



# **South Cambridgeshire District Council**

Annual Audit Letter for the year  
ended 31 March 2018

August 2020



Building a better  
working world

# Contents

01

Executive  
Summary



03

Financial Statement  
Audit



05

Other Reporting  
Issues



07

Audit Fees



02

Purpose and  
Responsibilities



04

Value for  
Money



06

Focused on your  
future



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.psaa.co.uk](http://www.psaa.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 set 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. 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

We are required to issue an annual audit letter to South Cambridgeshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b> ► Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.</p> <p>The audit has taken two years to complete due to difficulties the Council has experienced in preparing its 2017/18 accounts, supporting working papers and in dealing with the audit. In addition, because of the significant increase in audit input required, our own resourcing challenges have contributed to the protracted audit. Finally, the Covid-19 pandemic further delayed the completion of the audit and then necessitated additional consideration of the Council's going concern assessment and new disclosure.</p> <p>We issued our auditor's report on 13 July 2020. The report included a paragraph to emphasise to the reader of the accounts the Council's disclosures on the impact of the Covid-19 pandemic on its financial position.</p>
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We determined that the difficulties experienced by the Council in preparing its accounts and supporting working papers for the third year in succession, represented a weakness in financial reporting. As a result, we concluded that except for the arrangements for producing reliable and timely financial reporting, the Council had put in place proper arrangements to secure value for money in their use of resources for 2017/18.

Area of Work	Conclusion
<b>Reports by exception:</b> ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.



## Executive Summary (cont'd)

In addition we have also:

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	<p>Owing to the protracted nature of the audit and the extent of significant issues we identified we have reported to the Audit and Corporate Governance Committee on the 2017/18 audit on several occasions including:</p> <ul style="list-style-type: none"><li>• In 2018 - April, July, September and December.</li><li>• In 2019 - March, April, September and December.</li></ul> <p>The March 2020 meeting was cancelled as a result of the Covid-19 pandemic.</p> <p>We issued our Final Audit Results Report to the 9 July 2020 Committee.</p>
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO's 2015 Code of Audit Practice.	We issued the certificate within the auditor's report on 13 July 2020.

Given the challenges we faced in undertaking the audit and its protracted nature, we have been required to input a significant level of additional audit time to enable us to complete the audit. We have regularly reported to the Council the increasing audit input throughout the last 18 months. On completion of the audit in July, we have shared with the Section 151 officer our proposal for an additional audit fee, which has taken into account some of the inefficiencies in audit progress caused by our own resourcing challenges during the summer of 2019. We include the final fee on page 20.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



02

## Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

Over the last two years we have reported the detailed findings from our audit work several times to the Audit and Corporate Governance Committee and issued our final Audit Results Report on the 2017/18 accounts to the 9 July 2020 meeting. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented at the 22 March 2018 Audit and Corporate Governance Committee and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your WGA return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.





03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for it to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO and issued an unqualified audit report on 13 July 2020. We reported our final findings to the 9 July 2020 Audit and Corporate Governance Committee.

We summarise here the key risks we identified and our conclusions.

Significant risk	Conclusion
<b>Management override of controls</b> That senior officers of the Council could avoid or work around the checks that are in place to ensure income and expenditure is accounted for correctly.	We found no evidence in our testing that management had overridden controls.
<b>Inappropriate capitalisation of revenue expenditure</b> That the Council could try reduce the level of expenditure recorded as being charged to services by accounting for some of it as costs related to land, buildings and equipment.	We found no evidence in our testing that management had accounted for expenditure on services as spend relating to land, buildings and equipment.
<b>Preparation of the accounts, supporting working papers and dealing with the audit</b> The Council has faced difficulties in preparing its accounts and supporting working papers in 2015/16 and 2016/17 due largely to capacity and capability within the finance team. There was a risk that these difficulties would remain for 2017/18.	<p>We regularly communicated to the Committee the significant challenges faced by the Council in preparing its accounts, supporting working papers and dealing with the audit process. Since March 2018 we worked collaboratively with the finance team and the different interim accountants appointed by the Council. During the same period the Council had changes to the Head of Finance and Section 151 post holder, including interim arrangements from December 2018 to May 2019. The Council appointed a permanent Section 151 officer in June 2019. We acknowledge our audit resource issues in the summer of 2019 also impacted on the progress of the audit.</p> <p>Since the permanent Section 151 appointment, the Council has strengthened its finance team and financial reporting capabilities with the further appointment of an experienced interim chief accountant, strengthening these capabilities for the preparation of the 2018/19 and 2019/20 accounts and subsequent external audits.</p> <p>If the interim appointment ends after the 2019/20 audit the Council will need to consider carefully the capacity and capability of the finance team to adequately prepare the 2020/21 accounts.</p>

## Financial Statement Audit

### Other Areas of Audit Focus

### Conclusion

#### Valuation of Other Land and Buildings and Investment Properties

The Council owns £480m of houses and £29m other land and buildings. The valuation of these assets is a significant estimate, involving the use of a valuation expert and requires judgement from senior officers. A small error in judgement can have a big impact on the valuation.

Our work did not identify any significant issues but the Council did change the accounts for some smaller issues we identified.

#### Pension Liability Valuation

The Council's pension fund deficit is a material estimated balance which is disclosed on the Council's balance sheet. At 31 March 2018 this totalled £59m.

The Council determined that two national issues arising in 2019 and impacting all local council pension schemes did not need to be reflected in the 2017/18 accounts.

We were satisfied with the disclosure of the pension liability.

#### Going concern

The Covid-19 pandemic has had a significant impact on the Council's finances. As the 2017/18 financial statements were approved after the outbreak, the Council has been required to disclose in its accounts the impact of the pandemic on its income, expenditure and funds.

The Council carried out a detailed assessment to inform a new disclosure note on going concern. We challenged the assessment and worked collaboratively with the Head of Finance to ensure the Council's disclosure was clear, transparent and balanced.

Within our auditor's report we emphasised the new disclosure.

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.9m which is 2% of gross revenue expenditure reported in the accounts. This results in a performance materiality, at 50% of overall materiality, of £0.95m. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Corporate Governance Committee that we would report to the Committee all audit differences in excess of £94,000.

## Financial Statement Audit (cont'd)

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### **Our application of materiality (continued)**

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



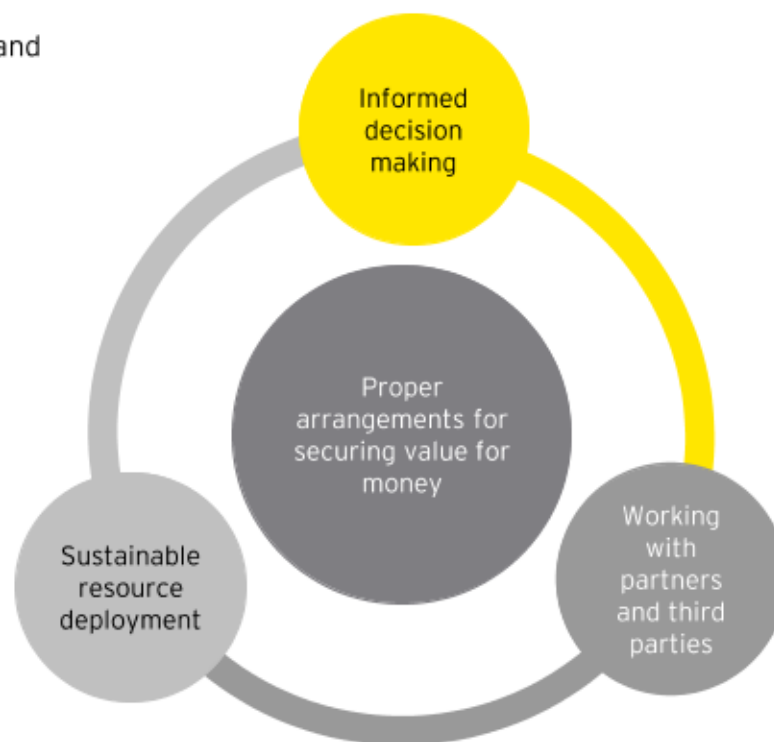
## 04 Value for Money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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

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



In our Audit Plan we did not identify any risks in relation to the value for money (VFM) conclusion. However, as 2017/18 was the third year in succession that the Council had experienced difficulties in preparing its accounts, supporting working papers and servicing the audit, we determined that there was sufficient evidence to suggest a deficiency in the VFM criteria 'Informed decision making', specifically the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities.

As a result, we concluded that except for the arrangements for producing reliable and timely financial reporting, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources.



05

## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council falls below the NAO's threshold for auditor review.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the **Council** to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Corporate Governance Committee on 9 July 2020. 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 regulatory and professional requirements.



## Other Reporting Issues (cont'd)

### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

In light of the issues we identified and reported in respect of the preparation of financial statements, supporting working papers and the ability of the Council to deal with and respond to audit queries, in our Final Audit Results Report we 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 Council 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 Council during 2019 to strengthen its finance team capacity but are also aware of the Head of Finance's own concerns for 2020. The Council 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 Council 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 Council's fixed asset register which has contributed to the difficulties the Council 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 Council needs to resolve this issues before it prepares its 2018/19 statements.

The Council has agreed to address the areas for improvement we have reported. We will follow up on their actions as part of the 2018/19 audit.





06

Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in 2018/19. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>The 2018/19 Accounting Code of Practice for Local Authorities provides guidance on the application of IFRS 9.</p>	<p>For the 2018/19 accounts the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets;</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, CIPFA have issued guidance and the impact of this standard is likely to be limited.</p> <p>However, the standard does impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The impact on the Council, is therefore extended to due consideration of the impact on group consolidation.</p>



07

Audit Fees



## Audit Fees

In our regular reporting to the Audit and Corporate Governance Committee we have been transparent on the impact of the prolonged and complicated nature of the audit on audit fees. We have also made it clear that we have taken into account the issues created by our own resourcing challenges during the summer of 2019.

In our Final Annual Results Report presented to the Audit and Corporate Governance Committee on 9 July 2020 we highlighted that we had carried out a significant level of additional work to complete the audit. This has included late and additional work required in respect of going concern and the Council's new disclosure note. We reported that we would be seeking to agree the significant additional fee with the Council's Head of Finance. In the table below we summarise the fees that we have agreed and that are now subject to approval by PSAA.

	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	142,000	60,000-80,000	29,616
<b>Total audit</b>	<b>198,975</b>	<b>116,975-136,975</b>	<b>85,531</b>
Other non-audit services not covered above (Housing Benefits)	10,870	9,190	13,973
<b>Total other non-audit services</b>	<b>10,870</b>	<b>9,190</b>	<b>13,973</b>
<b>Total fees</b>	<b>209,845</b>	<b>126,165-146,165</b>	<b>99,504</b>

All fees exclude VAT



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