commissioned by the NAO, including the use of our own pensions specialists;
- ▶ Reviewing and testing the accounting entries and disclosures made in relation to IAS19.

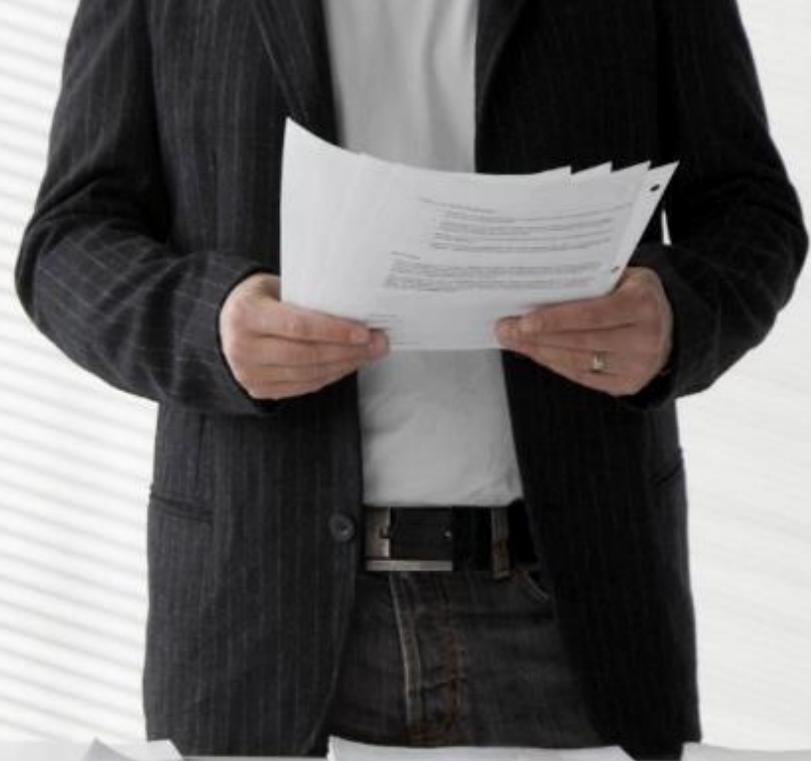
Further details on procedures/work performed

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 (LGPS) administered by Cambridge 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 2017 this totalled £57.496 million (£52.841 million at 31 March 2016).

The information disclosed is based on the IAS 19 report issued to the Council by the Council's external actuarial specialist. 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.

BDO highlighted that the market value of the total Pension Fund assets submitted to the actuary as at 31 December 2016 totalled £2,718 million. The actuary estimated the value of the scheme as at 31 March 2017 to be £2,838 million. BDO reported that the actual scheme assets in the Cambridgeshire Pension Fund accounts are £2,812 million, a difference of £26 million. The difference between the actuaries estimate and the year-end actuals are approximately 0.97% of the asset values and 1.7% of the overall net liability accounted for in the balance sheet. Both PWC and our own pension specialists concluded that the assumptions and methodology used by the Council's actuary are appropriate.

The Council's share of the assets of the pension fund is £100.7 million representing 3.7% of the total. We estimate the Council's share of the £26m difference is therefore £0.974 million. As the Council's share of the movement in the scheme assets is not material to the Council; equates to a less than 1% variance; and forms part of an overall estimated balance fed by a number of assumptions we have concluded that the estimate is reasonable. No other significant matters were reported by BDO.



03 Audit Report



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.



04 Audit Differences



Audit Differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 differences

We report all known amounts greater than £1.361 million relating to South Cambridgeshire District Council. We are unable at this stage to confirm that all the agreed differences have been properly corrected as we are yet to receive a final version of the financial statements. We highlight the following misstatements in the financial statements or disclosures identified during the audit which Management have agreed to correct:

- ▶ In the Comprehensive Income and Expenditure Statement (CIES), gross income and gross expenditure were both understated by £3.9 million as the Expenditure and Funding Analysis had been calculated on a net rather than a gross basis;
- ▶ Depreciation written back on revaluation of property plant and equipment to the surplus/deficit on the provision of services in the CIES was overstated by £8.3 million. This affected the Movement in Reserves Statement (MiRS) and associated disclosure note 5; the revaluation reserve and capital adjustment account disclosures in note 12 and the property plant and equipment disclosure in note 25;
- ▶ Cash and cash equivalents in the balance sheet, cash flow statement, and disclosure notes 15 and 32 were overstated by £15.7 million as they included short term loans to South Cambs Ltd;
- ▶ The MiRS and related disclosure note 5 incorrectly excluded the Major Repairs Reserve which contained material movements;
- ▶ Disclosure note 12 on the Capital Adjustment Account incorrectly netted off a £3.6 million transfer from the revaluation reserve against the depreciation amortisation and impairment line. This also led to a £3.6m understatement of the depreciation adjustment in disclosure note 13 on cash flow operating activities;
- ▶ Disclosure note 14: cash flow investing activities incorrectly changed the prior year audited purchase of short and long term investments from £274.2 million to £6.7 million; and prior year audited proceeds from short and long term investments from £267.4 million to £4.8 million. In addition the note did not include the loans agreed with South Cambs Ltd;
- ▶ Disclosure note 16c: expenditure and income analysed by nature understated employee expenses and overstated other service expenses by £4.4 million
- ▶ Disclosure note 18: officers' remuneration understated compensation for loss of office paid to a senior officer and overstated actual salary paid by £21,113 as payment in lieu of notice was incorrectly classified as actual salary paid. As a result of this error the bandings and total cost of exit packages were both misstated;
- ▶ Disclosure note 22 did not disclose the value of balances outstanding or sales to South Cambs Ltd and these amounts were not disclosed elsewhere in the financial statements;
- ▶ Disclosure note 32 in respect of financial instruments overstated the movements on the business rates appeals provision by £5.9 million as officers included the full provision movement rather than just the Council's share.
- ▶ The split of adjustments between the funding and accounting basis in the Expenditure and Funding Analysis and supporting disclosure note 16c were materially inconsistent with disclosure note 5.
- ▶ Disclosure note 25 PPE overstated depreciation written out to the surplus/deficit on the provision of services by £8.4m and understated the amount written out to the revaluation reserve by the same amount. The same error affected the presentation of the top half of the note.
- ▶ Disclosure note 25 on PPE did not disclose that £1.5m of other land and buildings had not been revalued
- ▶ Disclosure note 26 on capital expenditure and financing excluded £25m of loans made to South Cambs Ltd for the purposes of capital expenditure.
- ▶ The Group accounts did not include a financing and investment income and expenditure note.

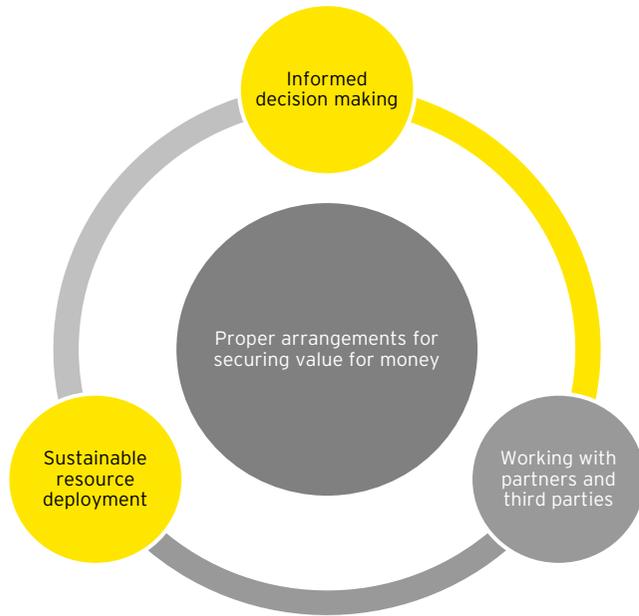
At the time of writing there were no audit differences arising from our audit work which management has chosen not to adjust. We will update the Committee on any further misstatements should they arise.



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:
"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"
Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.
We did not identify any significant risks in our risk assessment.

What are our findings?

We conclude that the Council give appropriate attention to internal control. High level policies and procedures are updated and regularly communicated to officers and members. Officers monitor the design and effectiveness of controls and pro-actively seek to make improvements.

Our audit of the 2016/17 financial statements has not identified any matters that would cast doubt (for example, unrecorded expenditure) over the basis of the Medium Term Financial Strategy (MTFS). In November 2016 the Council issued its MTFS for FY18 to FY22, outlining savings targets, cost pressures and the level of general fund reserve over the period of the MTFS. The MTFS also outlines the key assumptions made by the Council. Work continues on modelling various scenarios as part of the ongoing MTFS and will be reported to Members through the quarterly monitoring reports. The 2017/18 budget is balanced.

Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Councils' history of delivery has not identified any significant matters that we wish to report to you.



06

Other reporting issues



Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the South Cambridgeshire District Council Statement of Accounts 2016/17 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have yet to receive the final version of the audited accounts to check that the Financial information in the Statement of Accounts 2016/17 and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We are yet to complete our work on the Whole of Government Accounts (WGA) return. However, we expect the Council to remain under the £350m threshold, meaning no detailed procedures are required.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



Other reporting issues

Other matters

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

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

We recognize that the Council made some improvements to the working papers it prepared in support of the accounts this year. However, there were still many areas where the working papers were weak or not present and we continue to identify material errors in the primary statements and supporting notes. Some examples include:

- ▶ Analytics data was not provided in time for our interim audit visit which meant all our testing of the CIES was undertaken at the final audit visit;
- ▶ Prior year audited positions were restated without consultation;
- ▶ No reconciliation of the payroll data to the general ledger was provided;
- ▶ The purchase ledger control account reconciliation did not cover the two key general ledger control accounts;
- ▶ The fixed asset register continues to be a concern and a cause for audit delay as we identified material errors for in consecutive years and we spent additional time with the finance team sharing our insights into how they could reconcile the register to the general ledger. The fixed asset register in its current state is unstable and not fit for purpose. We understand that the Council has agreed to invest in new asset register software.

In our view the Council's closedown procedures to produce a Code compliant set of financial statements with adequate supporting working papers for audit remains an area that needs substantial improvement. This is the third year we have made similar comments in our Audit Results Report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

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.



08 Appendices



Appendix A

Required communications with the Audit and Corporate Governance Committee

There are certain communications that we must provide to the Audit and Corporate Governance Committees of UK clients. We have done this by:

Our Reporting to you		
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Corporate Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process 	September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about South Cambridgeshire District Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	September 2017 Audit Results Report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Audit and Corporate Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit and Corporate Governance Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no additional matters to report. See Audit Differences section for corrected audit differences.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Audit and Corporate Governance Committee whether any subsequent events have occurred that might affect the financial statements. 	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	September 2017 Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have no matters to report.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Audit and Corporate Governance Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit and Corporate Governance Committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	September 2017 Audit Results Report
Group Audits (if applicable)	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the group audit team's planned involvement in the component auditor's work on the financial information of significant components ▶ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements. 	March 2017 Audit Plan September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.</p>	March 2017 Audit Plan September 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	March 2017 Audit Plan September 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report



Appendix B

Independence

Since our confirmation of independence in our audit planning board report dated 31 March 2017 we have concluded that it is no longer appropriate for us to provide tax compliance and advisory services to South Cambs Ltd. There have been no other changes in our assessment of independence.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Corporate Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Corporate Governance Committee on 29 September.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

	Actual Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work (Note 1)	TBC	51,975	77,190
Certification of claims and returns (Note 2)	13,793	13,793	9,190
Other Audit Related Services			
Non-audit work (Note 3)	TBC	n/a	3,300
South Cambs Ltd audit	14,500	n/a	14,500
Non-audit services			
Tax compliance and advisory South Cambs Ltd	-	n/a	18,000

Note 1: We are not yet able to confirm the final fee as work is still progressing. In March we agreed with management and reported to the Committee a scope change to the audit as a result of: group accounts necessitating an additional fee of £5,000. We have incurred further additional time on the audit due to staff changes at the Council and the volume of audit differences identified. We have kept management informed throughout the audit of the delays and likely additional fee which we currently expect to be in the region of £12,000. Any additional audit fee agreed with management prior is subject to PSAA approval.

Note 2: The planned fee for the certification of housing benefit subsidy is based on the programme of work carried out in 2014/15. The 2016/17 planned fee assumes the Council will undertake all initial and extended sample testing. This will be reassessed at the conclusion of the work and is subject to PSAA approval.

Note 3: This work relates to the agreed upon procedures certification arrangements for the Pooling of Housing Capital receipts return. If appointed by the Council the fee for non-audit work will be discussed with management and reported to the Audit and Corporate Governance Committee in subsequent reporting. The scope of this work has not yet been agreed for 2016/17.

We will confirm all our final fees following the completion of our audit work and report this within our Annual Audit Letter and Annual Certification Report.



Appendix C

Accounting and regulatory update

Accounting update

Since the date of our last report to the Audit and Corporate Governance Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on South Cambridgeshire District Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured ▶ How the impairment of financial assets are calculated ▶ Financial hedge accounting ▶ The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> ▶ Disaggregate revenue into appropriate categories ▶ Identify relevant performance obligations and allocate income to each ▶ Summarise significant judgements



Appendix C

Name	Summary of key measures 	Impact on South Cambridgeshire District Council 
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>The Council prepared and published a set of accounts by the statutory deadline of 30 June 2017. However those accounts contained only four pages and were not prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.</p> <p>A revised set of financial statements were not produced for audit until the end of July. During 2016/17 there was a high turnover of key finance staff responsible for preparing the Council's accounts and the current interim accountant is due to finish before the next year end. There is no suitable replacement within the existing finance team.</p> <p>We recognise that the Council has started to recruit additional key officers but have significant concern that the Council will not be able to meet the earlier 2017/18 deadline with good quality draft accounts and supporting working papers.</p>

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