

South Cambridgeshire District Council Audit Progress report

Year ended 31 March 2019

20 September 2021

A nighttime photograph of a street scene. In the foreground, a large truck with its headlights on is parked or moving slowly. To the right, a road sign with a green arrow pointing right and a red 'X' below it is visible. In the background, there is a building with illuminated windows and signs, including one that says '海苔力' (Seaweed Power). The overall scene is dimly lit with streetlights and building lights.

20 September 2021

Dear Audit and Corporate Governance Committee Members

The purpose of the report is to update you on our external audit of the Council's 2018/19 financial statement, further to the Audit Results Report presented to the Audit and Corporate Governance Committee on the 29 July 2021.

Whilst there has been some progress in resolving the outstanding items as reported in our Audit Results Report, there remains significant issues that the Council has yet to conclude on regarding the accounting for and disclosures of, property, plant and equipment. As reported in our Audit Results Report we flagged these fundamental and significant issues to the Council in October 2020 when we identified that the statement of accounts, the associated notes in the accounts, the fixed asset register and the general ledger did not reconcile. These basic accounting requirements have yet to be adequately resolved.

We have set out the outstanding matters in this report below and will need to conclude on these before we can confirm that we expect to issue an unqualified audit opinion on the financial statements.

Janet Dawson has taken over from Suresh Patel as the Partner in Charge of the audit and will see out the completion and conclusion of the 2018/19 audit. Janet leads EY's Government and Public Sector practice and has taken over as a result of the significance of the delays and issues being experienced on this audit.

We reported in our Audit Results report that we would be issuing a qualified Value for Money Conclusion for 2018/19 as this year is the fourth consecutive year that the Authority has been unable to prepare and publish its accounts by the dates outlined in the Accounts and Audit (A&A) Regulations 2014. Given the continued protracted nature of the audit and the inability of the Council to resolve the issues referenced above in line with agreed timelines, we are planning to report significant weaknesses in the Value for Money arrangements in place at the Council during 2020/21, as required by the CIPFA Code of Practice 2020/21. We are also considering issuing statutory recommendations to the Council under Section 24 Schedule 7 of the Local Accountability and Audit Act 2014. Areas of significant weakness identified are:

- The capacity and capability of officers in the Council to adequately address issues and technical accounting queries in a timely manner;
- Inability to effectively prioritise resources to manage delivery of audit requirements; and
- The Governance arrangements and processes in place to respond to and address the weaknesses above.

Executive Summary

Status of the audit

In July 2021 we reported to the Committee that the Council had yet to finalise and conclude on significant issues with the Council's accounting for and disclosure of property, plant and equipment, particularly in relation to the supporting reconciliations with the Council's new fixed asset register (FAR) which should underpin these balances. Between July and September 2021 the Council has continued to carry out work to review and correct the information held in its new fixed asset register to ensure it adequately reflects the true position of the Council's property, plant and equipment balances. As at 20 September 2021 the Council has not completed this work sufficiently to provide revised accounts in respect of its property, plant and equipment.

There are three key issues in regard to property, plant and equipment which we have set out below with the information we require to finalise these areas based on our current understanding of the position:

1. Revaluation Reserve 2018/19 opening position.

As reported in our Audit results report in July 2021 we identified a difference of £6.2 million between the opening balance on the revaluation reserve in the new fixed asset register and the closing position in the audited 2017/18 statement of accounts and the Council's previous fixed asset register.

Management are currently performing a review of the revaluation reserve to determine the correct opening position. Management assert that the new fixed asset register is showing the correct opening position as the calculation in the new fixed asset register is calculating the revaluation reserve on a more granular level and their review of the previous fixed asset register has identified some issues with the previous calculations. A material prior period adjustment will be required between the revaluation reserve in the Balance Sheet and the (Surplus)/Deficit on Revaluation of Property Plant and Equipment in the Comprehensive Income and Expenditure Statement. This will require additional disclosure, in the form of a prior period adjustments note in the statement of accounts.

Information/actions required by EY to complete:

We will require a completed technical paper and supporting working papers from management setting out the reasons why the new fixed asset register is the correct opening position and hence why a prior period adjustment is required. We have reviewed a draft version of this paper.

The paper will need to be supported by:

- Working papers demonstrating that the historic information has been correctly transferred to the new fixed asset register to allow correct calculation of the revaluation reserve.
- Working papers to show how the old and new fixed asset registers are calculating the revaluation reserve and as such evidence that the new fixed asset register is calculating the accounting balances correctly.

We will need to audit the relevant working papers and consult internally with regard to the prior period adjustments.

Status of the audit

2. Nil value Surplus Assets

As reported in our Audit Results Report in July 2021 we identified that the new fixed asset register includes 259 items of surplus land assets with nil value which have not been revalued within the last 5 years as required by the CIPFA Code of Practice. The Council has identified that one of these items was sold during 2018/19 and generated a receipt of over £250k. The Council has investigated the matter and determined that the disposal related to a ransom strip of land and asserts that the majority of the other 250 items relate to Housing Revenue Account properties, and therefore have been duplicated in the FAR. The Council is currently carrying out an exercise to support this assertion and to provide assurance that the revised accounts will be materially correctly stated in respect of surplus assets.

Between July 2021 and September 2021, the Council has continued to investigate the nil value surplus assets and found that 170 of these assets remain as HRA surplus land assets, the 89 other assets being previously disposed of or duplicate assets. There remain 15 assets that the Council has yet to identify. The Council has undertaken a review of the 170 remaining surplus land assets to determine what the assets are and the size of those assets. The Council is liaising with their external valuer to undertake a desktop valuation of these assets.

Information/actions required by EY to complete:

We will require a paper from management with supporting working papers and evidence which sets out the procedures that the Council has undertaken to determine the final position of the nil value surplus assets. We will also require the valuations and supporting calculations performed by the Council external valuer. We may need to employ our own internal valuation expert to obtain assurance over those valuations depending on the complexity of the valuation calculations undertaken.

3. Final version of Fixed asset register and Property, Plant and Equipment note

The new fixed asset register has been updated by the Council to resolve issues identified with opening balances, namely: incorrect classification of operational assets upon their completion from asset under construction, impacting additions, disposals and reclassification lines; and other adjustments required to ensure correct presentation of the property, plant and equipment accounting note and related disclosures. The fixed asset register and accounting note will require further updating upon conclusion of items 1 and 2 above.

Information/actions required by EY to complete:

Once the new fixed asset register has been fully updated, finalised and checked by management we will need all relevant reports from the new fixed asset register, with full reconciliation of these reports to the revised Property, Plant and Equipment note in statement of accounts and other related accounting disclosures, including reconciliation of the opening position to the prior year closing position with working papers to support any adjustments made to this opening position.



Executive Summary

Status of the audit

In addition to the above, the following procedures remain incomplete:

- Going concern - the Council provided its going concern assessment and disclosure in July 2021 and we have undertaken a review of that assessment. Given the amount of time that has passed since this assessment we will require an updated going concern assessment from management which we will need to review. Due to the impact of Covid-19 on the finances of Council, once we have completed our review of the Council's assessment we are required to consult internally to ensure we form the appropriate conclusion on the adequacy of the Council's disclosures.
- Audit review of other notes and disclosures related to property, plant and equipment - this is dependent on the Council resolving the issues above.
- Review of the Council's IFRS9 assessment.
- Review of the section 106 balances held within short term liabilities.
- Receiving and checking the final version of the statement of accounts.
- Completing our final review processes.
- Completing a subsequent events review.
- Requesting, receiving and reviewing the signed management representation letter.