

South Cambridgeshire District Council Audit Progress Report

For the audit of the accounts - year ended 31 March 2018

15 March 2019



15 March 2019

Dear Audit & Governance Committee Members

We attach an Audit Progress Report for the forthcoming meeting of the Committee providing an update on the status of the audit of South Cambridgeshire District Council (the Authority) for 2017/18.

The audit remains in progress.

We have reported to the Committee throughout 2018 our concerns around the Authority's ability to prepare its 2017/18 accounts and its readiness for the audit. Following discussion with the Authority we agreed to recommence the audit of the accounts in late November, deploying an experienced audit team, aiming to complete the audit in advance of the December Committee meeting. However, we were unable to progress the audit sufficiently due to several aspects of the Authority's accounts and its supporting working papers generating several audit queries and challenges that were taking up more time than planned. We have discussed and agreed this position with the interim Section 151 officer.

We will provide a verbal update of the audit at the 26 March committee meeting including an outline of the timeline we have agreed with officers to aim to complete the audit and issue the auditor's report.

This report is intended solely for the use of the Audit & 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 welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 26 March 2019.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary



02 Status of the Audit



03 Fees



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 & Governance Committee 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 & Governance Committee, 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 & Governance Committee 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 our prior written consent.



01 Executive Summary

Executive Summary

Status of the audit

As at the date of this report our audit remains in progress. We do not expect to be in a position to issue the auditor's report until the end of April at the earliest. We include in Section 2 details of the status of the audit. In summary:

- We have deliberately tried not to over burden finance officers whilst at the same time aimed at progressing the audit quickly and effectively. However, at times we recognise that the volume of audit queries has been a challenge for finance officers to deal with.
- We have made good progress in auditing some aspects of the Authority's statements including the HRA, Investments, Borrowings, Pension Liability and Pensions disclosures.
- In other areas such as Property, Plant and Equipment (PPE), Movement in Reserves Statement (MIRS), Collection Fund, Debtors and Creditors, progress has been much slower than anticipated due to issues with supporting working papers and the time taken to obtain explanations from officers in support of judgements made.
- We have completed our value for money conclusion work and we are now considering the implications of the Authority's inability for the past three years to deliver timely and reliable financial reporting.
- We are also considering the other powers and responsibilities of appointed auditors under the Local Audit and Accountability Act 2014.

With the audit stretching into our 2018/19 audit time phase this does present us with resourcing challenges and in particular securing continuity in the members of the audit team. We are currently liaising with our resource coordinators but expect to have to introduce new auditors to the team in order to complete the audit in April. We will provide the Committee with verbal update of the planned timetable for concluding the audit.

Control observations

We have previously reported to the Committee that we had identified that during part of the year, key control account reconciliations, including the bank reconciliation were not being routinely conducted. We are still in the process of following up the completion of the year end reconciliations and will report the detail in the Final Audit Results Report.

We have adopted a fully substantive approach, so have not tested the operation of controls.

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 did not identify a significant VFM risks. We have considered carefully whether the Authority's financial reporting problems impact on its arrangements for making informed decisions or deploying resources in a sustainable way. In light of the ongoing audit, the record of the past two years late financial reporting and interim arrangements for the roles of Section 151 officer and Chief Executive officer we are considering the implications on the value for money conclusion.

We will discuss our considerations with the Interim Section 151 Officer and Interim Chief Executive as we approach the end of the audit.

Executive Summary

Other powers and responsibilities

This is the third year that the Authority has failed to publish audited accounts by the date set by regulations. It is also the third year that the Authority has failed to address audit findings in respect of strengthening its ability to prepare timely and materially accurate accounts as well as respond to audit requirements effectively.

In light of this we are currently considering whether we need to exercise any other audit powers and responsibilities. We will discuss our considerations with the Interim Section 151 Officer and Interim Chief Executive as we approach the end of the audit.

Other reporting issues

We have reviewed the information presented in the draft Annual Governance Statement for consistency with our knowledge of the Authority. We have fed back our view that the Statement needs to reflect the deficiencies in control account reconciliations, accounts preparation arrangements, and some other minor issues. We have received the amended version on 13 March 2019, and have made two further suggested amendments which officers have agreed to make.

This is the third year that the Authority has been unable to publish audited accounts by the deadline. As we have previously reported, whilst officers have worked hard to prepare the accounts, supporting working papers and deal with the audit, there remains a need for the Authority to strengthen its arrangements to close down its financial ledger, produce materially correct draft financial statements and support those financial statements with adequate working papers. We recognise that the Audit & Governance Committee have raised their concerns with management over these matters. We recommend that the Audit & Governance Committee seek assurances from management on the effectiveness of arrangements being put in place to ensure the Authority will be able to prepare materially accurate and complete draft accounts for 2018/19 and prepare comprehensive and good quality supporting working papers.

Fees

Throughout the 2018 we have communicated to management and the Committee the impact of the Authority's financial reporting deficiencies on the time we have been required to input to the audit and the audit fee. As the audit remains ongoing we are unable to provide a final proposed additional fee but include in Section 3 a range that we consider to be realistic. On conclusion of the audit we will discuss and agree the proposed additional audit fee with the Interim Section 151 Officer before seeking approval from PSAA.



02




Status of the audit



Status of the audit

Summary of our status updates to the Committee




We summarise our reporting to the Committee during the year to help inform the current status of the audit.

 Date	 What we reported to the Committee	 What was the impact we reported
April 2018	<ul style="list-style-type: none">▶ Ongoing review of the Authority's financial statements closedown timetable and action plan, providing regular feedback on challenges▶ Good progress being made in completing our scope and strategy work▶ Absence of regular control account reconciliations, including the bank account▶ Our inability to commence:<ul style="list-style-type: none">▶ A walk through the Authority's controls around PPE due to the planned move to a new asset register▶ Review of opening balances, I&E testing and journals testing due to issues with the mapping of data	Increased audit procedures required to be undertaken at the year end rather than early substantive testing during the interim part of the audit.
July 2018	<ul style="list-style-type: none">▶ The Authority did not publish draft accounts by the 31 May deadline▶ The 7 June published draft accounts appeared to be missing key disclosures and was not subject to a quality assurance review by management▶ We raised queries on the disclosures relating to PPE▶ The Authority postponed the move to a new asset register▶ We continued to experience problems with mapping analytics data due to the Authority's unresolved issues with the accounts, working papers and the TB	We deferred the start of the year end audit until early August (with a second part of the audit planned for September) to provide the Authority with sufficient time and capacity to resolve the matters identified.
September 2018	<ul style="list-style-type: none">▶ There remained unresolved issues with the TB, the completeness of the accounts and supporting working papers and PPE▶ The Authority was working on responding to a list of audit queries▶ We continued to experience problems with analytics▶ We were awaiting the Authority's assurances that the issues generating the audit differences we reported in 2016/17 had been resolved for 2017/18	Further deferral of the audit.

Status of the audit

Summary of our status updates to the Committee

We summarise our reporting to the Committee during the year to help inform the current status of the audit.

 Date	 What we reported to the Committee	 What was the impact we reported
November 2018	<ul style="list-style-type: none">▶ We progressed some areas of the audit work including HRA, Investments, Borrowing, Pensions and some elements of PPE.▶ The Authority continued working on responding to our audit queries.▶ Working papers for several areas were returned to the finance team including the Collection Fund, Debtors, Creditors, NDR appeals provisions and some elements of PPE▶ We were awaiting the Authority's assurances that the issues generating the audit differences we reported in 2016/17 had been resolved for 2017/18	Further deferral of the audit.
March 2019	<ul style="list-style-type: none">▶ Work on the outstanding areas has been progressing, particularly on the remaining areas of PPE▶ Internal audit have carried out their own review of the accounts against the CIPFA disclosure checklist, the output of which has been reviewed by the s151 officer and further amendments to disclosures have been identified.▶ We have now received amended working papers on the Collection Fund, Debtors and Creditors and will work through these as soon as possible.▶ We are still waiting for assurances that the issues generating the audit differences we reported in 2016/17 have been resolved for 2017/18.▶ Related Parties Transactions note in the accounts - the declaration of interest returns for most of the members who were in office for 2017/18 have been destroyed by the Council. Therefore we need to carry out further audit procedures, including Companies House checks, to address the completeness of this note.	Further deferral of the audit.

Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

Completed - no issues	
Disclosures	Officers remuneration
Balance Sheet	PPE - existence testing
Balance Sheet	PPE - Depreciation
Balance Sheet	PPE (other assets - not L&B)
Balance Sheet	Pension scheme liabilities
Balance Sheet	Investments
Balance Sheet	Borrowings
CIES	Council Tax income in the CIES
CIES	Expenditure - REFCUS
CIES	Re-measurement of Defined Pension Scheme Liabilities
Housing Revenue Account (HRA)	HRA - Income
HRA	HRA - Expenditure & Notes
VFM	Value for Money Conclusion work
Other procedures	Litigation and claims
Other procedures	Going concern
Other procedures	Minutes reviewed (up to Feb)
Other procedures	Read significant contracts

Completed - issues identified		
Balance Sheet	PPE - Agree Fixed Asset Register (FAR) to Trial Balance & Accounts	<ul style="list-style-type: none"> Deferred Capital Receipts have been included in the PPE note (but not FAR) incorrectly, therefore this line should be removed. Other Land & Buildings depreciation written out of POS did not agree with the amount as per the FAR, should be £538k.
Balance Sheet	PPE Other assets - additions and disposals testing	<ul style="list-style-type: none"> £388k to be transferred to intangible assets
Balance Sheet	Cash and Bank	<ul style="list-style-type: none"> Issue raised re £258k cancelled cheque that's been adjusted twice.
CIES	Grant income	<ul style="list-style-type: none"> £1,451k of Business Rate growth needs to be included in note 8a taxation and non-specific grants from the collection fund, in order for the note to agree back to the CIES balance of £6,200k. £5,079k from Shared Waste and Recycling credits will need to be removed from Other Government Grants -as these are normal services provided by the council rather than government grants and contributions. Additionally, the EFA note will also need amending to remove £5,079k from the grants balance of £33,308k and include in fees, charges and other service income.

Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

Completed - issues identified (cont.)		
CIES	Expenditure - Housing Benefit expenditure	<ul style="list-style-type: none"> Incorrect grossing up of HB expenditure and overpayments income by £535k. No effect on bottom line.
CFS	Cash Flow Statement	<ul style="list-style-type: none"> The 2016/17 £9,081k disclosure relating to Financing activities of the face of the statement requires additional disclosure. In the 2017/18 column there is an unexplained figure of -£194k in the adjustments for non-cash movements. We are awaiting an explanation of the figure.
EFA	Expenditure Funding Analysis	<ul style="list-style-type: none"> Amendments required to some of the headings (and in the CIES) to align with internal reporting.
Disclosures	Annual Governance Statement	<ul style="list-style-type: none"> Changes agreed with Internal Audit and the s151 officer; to provide more narrative on: <ul style="list-style-type: none"> the weaknesses in the accounts preparation process the new ledger (2018/19) changes in senior management <p>Amended version received 13 March.</p>
Disclosures	Exit packages	<ul style="list-style-type: none"> We have received 2 outstanding payslips. Adjustments to be made in current year note as well as prior year column due to inclusion of individuals in the wrong year/wrong band.
Disclosures	'All other disclosures' not separately identified	<ul style="list-style-type: none"> Audit costs disclosure, note 23, - agreed amendment of £100k completed.
Other procedures	Agree or reconcile the financial information to the underlying accounting records	<ul style="list-style-type: none"> Several issues raised with finance team for consideration.
Other procedures	Related parties	<ul style="list-style-type: none"> Declarations not available for most of the members who left in May 2018 as they were destroyed. We need to carry out further audit procedures, including Companies House checks, to address the completeness of this note.
Other procedures	New Revenue recognition standard	<ul style="list-style-type: none"> No formal assessment by SCDC. Amended accounts will include a disclosure re 'standards not adopted'.

Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress		
Balance Sheet	PPE Land & Buildings - additions and disposals testing	Additions - we have now received the sample back (54) w/c 4 March - now to work through. Disposals - sample is out with finance team, we are waiting for return.
Balance Sheet	PPE Land & Buildings - Valuations	HRA sample of 30 selected - still to test. Non-HRA: Queries raised with finance team in regards to entries made to FAR. Not as expected. Other L&B - sample of 10 has been selected and has been passed to finance team to request the evidence from the valuer. FAR entry query above may also impact on HRA testing.
Balance Sheet	PPE Land & Buildings - all other tasks: impairments, componentisation, gains/losses	Started work on impairments - queries back to finance team. Gains/losses WPs returned as they were for 16-17. Not started componentisation test yet. However, much of this testing depends on the outcome of the valuations and disposals testing, and will not take long once they are concluded.
Balance Sheet	PPE - Assets held for Sale	Request sent to ask officers to review the assets to ensure that classified correctly as HFS - queries remaining.
Balance Sheet	Debtors	Balance sheet and note did not agree, and was passed back to finance team. New debtors working papers with new note analysis now returned to us on Friday 8 Mar - we are looking at this week to determine which populations are affected and which we have tested or are still to test. Agreement of debtors subledger to GL is complete with no issues. We have tested manual debtors but we are in the process of reviewing responses and have raised subsequent queries as evidence was incorrect. Cut-off testing sample selected and we have information back; we need to review and write up. We have identified £3.562m of NDR growth money that was accrued in 2016/17 accounts, and was reversed for 2017/18, but the monies were not received until 2018/19, so it needs to be added back into debtors for 2017/18.

Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress (cont.)		
Balance Sheet	Debtors - Collection Fund debtors	Work in progress along with Collection Fund work (see below).
Balance Sheet	Creditors	Similar position to debtors re the balance sheet and note not agreeing, and we have had new working papers returned on 8 March, so we can now identify populations and determine what to test. Unrecorded liabilities testing is complete.
Balance Sheet	Reserves - Capital Adjustment Account and Revaluation Reserve	Working through CAA/RR as part of the work on the MIRS, as presentation not in line with Code. Revaluation reserve in the Accounts does not agree to the GL by £291k. This is being progressed as part of our PPE work and work on the Capital Enhancement & Capital Financing Note.
Balance Sheet	Reserves - HRA	Work has started on this but waiting for results of the HRA PPE work to be concluded.
Balance Sheet	Provisions - including NDR appeal	Work on NDR appeals provisions started and queries returned to finance team.
CIES	Income	Most income tests are complete apart from the sample testing. Analytical review is complete. All samples have been returned, many queries, we are currently still assessing the status of this work.
CIES	Expenditure - payroll	In progress, but only minimal amount to complete.
CIES	Expenditure - other expenditure	Most expenditure tests are complete apart from the sample testing. Analytical review is complete. All samples returned, many queries, we are currently still assessing the status of this work.
CIES	NDR Income and Expenditure in the CIES	Nearing completion, but has been held up by Collection Fund work (see below)

Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress (cont.)		
MIRS	Movement in Reserves Statement	Still working on agreeing everything back, as presentation not in line with Code. We have agreed PY figures in the new presentation.
MIRS	Capital Financing Requirement and Minimum Revenue Provision	Awaiting response from finance team regarding amendment required to CFR disclosure. Funding basis - to write up work to link to other parts of the accounts.
MIRS	Adjustment between accounting and funding basis	Still working on agreeing everything back, as presentation not in line with Code.
Collection Fund	All parts	We have had significant issues with the Collection Fund presentation and working papers. It was returned to the finance team as the working papers were not correct or complete. The finance team have been working on these. We were able to complete work on Council Tax Analytical review, and the NDR Analytical review is nearly complete. There are still many queries outstanding before we can proceed with the CF audit, but on 13 March we have received the new CF presentation and working papers, and plan to recommence this work ASAP.
Other procedures	Journal testing	Work continuing
Other procedures	Estimates	Largely complete but dependant on outcome of other testing before we can conclude.
Other procedures	Procedures related to specialists	Largely complete but dependant on outcome of other testing before we can conclude.
Other procedures	Subsequent events	Substantially complete but we will need to revisit at the date of giving the opinion.
Other procedures	Overall Analytical Review	To complete write up now responses received.

Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress (cont.)

Other procedures	Consideration of the Issues Identified in the 2016/17 Statement of Accounts	Some areas still awaiting responses from officers
Other procedures	Follow-up of control account recs	Being updated, will conclude when debtors and creditors work finished.
Other procedures	Evaluate comparative and additional information in the financial statements	Still working through the PY figures, especially for the new notes
Other procedures	CIPFA disclosure checklist	Internal audit have carried out their own review of the accounts against the CIPFA disclosure checklist, the output of which has been reviewed by the s151 officer and further amendments to disclosures have been identified, to be made along with all other identified audit adjustments.
Other procedures	Read other information to identify inconsistencies (Narrative Statement)	Checking outturn figures to accounts and reports
Other procedures	Identify and understand the business rationale for significant unusual transactions	Procedures completed but we are waiting for the results of the journals testing should that identify any unusual transactions.

Not started

Disclosures	Financial Instruments	To be completed following debtors/creditors work.
Balance Sheet	Reserves - General Fund, Earmarked and Collection Fund	Not started as prioritising other tasks first.
CIES	Finance & Investment - Interest and pensions costs	Not started as prioritising other tasks first.
CIES	Revaluation gains / losses	Will be looked at once PPE disposals work is complete.
Group Accounts	Group Statements and Notes	Statements incomplete - finance team aware. Cannot be prepared until amendments to main accounts have been processed.



3

Fees

Fees

Fee analysis

We have communicated throughout the year the impact of the Authority's issues in financial reporting on the audit fee. We set out below a summary of the current proposed fees for the year ended 31 March 2018 with comparisons of the previous two years. As the audit remains ongoing we are unable to confirm the final proposed additional fees for the additional work we have undertaken but provide a range for the Committee and management. On completion of the audit we will seek to agree the final additional fee with the Section 151 officer before seeking approval from PSAA.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the Pooling of Housing Capital Receipts Return. We have adopted the necessary safeguards in our completion of this work.

Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

	Proposed fee 2017/18	Planned fee 2017/18	2016/17	2015/16
	£	£	£	£
Scale fee	51,975	51,975	51,975	51,975
Group reporting	5,000	5,000	3,940	-
Accounts issues	60,000 - 80,000	-	29,616	20,644
Total audit fee - code work	116,975-136,975	56,975	85,531	72,619
Other non-audit services not covered above (Housing Benefits)	10,870	9,190	13,793	9,190
Other non-audit services not covered above (pooling return)	3,700	3,700	3,500	3,300
Total other non-audit services	14,570	12,890	21,500	12,490
Total fees	131,545-151,545	69,865	107,031	85,109

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.

© 2019 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com