



24 June 2020



Dear Audit and Corporate Governance Committee Members

We are pleased to attach our audit results report update for the forthcoming meeting of the Committee. This report provides a bridge between our report to the Audit and Corporate Governance Committee on the 19 December 2019 and the final closing position following conclusion of our audit of South Cambridgeshire Council (the Authority) for 2017/18.

Over the past 24 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 the impact of our own resourcing challenges. I am pleased to report that we have now completed our audit of the Authority for the year ended 31 March 2018 and will issue our audit report on receipt of the signed accounts from the Council after the 9 July meeting.

In completing the audit we have also considered the uncertainty that Covid-19 has put on local government funding. As a result, we have sought evidence from the Council of its assessment on its future financial resilience and the impact this may have on the 2017/18 accounts and disclosures. In collaboration with officers, the Council has updated its disclosure around going concern and reflected Covid-19 as an event after the balance sheet date in its final statements.

We have also been required take the audit report through an EY consultation process to ensure that it provides the appropriate assurances to the Council and its stakeholders in light of the impact of Covid-19 on financial reporting. We have completed the consultation and there have been no changes to the audit report we included in the December 2019 report.

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 9 July 2020.

Yours faithfully

Suresh Patel

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Associate Partner

For and on behalf of Ernst & Young LLP



Executive Summary

Status of the audit

We have now completed our audit of South Cambridgeshire Council'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 outstanding matters set out below we expect to issue an unqualified opinion on the Council's financial statements.

The work that is outstanding as at the date of this report is in relation to:

Completing our final review processes - Completing a subsequent events review - Receiving a signed management representation letter.

Impact of Covid-19

Whilst we had completed our audit procedures before the government introduced lockdown measures in late mid-March we have been working closely with the Finance team to complete the final audit procedures by working remotely. The Finance team have worked effectively to respond to our final queries and support audit progress.

We have together learned some lessons on effective remote working that we will both take into the 2018/19 audit.

Specific to the financial statements, Covid-19 has had three main impacts:

Financial resilience and going concern

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed assessment to support its assertion and evaluate its financial resilience. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2017/18 statements, for example, we needed to see evidence of an assessment up to and including around July 2021. This needed information relevant to the 2021/22 financial year, it's budget, etc. The Section 151 officer provided this assessment. We scrutinised the Council's revised financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and the Section 151 officer's response to our queries, the Council have revised its going concern disclosure in the statement of accounts and we concluded that we did not need to make specific reference to going concern or Covid-19 in our audit report.

2. Accounts and disclosures

Covid-19 has potentially impacted a number of accounting judgements and disclosures. For the 2017/18 statements, we asked the Section 151 officer to consider the impact of Covid-19 on the balance sheet. Whilst, as expected, there is no adjustments to the balance sheet, the Council has included a revised post balance sheet event disclosure note in the final statement of accounts.

3. Auditor's report consultation

Following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, the firm (in common with other firms) introduced a rigorous consultation process for all auditor reports to ensure that we are providing the right assurance to the readers of accounts. We have completed the consultation process and we have made no changes to the audit report we included in the December 2019 report.

Executive Summary

Audit differences

At the date of this report there are two unadjusted audit difference arising from our audit. Management have indicated that they do not wish to amend the accounts for these issues. We ask that the rationale for not adjusting be made clear to the Committee and included in the management letter of representation. This differences have 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 3 Audit Differences. The overall impact of these adjustments is to increase the general fund balance by £3.59 million.

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	We have completed our testing and have found no instances where management have recognised either revenue or expenditure inappropriately.
Misstatements due to fraud or error - management override of controls	We have completed our testing and 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 Section 2 further detail on these risks and 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 did not identify 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
- 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.





Areas of Audit Focus



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

The Authority holds £480 million of housing stock and £29 million other land and buildings. These are both significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation changes. 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 3 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.



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 £0.094 million.

Summary of unadjusted known audit differences

We highlight the following misstatements greater than £0.094 million which have not been corrected by management that were identified during the course of our audit:

Our review of the Council's Assets Held for Sale we identified a number of assets that the Authority had classified as held for sale09 but which on review do not meet the conditions for held for sale assets. These assets should therefore be classified as operational.

- Debit: Balance Sheet Property, Plant and Equipment Other Land and Buildings = £0.220 million
- Debit: Balance Sheet Property, Plant and Equipment Council Dwellings = £0.112 million
- Credit: Balance Sheet Assets Held for Sale = £0.332 million

Our testing of creditors identified items in relation to Capital Grants Received in Advance where there is no obligation for the Council to transfer economic benefit as at the 31 March 2018 as such these balances should be held under earmarked reserves rather than as a creditor.

- Debit: Balance Sheet Creditors = £0.109 million
- Credit: Balance Sheet Earmarked Reserves Electoral Arrangements = £0.109 million

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 Month 2019.

Audit Differences

Summary of main disclosure differences

We identified through our review of the accounts and subsequent procedures 60 disclosure adjustments to the statement of accounts. The key disclosure differences are:

Unadjusted disclosure differences:

 The Property, Plant and Equipment note does not include a table showing valuation movements over the past 5 years as required by the CIPFA Code of practice. Management have chosen not to amend for this omission in the statement of accounts.

Adjusted disclosure differences:

- . £1.451 million 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 £6.200 million. This is now included in other non ringfenced grants.
- £5.079 million 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 £5.079 million removed from the grants balance of £33.308 million 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.

Summary of adjusted known audit differences above £0.094 million

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 page. 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 £3.561 million.

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



∠ Audit Differences

Summary of adjusted known differences above £0.094 million

Item	Value (£ million)	Debit	Credit
PPE			
 Misclassification of Capital Additions as Vehicles, plant and equipment (VPE) assets when these are intangible assets. 	0.388	Intangibles (additions)	VPE (Additions)
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
 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
 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			
Omission of unpaid 16-17 NDR Growth Debtor from the year end receivable balance, despite income still being owed.	3.561	Debtors	NDR Income
 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
 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
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
 Testing of the year end debtor from Capita identified balances which are not receivable and therefore requires write-off. 	0.158	Expenditure	Debtors
10. Year end creditor for Transitional protection was double counted.	0.323	Creditors	Expenditure
 Amounts relating to historic audit adjustments in Creditors remained at year end for which no liability existed as at 31 March 2018. 	0.258	Creditors	Expenditure



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	130,000-150,000**	60,000-80,000*	29,616	
Total audit	TBC	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	TBC	68,665	TBC*	

All fees exclude VAT

^{*} Estimated range in March 2019

^{**} Final estimate - we will shortly provide the Section 151 officer with a detailed analysis of these additional fees before seeking agreement with PSAA Ltd.