

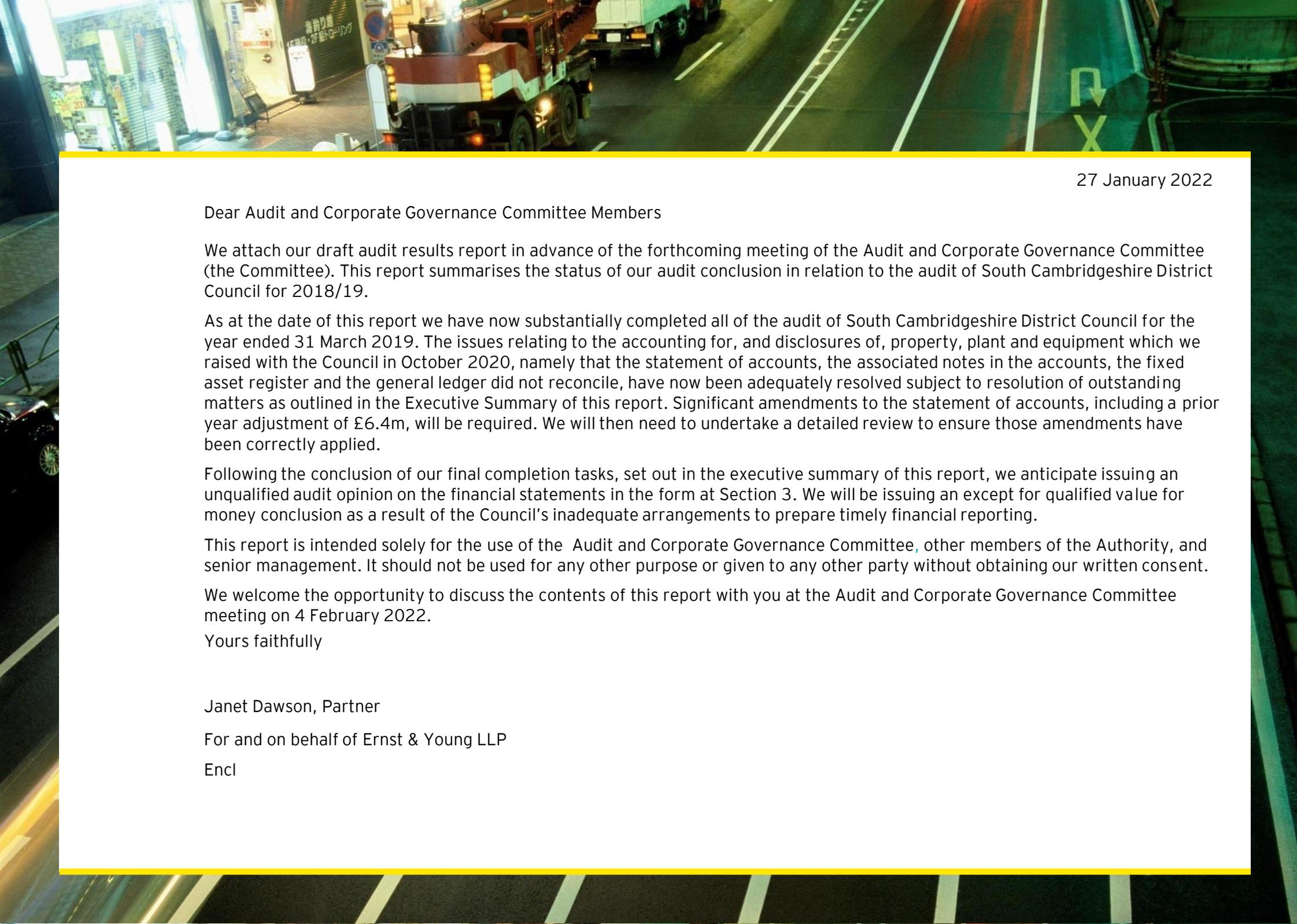
# **South Cambridgeshire District Council Audit results report- draft**

Year ended 31 March 2019

27 January 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

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27 January 2022

Dear Audit and Corporate Governance Committee Members

We attach our draft audit results report in advance of the forthcoming meeting of the Audit and Corporate Governance Committee (the Committee). This report summarises the status of our audit conclusion in relation to the audit of South Cambridgeshire District Council for 2018/19.

As at the date of this report we have now substantially completed all of the audit of South Cambridgeshire District Council for the year ended 31 March 2019. The issues relating to the accounting for, and disclosures of, property, plant and equipment which we raised with the Council in October 2020, namely that the statement of accounts, the associated notes in the accounts, the fixed asset register and the general ledger did not reconcile, have now been adequately resolved subject to resolution of outstanding matters as outlined in the Executive Summary of this report. Significant amendments to the statement of accounts, including a prior year adjustment of £6.4m, will be required. We will then need to undertake a detailed review to ensure those amendments have been correctly applied.

Following the conclusion of our final completion tasks, set out in the executive summary of this report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3. We will be issuing an except for qualified value for money conclusion as a result of the Council's inadequate arrangements to prepare timely financial reporting.

This report is intended solely for the use of the Audit and Corporate Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Corporate Governance Committee meeting on 4 February 2022.

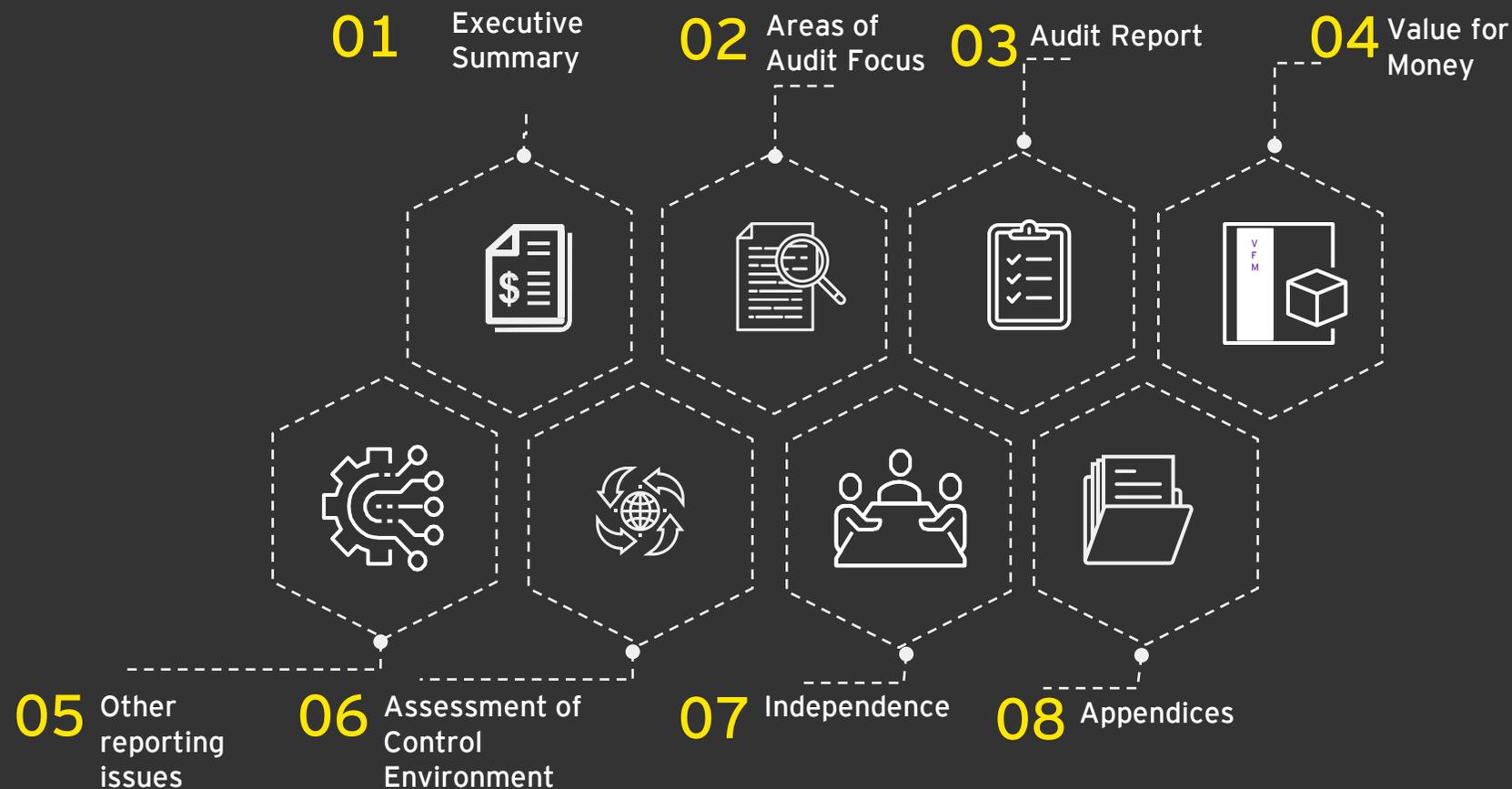
Yours faithfully

Janet Dawson, Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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](http://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.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Outline Audit Plan presented at the 29 September 2020 Audit and Corporate Governance Committee (the Committee) meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

## Status of the audit

In March 2021 we reported to the Committee that we had identified 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 April and November 2021 the Council carried out extensive 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, and to provide evidence to support the corrections and amendments required. At the time of writing this report, the Council has now provided sufficient evidence to support the audit of the property, plant and equipment figures within the statement of accounts and has reconciled those figures to asset records held within the fixed asset register.

The following procedures remain outstanding as at the date of this report. We will update the committee on 4 February on our progress to complete this work:

- We are awaiting information to support two final queries on s106 grants held in the balance sheet and one query in regard to the year end creditors reconciliation.
- We have substantially completed our work over the accounting for and disclosure of the Council's property, plant and equipment and surplus assets and are finalising our documentation and assurance over the new CIPFA fixed asset register and resultant adjustments required to the Council's statement of accounts.
- Going concern - we require the Council to update its going concern assessment and disclosure to cover at least 12 months from the date of approval of the accounts, which we will then assess against cashflow forecasts and the budget plans for the council to determine the appropriateness of the assessment.
- 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.

## Executive Summary

### Findings against identified risks and areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Council's financial statements. We summarise below our findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error - management override of controls	We have completed our testing and found no indication of management overriding controls.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital.
Presentation and disclosure of accounting items	We identified significant issues with the treatment of property, plant and equipment which have required management to revise a number of disclosure notes within its statement of accounts. Completion of our work will allow us to confirm the changes required with the finance team, at which point officers will update the statement of accounts. We will then review and confirm that all expected amendments have been correctly processed.
Data migration relating to the new fixed asset register (FAR)	We identified significant deficiencies in the accuracy and completeness of the output of the new FAR which management accept relate to weaknesses in data migration arrangements. The work has identified the need for a prior year adjustment of £6.4m to the revaluation reserve. We include recommendations for improvements to controls in Section 06.
New financial management system	In April 2019 we deployed our specialist IT auditors to review the migration of data and test key processes in respect of the move to Tech 1 during the year. Whilst we have made some recommendations for future data migration exercises we are satisfied that the move to Tech 1 has not impacted on the material accuracy of the accounts.
Area of audit focus	Findings & conclusions
Valuation of other land & buildings & housing assets	We identified significant issues with the draft accounts and the expected reconciliations with the fixed asset register. As a result of audit review and extensive work by the Council, the balance sheet, note 12 and other associated notes have been significantly revised.

## Executive Summary

### Findings against identified risks and areas of audit focus (continued)

Area of audit focus	Findings & conclusions
Pension Liability Valuation & other pension disclosures	We have no matters to report on the pension liability.
Group accounts preparation and disclosures	We have no issues to report in respect of the group accounts.
Going concern disclosure	We require the Council to update its going concern assessment and disclosure to cover at least 12 months from the date of approval of the accounts, which we will then assess against cashflow forecasts and the budget plans for the council to determine the appropriateness of the assessment.
Implementation of new accounting standards - IFRS9 and 15	The draft statement of accounts did not include an IFRS 9 compliant financial instruments note. Management provided a revised IFRS 9 disclosure note and supporting working papers and we have completed our work in this area, with no further matters to report. We have no matters to report on IFRS15.

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.

### Audit differences

#### Unadjusted

At the date of this report there are no unadjusted audit differences.

#### Adjustments

At the time of writing, the Council is processing a number of revisions to the accounting for and disclosure of property, plant and equipment. As a result of the amendments, we identified the need for a prior year adjustment to the revaluation reserve of £6.4m.

We have agreed several disclosure adjustments and one reclassification of £2.76m between income and expenditure.

# Executive Summary

## Value for money (VFM)

For 2018/19 we identified a significant risk in respect of the VFM criteria 'Informed decision making' and the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities. We have followed up the recommendations we reported to the Committee in July 2020 and, recognising that 2018/19 represents the fourth consecutive year that the Council has not been able to publish its draft statements by the dates specified in the Accounts and Audit Regulations, we are issuing an "except for" VFM conclusion. The form of the qualified conclusion is included in Section 03.

We include further details in Section 04.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from undertaking the audit we have identified weaknesses in the Council's preparation of the accounts and supporting working papers, in particular as they relate to property, plant and equipment. We include details of the issues identified, actions taken to date by the Council and areas for improvement in Section 06.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no other matters to report as a result of this work. We have also reviewed the Council's Narrative Report for consistency with the financial statements and our knowledge. We have no other matters to report as a result of this work.

We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Authority falls below the £500 million threshold for review as per the NAO's group instructions, and the Council is no longer required to report on 2018/19, due to the lateness of its accounts.

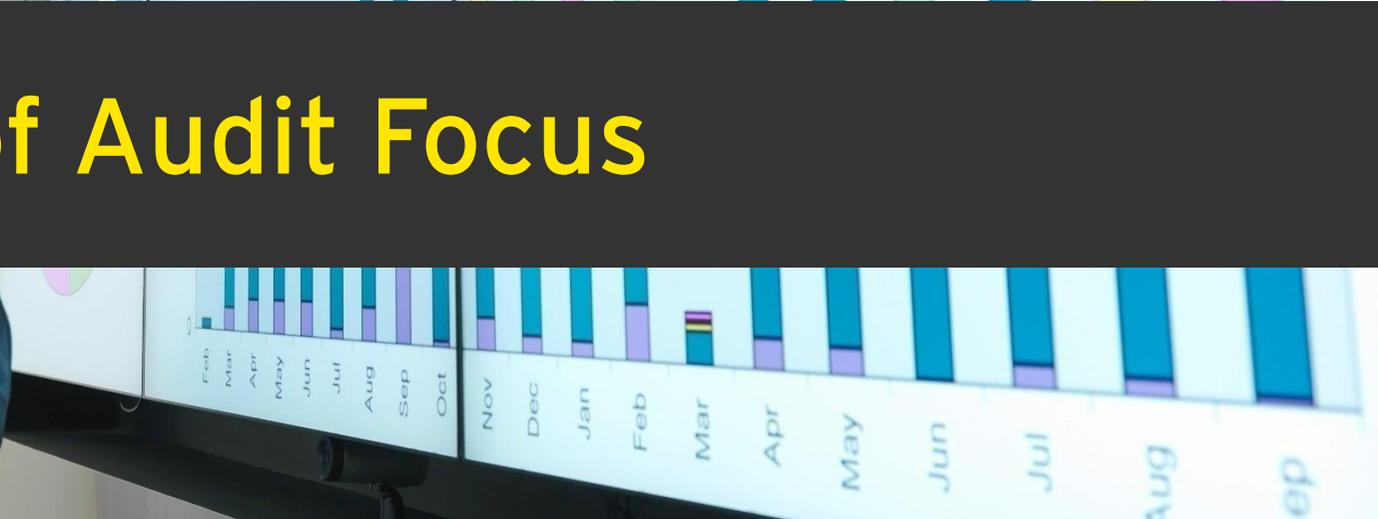
We have received some correspondence from members of the public, concerning the delays to the audit and have taken matters raised into account in planning and undertaking our audit.

## Independence

Please refer to Section 07 for our update on Independence.

## Fees

The issues we have reported to the Committee in the March 2021 Progress Report, this Audit Results Report and the protracted nature of the audit has required significant additional audit resources to complete the audit. We are currently finalising the final fees position but include a range for the Committee's information. We will provide details of the final fees to the Section 151 officer and seek his agreement. We will then seek approval from PSAA. We include details in Section 07.



## 02 Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, 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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

##### What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. For the Authority, we have identified the potential for the incorrect classification of revenue spend as capital as a particular areas where there is a risk of fraud or error.

##### What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood 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.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Reviewed critical judgements made by management in applying accounting policies.
- ▶ Assessed management's assumptions made about the future regarding major sources of uncertainty.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



## Areas of Audit Focus

### Significant risk

#### Incorrect capitalisation of revenue expenditure

##### What is the risk?

As identified in ISA 240, 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 would otherwise appear to be operating effectively.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Authority has a significant fixed asset base and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

##### What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.  
How the capital programme complies with proper capital strategy principles.

##### What did we do?

Sample tested additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that had been inappropriately capitalised.

##### What are our conclusions?

We have not identified any additions that were incorrectly capitalised.



## Areas of Audit Focus

### Significant risk

#### Presentation and disclosure of accounting items

##### What is the risk?

The Council's draft 2018/19 statements contained numerous errors and a number of instances where supporting working papers were insufficient as a result of weaknesses in the capacity and capability in the finance team. Since January 2019, the finance team has been strengthened and the Council has put in place a plan to prepare its 2018/19 statements by the end of August. However, there remains a significant risk that the accounts may contain errors in presentation and disclosure.

In auditing the 2017/18 statements, we faced particular issues with obtaining listings to support the Council's year end debtors, creditors and aspects of collection fund income and expenditure.

##### What did we do?

We have been in discussions with Head of Finance and the finance team regularly since completion of the 2017/18 audit and during the Council's preparation of the 2018/19 draft statements. As a result of our experience in 2017/18, in order to identify any significant issues at an early stage, we:

- Undertook an early detailed review of the account to assess the overall quality of accounts presented for audit (this was done and feedback provided in mid-September);
- Provided officers with a list of audit working paper requirements before we commenced the detailed work on the final accounts (done); and
- Reviewed the adequacy of the working papers provided before we commenced detailed audit work.

In addition, we assigned a higher risk factor to our work on debtors, creditors and collection fund (income and expenditure).

We also lowered our performance materiality to 50%.

##### What are our conclusions?

We identified significant issues with the accounting for and disclosure of property, plant and equipment and housing assets. The Council has had to carry out extensive work to address the issues identified.

Our work on debtors, creditors and the collection fund using higher risk factors did not identify any issues that we need to report to the Committee.

We identified several other disclosure adjustments which management have agreed to update in the revised statements.



## Areas of Audit Focus

### Significant risk

#### Data migration relating to the new fixed assets register (FAR)

##### What did we do?

- Reviewed the Council's reconciliation of the prior year 2017/18 closing balance to the 2018/19 opening balance in the old FAR on Excel;
- Reviewed the Council's reconciliation between the old FAR to the new CIPFA accounting system to confirm that data transfer is complete and accurate;
- Considered the Council's investigation into any variances between the two systems; and
- assessed the accuracy of data held on the new FAR through substantive testing of a sample of property, plant and equipment.

##### What is the risk?

During 2018/19 the Council moved to a new asset management system and a new fixed asset register (FAR) from the current excel spreadsheet to the CIPFA accounting module. Given output from the system is material and the Council's previous FAR comprised a significant level of data we have concluded this should be treated as a significant risk in our 2018/19 audit.

##### What are our conclusions?

We identified significant issues with the migration of data to the new FAR, which has led to the restatement of the draft accounts in respect of the accounting for and disclosure of property, plant and equipment and housing assets.

Upon implementation of the new FAR CIPFA accounting module the Council has had to undertake extensive work with CIPFA to ensure that the new FAR has been loaded with accurate and complete data based on the closing FAR from the audited 2017/18 statements. This has taken considerable time and effort. Issues that we have identified as a result of our work in this area:

- There has been a lack of understanding of how the new FAR operates resulting in multiple attempts to produce reports from the new FAR that reconcile with the closing balances from 2017/18, reconciles to the Council's trial balance and then agrees to the statement of accounts.
- We and the Council's finance team identified a number of errors in data input to the new FAR, which have been corrected in the FAR to ensure that the opening balances now reflect the correct valuations, classifications and associated revaluation reserve balances. As a result of our work, we identified a prior year adjustment of £6.4m on the opening revaluation reserve balance.
- Significant additional work was required to address issues in the completeness of records and valuations of surplus assets.

We have made recommendations for the Council in respect of its accounting for property, plant and equipment in Section 06.



## Areas of Audit Focus

# Significant risk

### Financial management system

#### What is the risk?

The Council migrated to a new financial management system during the financial year 2018/19. The migration to a new finance system is a significant event that involves extensive planning and arrangements to ensure that the governance of the process maintained, the new system delivers as expected and there is no loss of financial data. As such, we consider this to represent a significant risk to the audit where this occurs during the financial year.

#### What judgements are we focused on?

As part of the data migration, the General Ledger transactions and balances (including the sub ledger details) from Oracle were migrated to the Tech 1 FMS.

In April 2019 we engaged support from EY Information Technology Risk & Assurance (ITRA) to perform a data migration review and obtain reasonable assurance around data integrity in T1 FMS following the migration in 2018/19. ITRA reviewed key financial data such as general ledger, open accounts receivable (AR) and vendor and customer master data.

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- Involving our risk assurance experts in assessing how the migration has been governed and performed;
- Tested the migration of the data to ensure it remains complete and accurate;
- Reviewed the mapping of data between the old and new systems; and
- Gained an understanding of the new IT environment and the impact this has on the processes associated with significant classes of transactions.

#### What are our conclusions?

Based on the procedures performed, we conclude there are sufficient controls in place to enable us to gain reasonable assurance that system migration activities did not result in a material misstatement of the financial statements.

Our work noted that:

- There was no formal data migration strategy and plan that covered the key activities required before and after the data migration; and
- the Accounts Receivable (AR) balances between E-Financials and T1 data were reconciled by checking the total balance of the reports. However, a line by line reconciliation of individual balance per customer was not carried out post migration to validate that the data loaded to T1 is the same as E-Financials.

Management performed a retrospective line by line reconciliation review to demonstrate that the data was migrated completely and accurately.

## Audit risks

### Other inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

#### What is the risk/area of focus?

##### **Valuation of Other Land and Buildings (OLB) and housing**

OLB at £54m and housing at £460m represent significant balances in the Council's accounts. They are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

As the balances are significant, and the outputs from its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

#### What did we do?

- ▶ Reviewed the reconciliations between the statement of accounts, the ledger (trial balance) and the fixed asset register (FAR);
- ▶ Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered whether valuations are carried out with sufficient frequency to ensure that carrying values are not materially different from market value.
- ▶ Considered if there were any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ For housing tested a sample of beacon valuations to comparable sales to ensure that the approach is reasonable;
- ▶ Considered specifically the use of indices to derive the 31 March valuation;
- ▶ Considered the appropriateness of changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

#### Conclusions

As reported earlier in this report, we identified significant issues with the accuracy and completeness of the FAR and the subsequent reconciliations with the accounts and the ledger, including with the closing balances from the audit 2017/18 accounts. As a result of audit review and challenge, the Council has restated a large number of disclosures in the accounts for property, plant and equipment.

In addition, the Council has agreed to take action to address weaknesses in its arrangements for accounting for property, plant and equipment and council houses.

We were able to complete our sample testing of OLB and housing assets and did not identify any issues to report to the Committee.

## Areas of Audit Focus

### Other areas of audit focus (continued)

#### What is the risk/area of 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 net liability is disclosed on the Authority's balance sheet. At 31 March 2019 this came to £70 million.

The information disclosed is based on the IAS19 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Council re-ran the actuary's report to take account of the McCloud case.

#### What did we do?

We:

- ▶ liaised with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary;
- ▶ assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.

We were satisfied that the statements reflect the pension liability valuation adequately and reflects the implications of the McCloud case.



## Areas of Audit Focus



### Going concern disclosure

Covid-19 created a number of financial pressures throughout Local Government. For the Authority its other sources of income such as investment income and car parking were adversely impacted. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

#### Findings and conclusions

We received the Council's updated going concern assessment and disclosure on 21 July 2021 and we have considered the robustness of the assessment in light of current and developing environment, liquidity (operational and funding), mitigating factors, management information and forecasting and sensitivities and stress testing. We raised a number of queries for the Council to address at that time. We have since received an updated disclosure for going concern, and we will need to update our assessment against current cashflow forecasts and the budget plans to ensure that it remains appropriate for the period of at least 12 months from the date of approval of the accounts.



### Other Areas of Audit Focus - Group accounting

The Council has prepared group accounts for a number of years, consolidating Ermine Street Housing, Shire Homes Lettings Ltd with the single entity Council financial statements. The Local Authority Accounting Code of Practice requires the Authority to prepare group financial statements to consolidate the Council's interests, unless these interests are considered not material. Group accounting is a complex accounting method and therefore there is an increased risk of material misstatement due to error.

Our approach has focused on testing the consolidation of entries relating to the subsidiary into the Council's Group Statement of Accounts and checking that group disclosures are complete and accurate.

#### Findings and conclusions

We were able to complete our testing based on the working papers provided by the Council. Overall the Authority's group financial statements have been prepared on an appropriate basis.

## Areas of Audit Focus

### Other areas of audit focus

#### What is the risk/area of focus?

##### **IFRS 9 financial instruments**

This new accounting standard changed:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9.

##### **IFRS 15 Revenue from contracts with customers**

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.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

#### What did we do?

- ▶ Assessed the Council's implementation arrangements, including reviewing an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Considered the classification and valuation of financial instrument assets;
- ▶ Reviewed the new expected credit loss model impairment calculations for assets; and
- ▶ Checked additional disclosure requirements.

We identified that the draft statement of accounts did not include an IFRS 9 compliant financial instruments note. We have completed our work on a revised IFRS 15 disclosure note, with no further matters to report.

- ▶ Assessed the Authority's implementation arrangements, including an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- ▶ Considered the application to the Authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Checked additional disclosure requirements.

We have no matters to report.



**03**

**Audit Report**



# Audit Report

## Draft audit report

### Our 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 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement.
- Authority and Group Comprehensive Income and Expenditure Statement.
- Authority and Group Balance Sheet.
- Authority and Group Cash Flow Statement.
- The related notes 1 to 37 of the Authority and notes G1 to G5 of the Group Financial Statements.
- Housing Revenue Account and notes H1 to H10.
- The Collection Fund and notes CF1 and CF2.

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:

- on Local Authority Accounting in the United Kingdom 2018/19, give a true and fair view of the financial position of South Cambridgeshire District Council and Group as at 31 March 2019 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

##### 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 South Cambridgeshire District Council 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 Finance Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Manager 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.

##### Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Finance Manager 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.



# Audit Report

## Our opinion on the financial statements

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

#### Basis for Qualified Conclusion

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

The 2018/19 financial year is the fourth 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. Following the 2017/18 value for money conclusion except for qualification, the Authority did make progress with the arrangements it put in place for preparing its 2018/19 statement of accounts. However, the unaudited statements it published on 11 September 2020 contained fundamental errors in respect of the accounting and disclosure of property, plant and equipment. In October 2020 the interim officer who had played a significant role in preparing the statements left the Authority and the Authority then brought in another interim officer. In addition, the Authority has struggled to implement effectively a new fixed asset register to support the preparation of its statement of accounts leading to a lack of reliable and timely financial reporting.

The issues above are evidence of weaknesses in proper arrangements for reliable and timely financial reporting that supports the delivery of strategic priorities.

#### 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 2019.

### 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 Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- 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 Chief Finance Officer

As explained more fully in the Statement of Responsibilities the Chief Finance Officer 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer 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.



# Audit Report

## Our opinion on the financial statements

### 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 Comptroller and Auditor General (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 Comptroller and Auditor General 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 2019.

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.

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.

### Certificate

We certify that we have completed the audit of the accounts of South Cambridgeshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### 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 South Cambridgeshire District Council and South Cambridgeshire District Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

Date



04

## 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

In the September 2020 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 2018/19 being 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 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?

2018/19 is the 4th year running that the Council has failed to publish approved accounts by the target date outlined in the A&A Regs. In concluding the 2017/18 audit in July 2020 we included an except for qualification on VFM in relation to weaknesses in arrangements for making informed decisions.

We have previously reported that the main source of Council's issues stemming from its inability to adequately replace its previously long standing Chief Accountant who retired in early 2017. Since then it has recruited a series of interim accountants and as a result it has been unable to put in place adequate capacity and capability within the finance function to prepare accurate and complete statements, supported by comprehensive working papers and deal appropriately with the audit.

In January 2020 the Council employed an interim accountant with the intention that he would be retained for closure of the 2017/18 accounts audit and the preparation of the 2018/19 accounts and the audit. However, the 2017/18 accounts audit took far longer than expected to conclude and then the Council identified issues with their fixed asset register (FAR) which meant that the 2018/19 accounts were not prepared until October 2020. The interim accountant then decided to exit his contract with 2 weeks notice, at the start of the planned 2018/19 year end audit. The Authority brought in another interim accountant to lead on the accounts and audit process. In March 2021, the Authority appointed a Deputy Section 151 officer whose focus has been on the 2019/20 accounts and internal financial reporting.

The Council's financial reporting issues have been compounded by the poor implementation of a new fixed asset register (FAR). For the 2018/19 accounts, the Council has used the CIPFA FAR model. However, initial audit review of the accounts and supporting working papers in October 2020 identified significant issues with the accuracy, completeness and rigour of the FAR and how it supports the relevant accounting and disclosure in the statement of accounts.

Given the time taken by the finance team to respond to and resolve issues relating to the FAR, In August 2021 we raised concerns over the governance of the financial accounting and reporting arrangements within the Council with the Chief Executive and the Audit Committee. Additional focused effort from within the finance function has resulted in progress to conclude the audit over the subsequent four months. We have raised recommendations in Section 6 of this report to improve the overall approach to financial reporting within the Council.



## 05 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement (AGS)

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the AGS for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We found that financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements. We have reviewed the AGS and can confirm it is consistent with other information from our audit of the financial statements.

### Whole of Government Accounts (WGA)

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. Given the delay to the completion of the audit, the Council is no longer required to report into WGA in respect of 2018/19.

### 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 have raised non statutory recommendations in Section 6 of this report which require the attention of the Council. If we are not satisfied with the response, we reserve the right to raise those recommendations under the Act.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit; - Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested; - Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process; - Related parties; - External confirmations;
- Going concern; and Consideration of laws and regulations.

Other than our findings and recommendations in Section 6, we have no other matters to report.



06

## Assessment of Control Environment

# Assessment of Control Environment

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. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However, wish to report the following areas where improvements could be made.

## **Accounting for property, plant and equipment**

### **Fixed asset register (FAR)**

#### **Understanding**

The Council has struggled to fully understand its new FAR. It has struggled to provide assurance that the information provided to the external provider (CIPFA) is accurate and complete and, based on the findings from our audit review, it has not had sufficient understanding of how the FAR operates to assure itself that the resultant outputs are appropriate. Our audit has identified fundamental deficiencies in the basic requirements of reconciliations between the FAR, the general ledger and the accounts.

Recommendation - As a matter of urgency the Council needs to ensure that it has sufficient understanding of the FAR to assure itself that the resultant outputs are reasonable and in line with expectations. This includes a full understanding of the reporting functions of the system, to be able to analyse and interpret outputs from the system efficiently.

#### **Accuracy and completeness**

In addition to the above issues our audit work identified 250 items of surplus assets with nil value. Subsequent review by the Council has identified that the majority of these items are land associated with HRA assets and already included in the FAR in relation to the HRA.

Recommendation - The Council needs to carry out cleansing exercise to ensure that the FAR is accurate and complete and free from duplication.

## **Underlying accounting records and supporting evidence**

Whilst the main audit issues arising have related to the above, the audit of the other aspects of the statements have taken longer than we would expect because the Council has struggled to provide evidence to support the assertions being made in the accounts. We are satisfied that with exception of the above matters, the Council does have access to the underlying accounting records and supporting evidence but needs to improve the way it collates, coordinates and manages the process of compiling the working papers to support the statement of accounts.

Recommendation - The Council needs to assess how it compiles the working papers and other accounting records which it prepares to support the assertions made in the statement of accounts.

## Assessment of Control Environment

### Investment in financial reporting skills and capacity within the finance function, and relationship with external audit

As a result of the difficulties in undertaking the 2017/18 audit, we worked closely with the Council's finance function in 2018/19 to plan the audit to address areas of weakness identified. We also noted that additional resource, albeit interim in some cases, was being brought into the finance team. During the protracted 2018/19 audit, we have noted that the capacity of the team to support the audit on a timely basis has been limited. After involvement of the Chief Executive and Chair of the Audit Committee, more significant progress was made in completing areas of the audit long outstanding. We understand that the Internal Audit team has been commissioned to review the fixed asset register to ensure that sufficient controls are in place over its operation and reporting functions.

We remain concerned that timely financial reporting has not been seen as a focus or priority for the organisation during the period from late 2019 until more recently and that the relationship with and the process and value of external audit assurance has been, at best, misunderstood within the organisation.

Recommendations:

Re-evaluation and communication of the priority and importance of the financial reporting function of the Council.

Re-assess roles, responsibilities and resource requirement for financial reporting, including an assessment of the support required from other functions within the organisation for the financial reporting function to meet its objectives. Training may be required to ensure changes are embedded effectively.

Reset the relationship with audit to allow for constructive and open dialogue on issues affecting the council's financial position and reporting.



07

Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report tabled at the September 2020 Audit and Governance meeting. 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 the Audit and Governance Committee considers the facts known to you and comes 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 Audit and Governance on 30 July 2021.

## 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 in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed below has been provided on a contingent fee basis.

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 for the year ended 31 March 2019. We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. In our Outline Audit Plan we reported ranges for the expected additional fees associated to the additional risks we had identified. We have updated these ranges where appropriate.

	Final fee 2018/19 (£)	Planned fee 2018/19 (£)	Final Fee 2017/18 (£)
Scale Fee - Code work	40,021	40,021	51,975
Additional risks and areas of focus (Note 1)			
- Group accounts	5,000	4,000-5,000	5,000
- Additional audit overruns & delays	75,000*	-	142,000
- Impact of 50% performance materiality & higher risk factors (Note 2)	20,000	10,000-20,000	-
- Data migration relating to new Fixed Asset Register (FAR) (Note 3)	65,000*	1,500-7,500	-
- New financial management system use of EY ITRA (Note 4)	7,500	7,500-9,000	-
- Going concern (Note 5)	3,500	TBC	-
- New accounting standards	1,250	TBC	-
<b>Total audit</b>	<b>202,271</b>	<b>TBC</b>	<b>198,975</b>
Housing Benefits (note 6)	14,185	9,190	10,870
<b>Total fees</b>	<b>216,456</b>	<b>TBC</b>	<b>209,845</b>

Note 1: Where possible we have included a range for the additional fees associated to known new risks and areas of audit focus. We will revisit these ranges on completion of the work and seek agreement with the Section 151 officer.

Note 2: Using the lower testing threshold of 50% of performance materiality in addition to using higher risk factors will increase sample sizes and require additional audit input.

Note 3: Additional testing relating to the new FAR. \* indicates estimated costs at this time.

Note 4: Additional input from EY IT specialists

Note 5: To review the Council's going concern assessment and associated disclosure.

Note 6: You engage us separately as the reporting accountant to the DWP on your claim for housing benefit subsidies. This is outside the PSAA contact.



**08**

**Appendices**

## Appendix A

# Required communications with the Audit and 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
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>	
Terms of engagement	Confirmation by the Audit 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 Planning Report - September 2020	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - September 2020	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - July 2021; Jan 2022	

# Appendix A

		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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	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"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - July 2021; Jan 2022
Subsequent events	<ul style="list-style-type: none"> <li>▶ Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report - July 2021; Jan 2022
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ 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"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit Results Report - July 2021; Jan 2022

# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report - July 2021; Jan 2022
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report - September 2020  Audit Results Report - July 2021; Jan 2022

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	All confirmations requested have been received
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	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"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - July 2021; Jan 2022

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit Results Report - July 2021; Jan 2022
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we request from management and/or those charged with governance</li> </ul>	Audit Results Report - July 2021; Jan 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - July 2021; Jan 2022
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - July 2021; Jan 2022
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Planning Report - September 2020 Audit Results Report - July 2021; Jan 2022
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report

# Management representation letter

## Management Rep Letter

To be placed on headed letter paper

[Date]

Ernst & Young

One Cambridge Business Park

Cambridge

CB4 0WZ

### **South Cambridgeshire District Council- Audit for the year ended 31 March 2019**

This letter of representations is provided in connection with your audit of the financial statements of South Cambridgeshire District Council and Group (“the Council and Group”) for the year ended 31<sup>st</sup> March 2019. 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 South Cambridgeshire District Council as of 31<sup>st</sup> March 2019 and of its income and expenditure for the year then ended in accordance with the 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 2018/19
2. We acknowledge, as members of management of the Council, 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 Council, we believe that the Council have 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 2018/19, that are free from material misstatement, whether due to fraud or error.

# Management representation letter

## Management Rep Letter

5. We believe that the effects of any **unadjusted audit differences**, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, 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 Council'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 Council (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 Council's financial statements;
- 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 Council's activities, their 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 Council and its relevant committees (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: XXXX 2019.

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# Management representation letter

## Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council'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 period 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 Council have 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 have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements

### G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheets.

# Management representation letter

## Management Rep Letter

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Authority financial statements.

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

### I. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### K. Estimates

#### Pension Liability, PPE and Investment Properties Valuations Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in making the estimates for PPE, Investment Properties and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

# Management representation letter

## Management Rep Letter

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

### L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Section 151

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Chair of the Audit and Governance Committee

Schedule of Uncorrected Misstatements

## EY | Assurance | Tax | Transactions | Advisory

### About EY

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