



**South Cambridgeshire
District Council**
Audit results report
Year ended 31 March 2018

12 December 2019

12 December 2019



Dear Audit and Corporate Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Committee. This report summarises our preliminary audit conclusion in relation to the audit of South Cambridgeshire Council (the Authority) for 2017/18.

Over the past 18 months we have communicated regularly to the Committee the difficulties the Authority has experienced in preparing its 2017/18 accounts, supporting working papers and in dealing with the audit. In addition, we have also regularly communicated the impact these issues have had on the audit, the significant increase in audit input required, as well as more recently, the impact of our own resourcing challenges. I am pleased to report that we have now substantially completed our audit of the Authority for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4 of this report. In light of the financial reporting challenges the Authority has experienced, we will be issuing a qualified 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 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 recognise how difficult the accounts and audit process has been for the finance team and would like to thank them for their continued help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 19 December 2019.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

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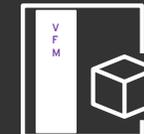
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our audit plan presented at the March 2018 Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in audit strategy - As our risk assessment increases, we require more persuasive audit evidence from substantive procedures to reduce our audit risk to an acceptably low level and draw reasonable conclusions on which to base our opinion. We had already planned to use our lowest testing level (50% of materiality) but due to the issues identified with the preparation of the accounts, supporting working papers and corporate memory of staff responding to audit queries, we have had to increase our risk assessment across all areas of the accounts. This has increased the volume of audit testing.
- ▶ Changes in value for money risks - in our March 2018 audit plan we did not report any significant risks in relation to VFM. However, as a result of the ongoing issues with accounts we have identified financial reporting as a significant VFM risk.
- ▶ Changes in the audit team - We commenced the 2017/18 audit in March 2018. Since then the audit manager has changed from Kay McClennon to Mark Russell and we have enhanced the strength of the audit team by using an assistant manager, Jacob McHugh, to act in the team leader role.
- ▶ Audit fee - We have kept the Committee informed of the impact on the audit fee of the issues we have identified in relation to the preparation of a robust set of statement of accounts, supported by good quality working papers and sufficient staff capacity (and corporate memory) to respond effectively to auditor queries. We have carried out more audit procedures, increased sample sizes for testing and input considerably more time than initially planned across all grades of the audit team. We include the final planned additional fees in Section 8 of this report.

Status of the audit

We have substantially completed our audit of the Authority's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

• Creditors testing (to complete)	• Expenditure testing (1 item outstanding)	• CAA & CFR consistency (final query with officers)
• NDR income in CIES (officers working to clear final query)	• Disclosure checklist (final query with officers)	

We will give a verbal update to the Committee on progress against the above procedures. Once completed we will need to agree and track all changes made to the version of the financial statements presented for audit and the final version. We will then:

- ▶ Complete our final review processes
- ▶ Complete of subsequent events review
- ▶ Receive the signed management representation letter.

We expect to issue the audit certificate at the same time of the audit opinion.

Executive Summary

Areas of audit focus

Our audit plan identified key areas of focus for our audit of the Authority's financial statements. In total we identified three significant risks and two areas of audit focus. We summarise below our findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error - revenue and expenditure recognition	Our testing is in progress but to date we have found no indications that management have recognised either revenue or expenditure inappropriately.
Misstatements due to fraud or error - management override of controls	We have found no evidence that management have overridden controls.
Preparation of the accounts, supporting working papers and dealing with the audit	As we have communicated to the Committee since presenting the audit plan in March 2018, the Authority has experienced significant challenges in preparing its accounts, supporting working papers and dealing with the audit process. Whilst we have worked collaboratively with the finance team to make progress, we have been required to increase our risk assessment across all areas of the accounts and input significant additional time to complete the necessary audit procedures. We acknowledge our audit resource issues in 2019 has impacted audit completion.

Area of audit focus	Findings & conclusions
Valuation of other land & buildings including HRA	We have completed our testing and identified the need for the Authority to amend its statements in respect of PPE valuations.
Pension liabilities	We have completed our testing and have no matters to report.

We include in Appendix A, the previously reported updates we have made to the Committee since March 2018.

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

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

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

Executive Summary

Audit differences

At the date of this report there is one unadjusted audit difference arising from our audit. Management have indicated that they do not wish to amend the accounts for this issue. We ask that the rationale for not adjusting be made clear to the Committee and included in the management letter of representation. This difference has no impact on the general fund balance.

During the audit we have identified a number of audit differences in the draft financial statements which management has chosen to adjust. We include details in Section 4 Audit Differences. The overall impact of these adjustments is to increase the general fund balance by £3.59m.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, during the audit and in light of the issues the Authority has experienced in preparing the 2017/18 statements, working papers and dealing with the audit we have identified observations and made some improvement recommendations, which we include in Section 7.

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 any significant risks relating to value for money. However, we have considered the ongoing challenges faced by the Authority in preparing its accounts, preparing good quality working papers and its ability to deal with the audit as matters which impact on the value for money conclusion. 2017/18 is the third consecutive year that the Authority has been unable to publish accounts by the dates outlined in the Accounts and Audit Regulations. Between 2017 and midway through 2019, the Authority has struggled to recruit and retain sufficient capability and capacity in its finance function to enable to meet its external financial reporting requirements. For 2017/18 we have concluded that proper arrangements were not in place and have therefore issued a qualified value for money conclusion. We include more details in Section 5.

Whilst the Authority has now has sufficient capability and capacity to stabilise matters, there remains a risk to effective financial reporting for 2018/19 and 2019/20.

Other reporting issues

We have reviewed the information presented in revised Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work. The Authority is below the NAO's threshold for audit procedures on the Whole of Government Accounts submission, therefore we have no other matters to report. We have received no correspondence from members of the public or interested parties.

Independence

We have no matters relating to our Independence to bring to your attention. Section 8 includes our update.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error - the inappropriate recognition of revenue or expenditure

What is the risk?

The Authority is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating revenue and expenditure is a key way to achieve these targets.

What judgements are we focused on?

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

What did we do?

Our approach focused on:

- ▶ Reviewing and testing revenue and expenditure recognition policies.
- ▶ Reviewing and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Sample tested material revenue and expenditure streams.
- ▶ Reviewed and tested revenue cut-off at the period end date.

What are our conclusions?

- ▶ We found accounting policies to be appropriate.
- ▶ We found no evidence of bias in judgements made by management in respect of accounting estimates.
- ▶ Our sample testing of revenue and expenditure is in progress but to date we have not identified any evidence of inappropriate recognition.
- ▶ Our cut off testing did not identify any recognition of revenue or expenditure in the incorrect financial period.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – management override of controls

What is the risk?

The Authority is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. 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.

What judgements are we focused on?

We have focused our audit attention on controls which are susceptible to management override and that could improve the financial outturn of the Authority.

What did we do?

- Carried out a fraud risk assessment during planning.
- Made enquires of management about risks of fraud and the controls put in place to address those risks.
- Documented our understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (using analytics to focus our testing).
- Reviewed material accounting estimates for evidence of management bias.
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

- ▶ We did not identify any evidence of management overriding controls.
- ▶ We found that management and the Committee have reasonable controls and oversight arrangements in respect of fraud risks
- ▶ Our data analytical procedures performed to identify and test higher risk journal entries adjustments did not identify any issues.
- ▶ We did not identify any evidence of management bias in respect of material estimates.
- ▶ We did not identify any significant unusual transactions.





Areas of Audit Focus

Significant risk

Preparation of the accounts, supporting working papers and dealing with audit queries

What is the risk?

The Authority has faced significant challenges in ensuring its finance function has the capacity and capabilities to prepare its 2017/18 statement of accounts, supporting working papers and then deal with the subsequent audit process. There is a risk that the accounts will not be prepared in accordance with the agreed timetable, will not be free from material misstatement, will not be supported by good quality working papers and the Authority will not be able to service the audit adequately.

What did we do?

- Engaged with management and the finance team throughout the period.
- Provided constructive challenge to the Authority's plans for closedown and accounts preparation.
- Communicated regularly to the Committee on our view of the Authority's progress and the subsequent audit.
- Increased our risk assessment on the statement of accounts

What are our conclusions?

- The Authority was unable to prepare its 2017/18 statement of accounts by the agreed timetable. The version presented for audit is dated 6 June 2018.
- We have identified a number of audit differences which management have agreed to adjust for in the final version of the statements.
- We have communicated regularly to the Committee the deficiencies in the quality of working papers prepared in support of the statements.
- We have also communicated regularly to the Committee the deficiencies in the ability of the finance function to respond effectively to audit queries arising from the lack of corporate memory.
- We have been required to input significantly more time over the period to progress the audit, including more manager and associate partner input.
- We have completed our review of the group accounts disclosures and have no matters to report.
- We currently await the Authority's final version of the statements demonstrating the movement from the version of the statements presented for audit.





Areas of Audit Focus



Other Areas of Audit Focus - Valuation of Other Land and Buildings Including Housing

The Authority holds £480m of housing stock and £29m other land and buildings. These are both significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Authority engages external expert valuers who apply a number of complex assumptions. Annually, these assets are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Authority's asset base is significant, and the outputs from the valuer are subjective, there is a risk that their fair value may be under or overstated or the associated accounting entries incorrectly posted. 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.

This risk relates to assets that are revalued, being housing stock, other land and buildings (non-DRC), surplus assets and investment properties. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- ▶ Considering the work performed by the Authority's valuers, Wilks, Head and Eve (WHE) (for housing) and the Valuation Office Agency (VOA) (for non-housing), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Reviewing and sample testing the key asset information provided by the Authority to the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, information to support the use of beacons in valuing housing stock);
- ▶ Reviewing and sample testing the key assumptions used by the valuers in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g. use of indices, comparable house sales)
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Performing a reasonableness review on the valuation of assets not included in the 2017/18 valuation cycle, via reference to the NAO commissioned Local Government Gerald Eve report. This is performed to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

Our audit procedures above have not identified any material differences in the financial statements. However we did identify some non-material errors which management have agreed to adjust the statements. We have included further details in Section 4 on Audit Differences.



Areas of Audit Focus



Other Areas of Audit Focus - Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £59 million (£57 million at 31 March 2017).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to South Cambridgeshire District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We did also engage with management about the potential impact on the 2017/18 accounts of the outcome of court cases during 2019 relating to the McCloud Supreme Court judgement and the further deliberations in respect of the Guaranteed Minimum Pension requirements. Management have determined that there is no significant impact of these matters on the 2017/18 statements.



03 Audit Report



Audit Report

Our draft opinion on the financial statements

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

Opinion

We have audited the financial statements of South Cambridgeshire District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the

- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Movement in Reserves Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- and the related notes 1 to 29.
- Housing revenue account and related notes 30 to 35
- Collection Fund and the related notes 35 to 39.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of South Cambridgeshire District Council and Group as at 31 March 2018 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 2017/18.

Basis for opinion

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

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

Conclusions relating to going concern

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

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



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages 2 to 68, other than the financial statements and our auditor's report thereon. The Head of Finance is responsible for the other information.

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

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

We have nothing to report in this regard.

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

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are not satisfied that, in all significant respects, South Cambridgeshire District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

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

The 2017/18 financial year is the third successive year that the Authority has been unable to publish its statement of accounts by the target dates outlined in the Accounts and Audit Regulations 2015. The Authority presented for audit a version of the unaudited statements on 7 June 2018 but they were not supported by adequate working papers and were subsequently found to contain a large number of errors. The key individual who prepared the statements left the employment of the Authority before the audit commenced. The Authority has struggled to put in place robust arrangements to support the preparation of its statement of accounts and respond appropriately to the external audit leading to a lack of reliable and timely financial reporting.

Qualified conclusion [Except for]

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, South Cambridgeshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;



Audit Report

Our draft opinion on the financial statements

- 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.

Responsibility of the Head of Finance

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. In preparing the financial statements, the Head of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether 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 C&AG 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 2018.

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.



Audit Report

Our draft opinion on the financial statements

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.

Use of our report

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

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge



04 Audit Differences





Audit Differences

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

We agreed to report to the Committee any audit differences above £0.094m.

Summary of unadjusted known audit differences

There is one unadjusted known difference. This relates to assets held for sale. We identified a number of assets that the Authority had classified as held for sale but which on review do not meet the conditions for held for sale assets. These assets should therefore be classified as operational. The total value of these assets is £332,000 (£220k relating to other land and buildings and £112k relating to council houses). The Authority has decided not to adjust for these differences on the basis that they are not material to the statements. The Authority has agreed to ensure that all its classification of assets held for sale in its 2018/19 accounts will meet the relevant criteria.

We are content that this unadjusted audit difference does not impact on audit opinion which we have based on materiality of £1.9m.

Summary of adjusted known audit differences above £0.094m

During the course of the audit we have identified audit differences in excess of our threshold for reporting to the Committee. We include these on the next two pages. The most significant audit difference relates to an error in recognising unpaid a 16-17 NDR Growth debtor from the year end receivable balance, despite income still being owed. This amounts to an understatement in income and debtors of £3.561m.

The overall impact of the adjusted audit differences is a net increase in income of £3.927m of which results in a £3.579m increase in the General Fund balance and £0.348m increase to Unusable Reserves.



Audit Differences

Summary of adjusted known differences above £94k

Item	Value (£m)	Debit	Credit
PPE			
1. Misclassification of Capital Additions as Vehicles, plant and equipment (VPE) assets when these are intangible assets.	0.388	Intangibles (additions)	VPE (Additions)
2. As result of issues with the fixed asset register, incorrect asset elements have been picked up in the overall calculation of disposal value & the associated gain on disposal.	0.382	Council dwellings (disposals)	OLB (Disposals) £0.034m Gain on disposal £0.348m
3. As part of valuations work, we compare the external valuation report to fixed asset register. Differences identified on 3 assets. The register should reflect the valuation reports.	0.435	PPE (OLB)	Revaluation reserve
4. Incorrect manual entry to PPE note & MIRS - no basis for journal as such to be reversed. Dr Deferred Capital Receipts, Cr PPE	0.349	Deferred capital receipts	PPE
Others areas			
5. Incorrect grossing up of HB expenditure and overpayments income. This should be treated as net expenditure.	0.565	GF Housing (HB Income)	GF Housing (HB Expenditure)
6. Omission of unpaid 16-17 NDR Growth Debtor from the year end receivable balance, despite income still being owed.	3.561	Debtors	NDR Income
7. £0.140m - To raise an additional accrual for the outstanding external audit fees as result of additional work required in 17/18. Accrued expenditure understated.	0.140	Audit fee expenditure	Payables
8. Credit items held under debtors including amount owed to central government in respect of Housing Capital Receipts, and payments in advance for council tenants. These should therefore be held as creditors.	0.856	Debtors	Creditors
9. Incorrect opening balance adjustment in relation to the Collection Fund Adjustment Account. Given value of this, it is appropriate to reflect in year rather than as an opening balance adjustment.	0.962	PPA on CFAA	'In year' CFAA transactions
10. Incorrect treatment of Collection Fund summons costs as bad debt provision, this is income received and as such should be recognised as such.	0.316	Debtors (bad debt provision)	Income



Audit Differences

Summary of adjusted known differences above £95k (continued)

Item	Value (£m)	Debit	Credit
11. Balance within CGRIA (Creditors & Receipts in Advance) is not a true creditor as there is no obligation to transfer economic benefit, as such this should be held as an earmarked reserve in respect of electoral arrangements.	0.109	Creditors	Earmarked reserves

Summary of main disclosure differences

In addition to the audit differences, we also identified the need for the Authority to make amendments to some of its disclosures in the statements. The key disclosure differences are:

- £1.451m of Business Rate growth is now 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 £6.200m. This is now included in other non ringfenced grants.
- £5.079m from Shared Waste and Recycling credits has been removed from Other Government Grants and moved into Revenue as these are normal services provided by the Authority rather than government grants and contributions.
- Additionally, the Income and Expenditure note has also been updated with £5.079m removed from the grants balance of £33.308m and included in fees, charges and other service income.
- We found that the Authority had destroyed its records to support its related parties disclosures. As a result we were required to carry out additional searches of companies house (CH). We identified the need for the Authority to make further disclosure s relating to:
 - The need to disclosure that employees of the Authority were acting as directors of Ermine Street Housing in 2017-18
 - John Batchelor is a Director of South Cambs Ltd (identified from our CH searches)
 - Nigel Cathcart is a Director of the Farmland Museum (identified from our CH searches) which received a £8,500 grant from the Authority.



05

Value for Money Risks



Value for Money

Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2018/19 this is based on the overall evaluation criterion:

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

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

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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

Overall conclusion

Following the March 2018 Audit Plan we recognised a significant risks in respect of the Authority's arrangements for producing reliable and timely financial reporting that supports the delivery of its strategic priorities. The next page present our findings in response to the risk.

In light of 2017/18 being the third consecutive year that the Authority has been unable to prepare and publish its accounts by the dates outlined in the Accounts and Audit Regulations 2014 we have issued a qualified value for money conclusion in respect of the Authority's proper arrangements to make informed decisions as a result of having reliable and timely financial reporting.

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

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



Value for Money

What is the significant value for money risk?

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

What arrangements did the risk affect?

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

What are our findings?

In 2015/16 the Authority published its draft statement of accounts by 30 June but did not publish its final audited statements by 30 September, as required by the Regulations. The Authority published audited statements on 21 October 2016, the date of the audit opinion. In our Audit Results Report (ARR) we highlighted the lack of continuity and knowledge in the finance team to support the preparation of the accounts and to support the audit process.

In 2016/17 the Authority did not publish its draft statement of accounts by 30 June nor publish its final audited statements by 30 September. The Authority published a comprehensive set of statements on 31 July 2017 and published audited statements on 26 January 2018, the date of the audit opinion. In our initial ARR (we issued 3 iterations) we highlighted to the Audit and Governance Committee our concerns that the Authority was unable to maintain sufficient capacity and capability in the finance team to prepare its statement of accounts and supporting working papers and to meet the quality standards we expect and assume to facilitate a smooth and efficient audit process.

In 2017/18 the Authority published its draft statement of accounts on 7 June. Our initial review identified gaps in these accounts. As outlined in this report, we experienced significant problems in obtaining clear and comprehensive working papers and effective responses to our audit queries. As a result we were unable to carry out the audit in one visit.

The main source of the Authority's issues stem from the difficulties it has faced to replace its previously long standing Chief Accountant who retired in early 2017. The Authority spent two years using a series of interim accountants to help with preparing its statements and supporting working papers. However, over that period it struggled to maintain continuity in the key roles for preparing the statements and supporting working papers. Since part way through 2018 the Authority has retained continuity at Principal Accountant and since May 2019 at Section 151 officer. Whilst this continuity has bolstered significantly the capability and capacity within the finance function to prepare accurate and complete statements, supported by comprehensive working papers and deal appropriately with audit queries, for 2017/18 we conclude that proper arrangements have not been in place for financial reporting.

The Authority has made improvements to its financial reporting arrangements to support the 2018/19 statements but has already acknowledged the challenges it will face in the new year.



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 Statement of Accounts 2017/18 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 can confirm that the financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the latest version of 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

The Authority is below the threshold that the NAO has determined for carrying out specified procedures on its Whole of Government Accounts return. As a result, we have no matters to report.

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 matters

We have reported in this document and as part of our Audit Progress Reports since March 2018 significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process in relation to:

<ul style="list-style-type: none"> Significant qualitative aspects of accounting practices 	<ul style="list-style-type: none"> Significant difficulties encountered during the audit 	<ul style="list-style-type: none"> Significant matters arising from the audit that were discussed with management
<ul style="list-style-type: none"> Written representations we have requested 	<ul style="list-style-type: none"> Expected modifications to the audit report in respect of VFM 	

We have nothing report in relation to:

- Related parties; External confirmations; Going concern;
- Consideration of laws and regulations; and Group audits.



07

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.

In light of the ongoing issues with the preparation of financial statements, supporting working papers and the ability of the Authority to deal with and respond to audit queries we have identified some areas for improvement for 2018/19 and 2019/20:

1. Working papers - supporting working papers should be prepared at the time that the statement of accounts are prepared, with a particular focus on documenting judgements made in determining accounting entries. In addition, good practice elsewhere includes some form of quality assurance by officers before working papers are provided to external audit for review.
2. Accounts preparation - the Authority should establish key milestones in its plan for preparing its statement of accounts, monitor achievement of milestones, take prompt action where delivery is off track and communicate clearly and regularly progress to the Audit and Corporate Governance Committee and external audit.
3. Finance team capacity - we acknowledge and recognise the positive steps taken by the Authority during 2019 to strengthen its finance team capacity but are also aware of the Head of Finance's own concerns for 2020. The Authority needs to ensure that it has sufficient capacity to deliver all its financial reporting duties for 2018/19 and 2019/20 before agreeing on a specific timetable for the external audit of those financial years.
4. Related party transactions - we found that records for supporting the disclosure of related parties had been destroyed prior to audit work being undertaken. The Authority needs to ensure it retains all records to support the completeness and accuracy of its disclosures in relation to related parties.
5. Fixed assets register - We have previously reported issues with the complexity and size of the Authority's fixed asset register which has contributed to the difficulties the Authority has faced in preparing its statement of accounts. We are also aware that these issues are impacting on the transfer to a new fixed asset register. The Authority needs to resolve this issues before it prepares its 2018/19 statements.

Assessment of Control Environment

Observation 1

Working papers

Recommendation 1

The Authority should prepare supporting working papers at the time that the statement of accounts are prepared, with a particular focus on documenting judgements made in determining accounting entries.

Recommendation 2

The Authority should put in place a quality assurance process for supporting working papers before they are provided to external audit for review.

Management comment

It is unclear if there were any working papers prepared for the 2017/18 accounts but this is an important part of the final accounts preparation as they are needed as evidence to support the entries in the accounts. Internal Audit have agreed to review the 2018/19 working papers to ensure they are adequate and appropriate for audit purposes.

Observation 2

Accounts preparation

Recommendation 3

The Authority should establish key milestones in its plan for preparing its statement of accounts

Recommendation 4

The Authority should monitor achievement of its closedown plan milestones.

Recommendation 5

The Authority should take prompt action where delivery against its closedown plan is off track.

Recommendation 6

The Authority should communicate clearly and regularly progress against its plan and milestones to the Audit and Corporate Governance Committee and external audit.

Management comment

There was a quite detailed final accounts plan but it did not include a timeline for the preparation of statements. Where things are not completed on time there has been monitoring and action taken but I am not convinced there was any real ownership of the process. Regular updates have been given to the A&CG Committee recently though I am aware that a number of meetings during 2018/19 were cancelled. Once the accounts completion is on track there may only be one meeting in the timeframe so maybe a continuation of the task and finish group might be appropriate.

Assessment of Control Environment

Observation 3

Finance team capacity Recommendation 7

The Authority needs to ensure that it has sufficient capacity to deliver all its financial reporting duties for 2018/19 and 2019/20 before agreeing on a specific timetable for the external audit of those financial years.

Management comment

There have been so many issues with the 2017/18 accounts and the knock on effect to 2018/19 has been significant. The Council has enough capacity to deliver the 2018/19 accounts the bigger question is can it be delivered by the January in a satisfactory state for audit.

Observation 4

Related party transactions Recommendation 8

The Authority needs to ensure it retains all records to support the completeness and accuracy of its disclosures in relation to related parties.

Management comment

I understand the documents were disposed of after the last election as there was a need for new disclosures as many members had changed. It wasn't appreciated that this information was required for the Final Accounts. Liaison with Democratic services is necessary to ensure the information is retained where there is a need for this.



Assessment of Control Environment

Observation
5

Fixed asset register
Recommendation 9

The Authority needs to resolve its fixed asset register issues before it prepares its 2018/19 statements..

Management
comment

Getting the Asset Register to agree to the 2017/18 accounts has presented significant difficulties. Also because of the way it works we cannot populate the system with 2018/19 transactions if we do not have an agreed closing position for 2017/18. The intention is to populate with 2018/19 information by Christmas which is possible but challenging.



08

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated March 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit 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 Committee on 19 December 2019.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us and agreed for the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid and proposed for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Proposed final fee 2017/18	Planned fee 2017/18	Final Fee 2016/17
		£	£
Scale fee	51,975	51,975	51,975
Group scoping	5,000	5,000	3,940
Additional audit work	140,000**	60,000-80,000*	29,616
Total audit	196,975	59,475	85,531
Other non-audit services not covered above (Housing Benefits)	10,870***	9,190	13,973
Total other non-audit services	10,870***	9,190	13,973
Total fees	207,845	-	99,504

All fees exclude VAT

* Estimated range in March 2019

** Final estimate to be agreed with the Head of Finance and then with PSAA.

*** Based on original quote but subject to additional HB testing if necessitated.



09

Appendices

Appendix A

Updates to the Audit and Corporate Governance Committee

 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.

Appendix A

Updates to the Audit and Corporate Governance Committee

 Date	 What we reported to the Committee	 What was the impact we reported
December 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 ▶ Significant risk now recognised in respect of the impact of financial reporting deficiencies in making informed decisions and deploying resources in a sustainable manner. 	<p>Further deferral of the audit and increasing audit input required.</p> <p>Estimated additional fee between £35-55k</p> <p>The protracted nature of the audit was presenting us with resourcing challenges and in particular securing continuity in the members of the audit team.</p>
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 Authority. Therefore we need to carry out further audit procedures, including Companies House checks, to address the completeness of this note. 	<p>Further deferral of the audit and increasing audit input required.</p> <p>Estimated additional fee between £60-80k</p>

Appendix A

Updates to the Audit and Corporate Governance Committee

 Date	 What we reported to the Committee	 What was the impact we reported
April 2019	<p>Verbal update provided</p> <ul style="list-style-type: none"> ▶ The agreement with the Authority to defer the continuation of the audit until August due to resourcing challenges within EY. ▶ The deferral would also give officers time to clear outstanding audit queries and provide all outstanding information requested by the audit team. ▶ We reported that it was likely that the ongoing challenges faced by the Authority in respect of financial reporting would result in a qualified value for money conclusion. We also reported that we were considering the other powers afforded the external auditor under the Local Audit and Accountability Act (2014) in respect of Section 24 recommendations. 	<p>Deferral of the audit until August. Likely VFM conclusion qualification. Consideration of Section 24 recommendations.</p>
September 2019	<p>Verbal update provided</p> <ul style="list-style-type: none"> ▶ Progress of the audit in August 2019, as part of the planned deferral, was not as effective as anticipated. Outstanding audit queries from earlier in the year were not resolved and auditors had been required to raise further queries. ▶ Agreement with the Authority to continue the audit in November. ▶ We would not be making Section 24 recommendations but confirmed that the VFM conclusion would be qualified. ▶ Additional audit fees have increased. 	<p>Further deferral of the audit and increasing audit input required.</p>

Appendix B

Required communications with the Audit and Corporate Governance Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Corporate Governance (ACG) Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2018
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - December 2019

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	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 ▶ Material misstatements corrected by management 	Audit Results Report - Dec 2019
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the ACG Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the ACG Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to ACG Committee responsibility. 	Audit Results Report - Dec 2019

Appendix B

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures, Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - Dec 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan - March 2018 and Audit Results Report - Dec 2019

Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - Dec 2019

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - Dec 2019
Material inconsistencies or misstatements	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - Dec 2019
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - Dec 2019
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - March 2018 and Audit Results Report - Dec 2019

Requested management letter of representation

[To be prepared on the entity's letterhead]

[DATE

Suresh Patel

Associate Partner

Ernst & Young LLP

One Cambridge Business Park

Cambridge

CB4 0WZ

Dear Suresh

This letter of representations is provided in connection with your audit of the financial statements of South Cambridgeshire District Council and the Group ("the Authority and Group") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Authority and Group as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We acknowledge, as members of management of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority and Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of the unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial to the financial statements taken as a whole.

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

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

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

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

▶ involving financial statements;

▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority's and Group financial statements;

Requested management letter of representation

- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's and Group activities, its ability to continue to operate, or to avoid material penalties;
- ▶ involving management, or employees who have significant roles in internal controls, or others; or
- ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ▶ Additional information that you have requested from us for the purpose of the audit; and
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, and Audit and Corporate Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 19 December 2019.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We confirm there are no liabilities relating to litigation and claims, both actual and contingent, which require disclosure in the financial statements.

E. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the following accounting estimates have been consistently applied and are appropriate in the context of the Code.
- ▶ Valuations of all property, plant and equipment.
 - ▶ Pension fund liabilities and associated disclosures.
2. We confirm that the disclosures made in the financial statements with respect to these accounting estimates are complete and made in accordance with the Code.
3. We confirm that no adjustments are required to these accounting estimates and disclosures in the financial statements due to subsequent events.

F. Subsequent Events

1. We confirm there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Signed: Head of Finance & Chair of the Audit and Corporate Governance Committee.

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