

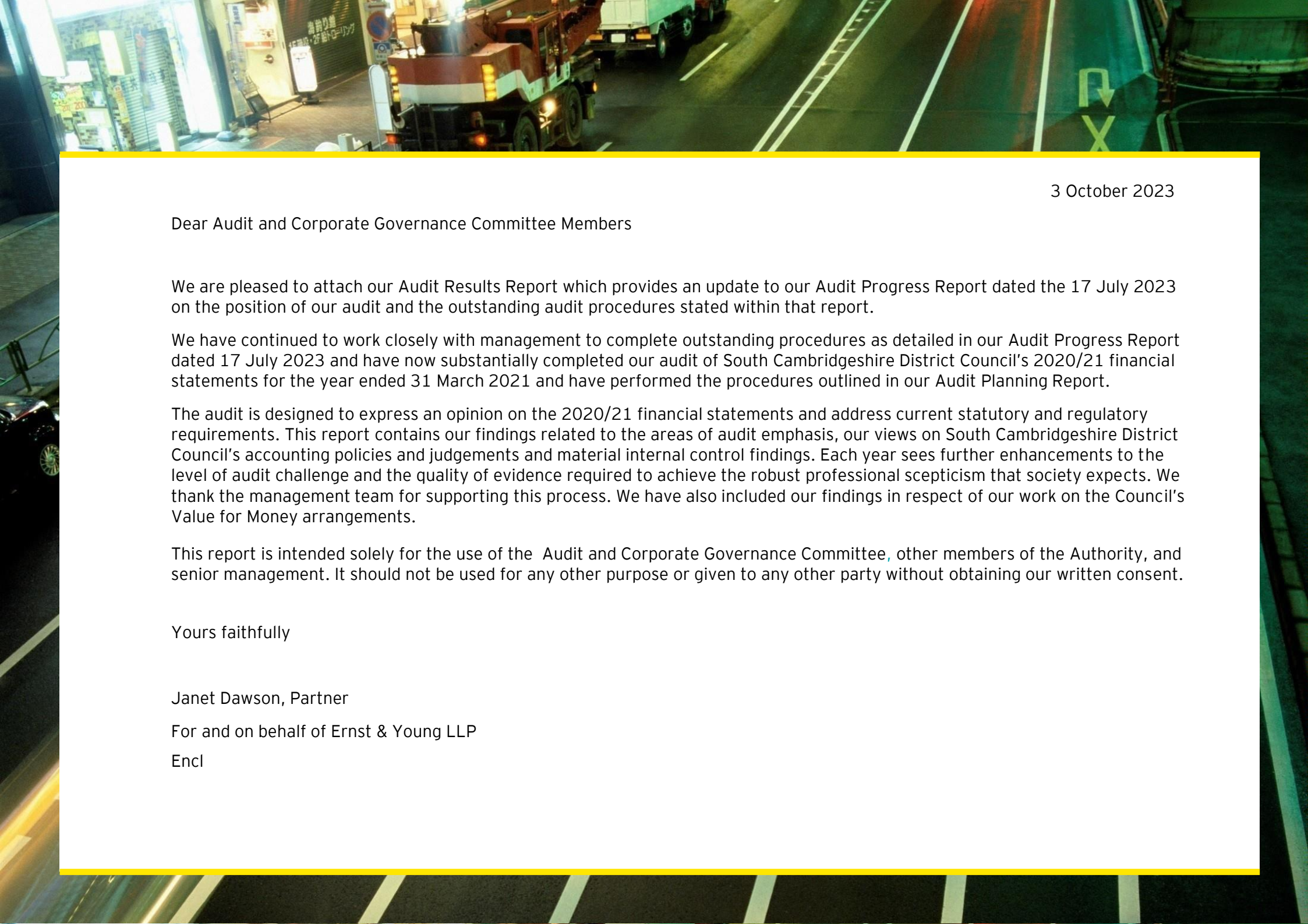
# **South Cambridgeshire District Council Audit results report**

Year ended 31 March 2021

3 October 2023

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 letters.

Building a better  
working world

A nighttime photograph of a city street. In the foreground, a white van is partially visible on the right side. In the middle ground, a red and white street cleaning truck is moving from left to right. The street has white lane markings and a green-painted area with a white arrow and the letter 'X'. In the background, there are buildings with lit windows and signs, including one with Japanese characters. The overall scene is illuminated by streetlights and building lights.

3 October 2023

Dear Audit and Corporate Governance Committee Members

We are pleased to attach our Audit Results Report which provides an update to our Audit Progress Report dated the 17 July 2023 on the position of our audit and the outstanding audit procedures stated within that report.

We have continued to work closely with management to complete outstanding procedures as detailed in our Audit Progress Report dated 17 July 2023 and have now substantially completed our audit of South Cambridgeshire District Council's 2020/21 financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on South Cambridgeshire District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included our findings in respect of our work on the Council's Value for Money arrangements.

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.

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 Audit Planning Report presented at the 26 July 2023 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

We have now substantially completed our audit of South Cambridgeshire District Council's 2020/21 financial statements for the year ended 31 March 2021.

The Council published its draft financial statements in January 2023. Management provided us with a revised version of the financial statements in June 2023. Our audit procedures and the conclusions reported within this report are on the June 2023 revised version of the financial statements.

The outstanding audit procedures at the date of this report are as follows:

- ▶ Completion of our testing over COVID-19 grants. We have identified a number of misstatements regarding these grants which we are working with management to quantify;
- ▶ Completion of our testing over Investment Property Valuations. We have engaged our own internal valuers to review the assumptions and methodologies employed by the Council's external valuer on all investment property assets. Our internal valuers are currently finalising their review;
- ▶ Completion of our testing of Other land and buildings - Housing asset valuations. We are finalising our work regarding the valuation of beacon assets that have been valued using indexation techniques; and
- ▶ Completion of our IAS 19 procedures in relation to the Pension Fund liability. We are awaiting evidence from management to support the underlying assumptions regarding membership numbers reported in the March 2022 triennial valuation.

### Closing Procedures:

- ▶ Review of the final version of the financial statements;
- ▶ Completion of subsequent events review;
- ▶ Review of updated going concern disclosures and supporting evidence;
- ▶ Receipt of the signed management representation letter; and
- ▶ Final Manager and Engagement Partner reviews.

## Executive Summary

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### Status of the audit (continued)

Subject to satisfactory completion of the outstanding items above, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 03.

However until work is complete, further amendments may arise.

As reported in our Audit Progress Report dated 17 July 2023 we continue to see improvements compared to prior years in the quality of working papers and responses to audit queries. However, the consistency of quality and timeliness of responses still remains somewhat of a challenge for the organisation. This, in part, is due to the historic nature of the balance being audited and difficulties in tracking down evidence within the Council's systems. The Council also continue to face challenges with capacity and capability of officers, particularly outside the finance function, and their understanding of the audit evidence required to support balances. This has resulted in an extended audit period compared to that initially planned and additional audit time to complete. Management recognise that further training and support for officers is required to further improve the audit process in future years.

Management implemented a new process for creating its financial statements from underlying accounting records, which has greatly improved the audit trail showing how the financial statements agree to the underlying accounting systems and records. Whilst this new process was trialled in 2019/20 alongside the Council's previous process, 2020/21 is the first year of full implementation. As detailed in section 04 of this report we have identified a number of audit differences impacting the primary statements and disclosure notes, a number of which are due to the first full year implementation of the new process.

Management continue to recognise that it will take a number of reporting cycles to get fully back on track and to a position where the Council can efficiently and effectively produce a set of quality financial statements and supporting working papers, and be confident in responding fully to audit queries first time.

# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**  
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance**  
How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness**  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit - Value for Money

We identified one risk of significant weakness in arrangements:

- Governance - Informed decision making and the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities.

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 05). We plan to issue the VFM commentary by the end of November 2023 as part of issuing the Auditor's Annual Report.



# 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 inappropriate capitalisation of revenue expenditure	We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital. Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements relating to street lighting expenditure of £1.33 million as the expenditure was incorrectly classified as REFCUS and the year end accrual raised was overstated. Further details of the adjustment can be found in section 04 of this report.
Valuation of Investment Properties	We have substantially completed our testing of the valuation of Investment Properties. We have engaged our own internal valuers to review the assumptions and methodologies employed by the Council's external valuer on all investment property assets. Our internal valuers are currently finalising their review.

Inherent Risks	Findings & conclusions
Accounting for Covid-19 related Government grants	We have substantially completed our testing over COVID-19 government grants. We have identified a number of misstates regarding these grants which we are working with management to quantify.
Presentation and disclosure of accounting items	From audit procedures completed to date we have identified a number of disclosure adjustments required to bring the financial statements in line with the requirements of the CIPFA code of practice. Further details of this adjustments can be found in section 04 of this report.



# Executive Summary

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

Inherent Risks	Findings & conclusions
Capital accounting entries	<p>We have completed our testing of capital accounting entries and identified a number of misstatements:</p> <ul style="list-style-type: none"> <li>• Capital financing, £5.00 million</li> <li>• Capital expenditure classification, £0.33 million</li> <li>• Investment Property classification, £6.03 million</li> <li>• Leases, the Council require a lease note to reflect lease arrangements identified for non-current assets.</li> </ul> <p>Further details of the adjustment can be found in section 04 of this report.</p> <p>We also identified a number control observation which are detailed in section 06 of this report.</p>
Valuation of other land & buildings and housing	<p>We have substantially completed our testing on the valuation of other land &amp; buildings and housing assets. We are finalising our work regarding the valuation of beacon assets that have been valued using indexation techniques.</p>
Pension Liability Valuation & other pension disclosures	<p>We have substantially completed our audit work in this area. The Council obtained an updated IAS19 report as the Pension Fund auditor reported a difference in asset values between the original estimate included in the IAS19 report and the actual year end values. This resulted in a £0.92 million decrease in the pension liability. Further details of the adjustment can be found in section 04 of this report.</p> <p>The pension liability and related disclosures in the draft statement of accounts were based on an IAS19 report which used the March 2019 triennial valuation to estimate the Council's pension balances. In March 2023 the Council's actuary released the March 2022 triennial valuation. The Council have obtained an updated IAS19 report based on the March 2022 triennial valuation which indicates significant movements in membership numbers over the three year period. We are awaiting evidence from management to support the underlying assumptions regarding membership numbers reported in the March 2022 triennial valuation.</p>

## Executive Summary

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

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

We have identified a number of audit differences during the course of the audit which we expect to be adjusted for by management. Details of audit adjustments can be found in section 04 of this report.

### 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. We include details of the issues identified, actions taken to date by the Council and areas for improvement in section 07.

### 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.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The WGA group audit team have confirmed they do not require any further work or submissions from component auditors on WGA returns for 2020/21.

We have received correspondence from members of the public concerning procurement activities and have taken the matters raised to us into account in planning and undertaking our audit.



## Executive Summary

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### Independence

Please refer to section 08 for our update on Independence.

### Fees

The audit risks and issues we have reported to the Committee in our Audit Planning Report, the July 2023 Progress Report, this Audit Results Report and the additional time required to perform the audit has given rise to an additional fee associated with the completion of the audit.

We will provide details of our proposed fees to the Section 151 officer for discussion. On the basis of that discussion, we will then update the Audit and Governance Committee on the proposed fee. Our fee is subject to approval by the PSAA.



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## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Fraud 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) 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.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. 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 Council, 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.
- ▶ Inquired of 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.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Assessed key accounting estimates for evidence of management bias; and
- ▶ Evaluated the business rationale for significant unusual transactions.

##### What are our conclusions?

We have completed our work in this area.

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.

Our testing of journals is completed and we have not identified adjustments outside of the normal course of business. All journals tested have appropriate rationale.

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



## Areas of Audit Focus

### Significant risk

#### **Fraud Risk Inappropriate capitalisation of revenue expenditure**

##### **What is the risk?**

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

##### **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?**

- Tested property, plant and equipment additions and Revenue Expenditure Funded from Capital under Statute (REFCUS) to ensure that the expenditure incurred and capitalised was capital in nature.
- Identified and obtained an understanding of the basis for significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

##### **What are our conclusions?**

We have completed our work in this area.

We have not identified any Property, Plant and Equipment additions that were incorrectly capitalised.

Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements relating to street lighting expenditure of £1.33 million. The expenditure was incorrectly classified as REFCUS as the street lights belonged to the Council and therefore did not meet the statutory definition of REFCUS. We also identified that only part of this expenditure related to 2020/21 overstating the accrual by £0.79 million in short-term creditors. Further details of the adjustment can be found in section 04 of this report.

Our testing of year end journals did not identify any movements from expenditure to capital outside the normal course of business.



## Areas of Audit Focus

### Significant risk

#### **Significant Risk Valuation of investment properties**

##### **What did we do?**

- Considered the work performed by the valuer over the Investment Property assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Engaged our own internal valuers, EY Real Estates, to review 100% of investment property assets and test the assumptions and methodologies employed by the Council's external valuer;
- Tested that accounting entries had been correctly processed in the financial statements; and
- Reviewed the disclosures to ensure that adequate disclosures were made in relation to estimation uncertainty.

##### **What is the risk?**

During the 2019/20 the Council purchased three investment property assets totalling £24.6 million, in 2020/21 the Council purchased a further three investment properties totalling a further £25.4 million. At the balance sheet date of the 31 March 21 the Council investment property portfolio has been revalued to £75.5 million which equates to a £24.0 million increase in their valuation.

The valuation of these investment properties represent a significant balance in the statement of accounts and their valuation requires management to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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

##### **What are our conclusions?**

We have substantially completed our audit procedures in this area.

We did not identify any issues with our review of the work performed by the valuer over the Council's investment properties, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

We have engaged our own internal valuers to review the assumptions and methodologies employed by the Council's external valuer on all investment property assets. Our internal valuers are currently finalising their review.

We have not identified any misstatements regarding the processing of accounting entries in the financial statements.

We have reviewed the disclosure and have found these to be adequate.

We identified that one land asset valued at £6.03 million held as an Investment Property in the draft statement of accounts did not meet the classification of an investment property as per the CIPFA Code of Practice and should be classified as a Surplus asset. Further details of the adjustment can be found in section 04 of this report.

## 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?

##### Accounting for Covid-19 related Government grants

In 2020/21 the Council has received a significant level of government funding in relation to Covid-19.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.

#### What did we do?

- Obtained and reviewed the Council's assessment of grant accounting and classification of grants received;
- Sample tested of Government grant income to ensure correct classified as specific or non-specific in nature; and
- Sample tested Government grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.

#### Conclusions

We have substantially completed our audit procedures in this area.

We have reviewed the assessment of grant accounting and classification and have performed sample testing over grant income and are awaiting response from management regarding the testing of a number of grants.

In our July 2023 progress report we reported that we had identified a number of COVID grants (£5.00 million) that had been incorrectly accounted for in the financial statements. Further investigation by the Council and audit identified that the grant working papers provided for audit were incorrect and the £5.00 million identified was an incorrect posting to earmarked reserves thought to be related to unspent COVID-19 grant. The posting should have been to transfer £5.00 million to capital financing (see section 04 for further details) rather than to earmarked reserves and did not relate to COVID grants.

We have identified a number of other misstatements which we are working with management to quantify.



## Audit risks

### Other inherent risks (continued)

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

##### Capital Accounting Entries

In 2018/19 the Council implemented a new fixed asset register (FAR). We found that the Council had a lack of understanding of how the new FAR operated resulting in multiple attempts to produce reports from the new FAR that reconciled with the closing balances from 2017/18, the Council's trial balance and the statement of accounts.

In the 2019/20 audit we identified a significant risk over capital accounting entries due to the findings in 2018/19. Our work in 2019/20 showed an overall improvement in the Council's process's for managing and accounting for its fixed assets. We did however identify a number of significant audit adjustments relating to entries in the fixed asset register resulting in a significant level of additional work.

Given these prior year findings there remains an inherent risk that capital accounting entries and disclosures may be materially misstated in 2020/21.

#### What did we do?

- Undertook a detailed review of the reports from the CIPFA Asset Management System and ensured capital balances internally reconciled and were correctly classified;
- Undertook detailed testing of the opening balances within CIPFA Asset Management system;
- Performed detailed testing of the in year movements within CIPFA Asset Management system; and
- Tested the consistency between the CIPFA Asset Management System, draft 2020/21 Statement of Accounts and the trial balance.

## Audit risks

### Other inherent risks (continued)

#### Conclusions

We have completed our audit procedures in this area.

We undertook a detailed review of the reports from the CIPFA Asset Management System and found that capital balances internally reconciled. From our review of the CIPFA Asset Management System we identified:

- A number of land assets were being incorrectly depreciated.
- A number of assets had been incorrectly depreciated in the year of acquisition which is not in line with the Council's depreciation policy which requires assets to be depreciated in the first full year of ownership.
- Travellers' site assets have been included as Land assets only and as such no depreciation is being charged. However, the sites includes buildings and infrastructure elements to the assets which should be depreciated.

The in year impact of these findings is not above our reporting threshold but the cumulative impact in future years could lead to a significant impact on the accounts, and as such we have reported a control observation in section 06.

We did not identify any misstatements regarding the opening balances within CIPFA Asset Management system.

Our testing of in year movements within the CIPFA Asset Management system identified that:

- Capital financing was understated by £5.00 million, this balance having been incorrectly posted to Earmarked reserves as management initially thought this related to unspent COVID-19 grant funding.
- £0.33 million of capital expenditure on Intangible Assets had been incorrectly classified as Property, Plant and Equipment

Further details of the adjustment can be found in section 04 of this report.

We did not identify any misstatements regarding the consistency between the CIPFA Asset Management System, draft 2020/21 Statement of Accounts and the trial balance.

We identified that the Council holds a number of leases including finance leases as lessee and operating lease as lessor that have not been disclosed in the financial statements and therefore lease disclosure notes are required to be included in the amended financial statements. Management is currently undertaking a review of its asset base to determine the extent of the Council's lease arrangements and to prepare the required lease disclosures.

## Audit risks

### Other inherent risks (continued)

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

##### **Presentation and disclosure of accounting items**

In the 2019/20 audit we included an inherent risk over the presentation and disclosure of accounting items. Our audit procedures in 2019/20 identified a number of audit adjustments required to bring the financial statements in line with the requirements of the CIPFA Code of Practice and the underlying accounting standards.

Since 2019/20, and in periods before this, the Council has continued to strengthened its finance team and put in place processes to improve how the statement of accounts are populated and to improve the overall quality of working papers and evidence to support the statements.

At the planning stage we believe that the audit risk over the presentation and disclosure of accounting items remains an inherent risk for 2020/21.

Throughout the audit we will keep this risk assessment in review and will communicate to the Audit and Corporate Governance Committee should we need to reassess the level of this risk.

#### What did we do?

- Undertook a detailed review of the statement of accounts to assess the overall quality of accounts presented for audit;
- Reviewed the statement of accounts against the CIPFA disclosure checklist to assess whether they meet the requirements of the CIPFA CODE of practice;
- Reviewed the adequacy of the working papers provided on each area of the accounts before we commenced the detailed audit work and provided feedback as to their quality to management; and
- Lowered our testing threshold across the financial statements to 50% of materiality.

#### Conclusions

From audit procedures completed to date we have identified a number of disclosure adjustments required to bring the financial statements in line with the requirements of the CIPFA code of practice.

Further details of this adjustments can be found at section 04.

## Audit risks

### Other inherent risks (continued)

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

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

OLB at £31 million and housing at £520 million 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?

- ▶ 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 were carried out with sufficient frequency to ensure that carrying values were not materially different from market value;
- ▶ Considered if there were any specific changes to assets that occurred and that these had been communicated to the valuer;
- ▶ For housing assets tested a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; and
- ▶ Considered specifically the use of indices to derive the 31 March valuation;
- ▶ Considered appropriateness of changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested that accounting entries have been correctly processed in the financial statements.

#### Conclusions

We have substantially completed our work in this area.

We did not identify any issues with our review of the work performed by the valuer over the Council's assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

Our testing of key asset information did not identify any misstatements.

Our testing of housing assets to comparable sales did not identify any misstatements.

We did not identify any specific changes to assets that had occurred that required communication to the valuer.

Testing of accounting entries confirmed they had been correctly processed in the financial statements.

We are finalising our work regarding the valuation of beacon assets that have been valued using indexation techniques having received evidence to support the indices used.

## Areas of Audit Focus

### Other areas of audit focus (continued)

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

##### **Pension Liability Valuation & other pension disclosures**

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £82 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What did we do?

- ▶ Liaised with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to South Cambridgeshire District Council;
- ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team;
- ▶ Employed our internal EY pensions team to calculate an estimate of the Council's pension liability by running their own 'actuarial model' and comparing this to that produced by the Council's actuary;
- ▶ Considered the impact of the recent 2022 triannual valuation on the Council pension liability; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

#### Conclusions

We have substantially completed our work in this area.

- We have received the assurance from the Cambridgeshire Pension Fund auditors in regard to the information supplied to the actuary, and confirmed there are no findings impacting on the Council's accounts. The Pension Fund auditor reported a difference in asset values between the original estimate included in the IAS19 report and the actual year end values. The Council obtained an updated IAS19 report which results in a £0.92 million decrease in the pension liability and will amend the accounts to reflect the updated asset values. Further details of the adjustment can be found in section 04 of this report.
- We have reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have followed up on relevant points and have not identified any issues.
- Our procedures to determine our own estimate for the Council's pension liability found that the liability calculated by the actuary fell within our reasonable range.
- We have agreed the Council's IAS 19 disclosures to the actuaries' report and ensured these are fairly stated in the accounts.

The pension liability and related disclosures in the draft statement of accounts were based on an IAS19 report which used the March 2019 triennial valuation to estimate the Council's pension balances. In March 2023 the Council's actuary released the March 2022 triennial valuation. The Council have obtained an updated IAS19 report based on the March 2022 triennial valuation which indicates significant movements in membership numbers over the three year period. We are awaiting evidence from management to support the underlying assumptions regarding membership numbers reported in the March 2022 triennial valuation.



# 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 2021 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 and the related notes 1 to 38 and G1 to G5
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes H1 to H10
- Collection Fund and the related 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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of South Cambridgeshire District Council and Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group 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 AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

##### Conclusions relating to going concern

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

- the Head of Finance and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and Section 151 Officer 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 narrative report, other than the financial statements and our auditor's report thereon. The Head of Finance and Section 151 Officer is responsible for the other information.



# Audit Report

## Our opinion on the financial statements

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

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

We have nothing to report in this regard.

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

#### Basis for Qualified Conclusion

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

The 2020/21 financial year is the fifth 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 2019/20 value for money conclusion except for qualification, the Authority has made further progress with the arrangements it has put in place for preparing its 2020/21 statement of accounts. However, the unaudited statements were not published until January 2023 due to weaknesses in the manual process used by the council to prepare the financial statements from underlying financial systems. The length of time that has passed since the undertaken in 2020/21 means that officers preparing the accounts may not have been involved in, nor have detailed knowledge of, the underlying transactions.

This had led to challenges in providing timely responses to audit queries as evidence to support historic transactions is not always readily available.

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

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 in April 2021, 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 2021.

#### 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.





# Audit Report

## Our opinion on the financial statements

### Responsibility of the Head of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities the Head of Finance and Section 151 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 2020/21, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Finance and Section 151 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.

### 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 in April 2020, as to whether the 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 the 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 2021.

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, the 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 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.



# Audit Report

## Our opinion on the financial statements

### 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 the Authority'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)*

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large wall of digital screens. The screens display various financial charts, including line graphs with green and red lines, and data tables. The overall scene is dimly lit with a blue glow from the screens.

# 04 Audit Differences



# Audit Differences

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

## Summary of audit differences

We have identified a number of audit differences in the draft financial statements that we expect management to adjust.

- 1) Pension Liability:** The Pension Fund auditor reported a difference in asset values between the original estimate included in the IAS19 report and the actual year end values. The Council obtained an updated IAS19 report which results in a £0.92 million decrease in the pension liability. The adjustment required to amend the draft statement of accounts is:  
Debit: Balance Sheet - Pensions Liability £0.92 million  
Credit: Comprehensive Income and Expenditure Statement - Actuarial (Gains)/Losses on Pension Liability £0.92 million
- 2) Bad Debt Provision:** We identified that the Council had double counted the Housing Benefit Overpayment provision within the bad debt provision: The adjustment required to amend the draft statement of accounts and remove the duplicate entry is:  
Debit: Balance Sheet - Debtors and Prepayments £0.28 million  
Credit: Comprehensive Income and Expenditure Statement - Net cost of services £0.28 million
- 3) Capital creditors:** Our testing of capital accruals within Short Term Creditors identified that capital accruals had been incorrectly calculated resulting in an overstatement of the year end accruals balance. The adjustment required to amend the draft statement of accounts is:  
Debit: Balance Sheet - Short Term Creditors £0.14 million  
Credit: Balance Sheet - Property, Plant and Equipment £0.14 million
- 4) Investment classification:** Our testing of investments identified that one investment of £2.50 million had been incorrectly classified as short term when the investment confirmation showed that this was long term in nature with a maturity date over 12 months from the balance sheet date; and one investment of £1.00 million which had been incorrectly classified as long term when the investment confirmation showed that this was short term in nature. The resultant adjustment required to amend the draft statement of accounts is:  
Debit: Balance Sheet - Long Term Investments £1.50 million  
Credit: Balance Sheet - Short Term Investments £1.50 million
- 5) Street lighting expenditure:** Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements relating to street lighting expenditure. The expenditure was incorrectly classified as REFCUS as the street lights belonged to the Council and therefore did not meet the statutory definition of REFCUS. We also identified that only part of this expenditure related to 2020/21 and therefore the accrual raised was overstated by £0.79 million in short-term creditors. The adjustment required to amend the draft statement of accounts is:  
Debit: Balance Sheet - Short Term Creditors £0.79 million  
Credit: Comprehensive Income and Expenditure Statement - Net cost of services £0.79 million  
Debit: Useable reserves - General Fund - £0.79 million  
Credit: Unusable reserves - Capital Adjustments Account - £0.79 million



# Audit Differences

## Summary of audit differences (continued)

6) **Capital financing:** In our July 2023 progress report, we reported that we had identified a number of COVID grants (£5.00 million) that had been incorrectly accounted for in the financial statements. Further investigation by management and the audit team identified that the grant working papers provided were incorrect and the £5.00 million was an incorrect posting to earmarked reserves thought to be related to unspent COVID-19 grant funding. The posting should have been to transfer the £5.00 million to unusable reserves, Capital expenditure charged against the General Fund, rather than to earmarked reserves and did not relate to COVID grants. The adjustment required to amend the draft statement of accounts is:

Debit: Reserves - Earmarked Reserves £5.00 million

Credit: Reserves - Unusable Reserves Capital Adjustment Account (Capital expenditure charged against the General Fund) £5.00 million

7) **Capital expenditure classification:** We identified that capital expenditure on intangible assets had been incorrectly included within Property, Plant and Equipment. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet - Intangible Assets £0.33 million

Credit: Balance Sheet - Property, Plant and Equipment £0.33 million

8) **Investment Property classification:** We identified that one land asset held as an Investment Property in the draft statement of accounts did not meet the classification of an investment property as per the CIPFA CODE of practice and should be classified as a Surplus asset. The adjustment required to amend the draft statement of accounts is:

Debit: Balance Sheet - Property, Plant and Equipment Surplus Assets £6.03 million

Credit: Balance Sheet - Investment Properties £6.03 million

Debit: Comprehensive Income and Expenditure Statement - Financing and Investment Income and Expenditure £0.63 million

Credit: Comprehensive Income and Expenditure Statement - Revaluation of Property, Plant and Equipment £0.63 million

9) **Operating Income and Expenditure:** We identified that the Council had incorrectly calculated their share of income due from the NNDR3 return in respect of Enterprise Zones as disclosed in note 9. The adjustment required to amend the draft statement of accounts is:

Debit: Comprehensive Income and Expenditure Statement - Taxation and Nonspecific grant income £0.53 million

Credit: Comprehensive Income and Expenditure Statement - Other operating expenditure and income £0.53 million



# Audit Differences

## Summary of audit differences (continued)

**10) Disclosures:** We identified a significant number of audit adjustments to the disclosures made in the draft statement of accounts to bring them in line with the requirements of the CIPFA Code of Practice, which we expect to be amended for by management. The most significant of these are detailed below.

### Note 6 Expenditure Funding Analysis

A number of amendments required to the Expenditure Funding Analysis Note 6 of the Draft Financial Statements including:

- A number of the 2019/20 comparative balances reported in the 2020/21 statement of accounts did not agree to the audited 2019/20 statement of accounts and require amendment back to the audited position.
- Expenditure and Funding by Nature note - Interest and Investment Income overstated by £3.01 million with a corresponding understatement in Fees, Charges and Other Service Income. We also identified this incorrect classification in the 2019/20 financial statements as part of the 2019/20 audit.
- Expenditure and Funding by Nature note - Other Service Expenditure overstated by £0.18 million with a corresponding understatement in Employee Expenses.
- Expenditure and Funding by Nature note - Precepts and Levies overstated by £0.23 million with a corresponding adjustment to Business Rates Income and Expenditure.

### Note 34 Capital Commitments

The capital commitment note was incorrect and should disclosure commitments of £9.51 million.

### Note H2 Housing Revenue account - Housing stock values

The value of Council Dwellings disclosed was understated by £0.26 million and the value of other land and buildings overstated by £16.28 million.

### Note 15 and Note 33 Financial Instruments

A number of disclosure misstatements within the financial instrument notes in the statement of accounts including:

- The amount disclosed for debtors was overstated by £5.71 million and for creditors was overstated by £7.04 million, as these incorrectly included statutory balances.
- No disclosure had been included in the Financial Instruments note for interest accrued on investments and loans.
- The amount disclosed for customer debtors in the financial instruments note 22 was understated by £1.24 million.

### Note 29 Related Party disclosure

The related part note was not in line with the requirements of the CIPFA Code of Practice as it did not include disclosure of total income and expenditure with related parties. We also identified this in the 2019/20 financial statements as part of the 2019/20 audit. In addition, we identified that the note omitted two related parties for organisations where the Council had in year transactions and where the organisations were listed within the Councillors register of interests.

### Note 16 Short term Debtors and payments in advance

The note did not disclose the provision for bad debt relating to Council Tax Arrears (£0.08 million) and NDR Arrears (£0.44 million) as these were incorrectly included within the Sundry Debtors line of the disclosure note.

### Leases

We identified that the Council holds a number of leases with third parties including finance leases as lessee and operating leases as lessor. These have not been disclosed in the draft financial statements and therefore lease disclosure notes are required to be included in the amended financial statements. Management is currently undertaking a review of its asset base to determine the extent of the Council's lease arrangements and to prepare the required lease disclosures.



05

## Value for Money Risks

# Value for money

## Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

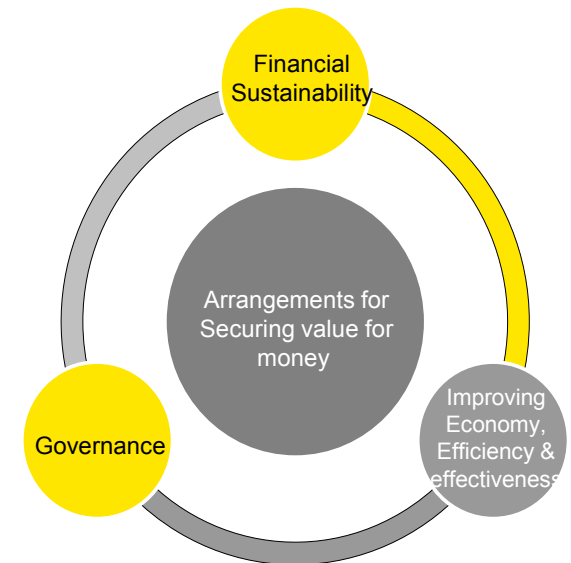
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



## Status of our 2020/21 VFM planning

In our Audit Planning Report we recognised a significant risk in respect of the VFM criteria Governance - Informed decision making and the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities.

The next slide provides further detail on the risk identified.

In light of 2020/21 being the sixth 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 plan to report an exception in the Council's value for money arrangements to make informed decisions as a result of having reliable and timely financial reporting.





# Value for Money

<b>What is the risk of significant weakness in arrangements?</b>	<b>What reporting criteria does the risk affect?</b>	<b>What are our findings?</b>
<p>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.</p>	<p>Governance - Informed decision making - reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>2020/21 is the 6th year running that the Council has failed to publish approved accounts by the target date outlined in the A&amp;A Regs. In concluding the 2019/20 audit we included an except for qualification on VFM in relation to weaknesses in arrangements for making informed decisions.</p> <p>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.</p> <p>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.</p> <p>During 2018/19 the Council's financial reporting issues were further compounded by the poor implementation of a new fixed asset register (FAR).</p> <p>In 2019/20 there has been a marked improvement in the Council ability to prepare financial statements and respond to audit queries and management is looking to put in place further training and actions to improve the process further in 2020/21.</p> <p>During the 2020/21 audit process we have continued to see improvements but the Council continues to struggle in some areas to provide evidence to support the assertions being made in the accounts.</p> <p>We have raised recommendations in section 07 of this report to improve the overall approach to financial reporting within the Council.</p>



## 06 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 2020/21 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 2020/21 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 2020/21.

### 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 07 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 07.

We have received correspondence from members of the public concerning procurement activities and have taken the matters raised to us into account in planning and undertaking our audit.



07

## 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, we report the following areas where improvements could be made and request management responses and follow up to ensure action is taken.

## Underlying accounting records and supporting evidence

The audit of the financial statements has taken longer than we would expect because the Council continue to struggle in some areas 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.

## 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 prior year audits, we continue to work closely with the Council's finance function to plan the audit to address areas of weakness identified. The Council have employed additional resource, albeit interim in some cases, which have shown a continued improvement in the Council's ability to produce financial statements and respond to audit queries. Whilst there has been a noticeable improvement it is recognised by us and management that it will take a number of reporting and audit cycles to get fully back on track and to a position where the Council can efficiently and effectively produce a quality statement of accounts, supporting working papers and being able to fully respond to audit queries first time.

## Recommendations:

Continue to re-assess and flex 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.

Continue to reset the relationship with audit across all levels of the Council to allow for constructive and open dialogue on issues affecting the Council's financial position and reporting.



# Assessment of Control Environment

## Creditors

We identified that the Council do not perform any regular reconciliation of the creditors subledger to the general ledger. This finding was also reported in our 2018/19 and 2019/20 Audit Results Report. Management are following up the below recommendation with its financial system provider to implement the reconciliation process from the financial year 2022.

Recommendation: We recommend that the Council revisit their controls over creditors and introduce regular reconciliation of the creditors subledger to the Council's general ledger system.

## Debtors

We identified that the Council do not perform any regular reconciliation of the debtors subledger to the general ledger.

Recommendation: We recommend that the Council revisit their controls over debtors and introduce regular reconciliation of the debtors subledger to the Council's general ledger system.

## Employee contracts

We identified that the Council did not hold signed contracts for one employee. Management followed up on the issue and found that there are likely to be other instances where signed employment contracts are not held as the Council does not mandate signing of employment contracts as it is assumed that if an employee continues to work they are deemed to be fulfilling their contract.

Recommendation: We recommend the Council revisit their controls over employee contracts. Whilst there is no legal requirement to obtain signed employment contracts, it is prudent for the Council to require its employees to sign and return a copy of their written contract to avoid any ambiguity about what has been agreed between the employer and employee.

# Assessment of Control Environment

## Review of CIPFA Asset Management System

From our review of the CIPFA Asset Management System we identified:

- A number of land assets were being incorrectly depreciated.
- A number of assets had been incorrectly depreciated in the year of acquisition which is not in line with the Council's depreciation policy which requires assets to be depreciated in the first full year of ownership.
- Travellers' site assets have been included as land assets only and as such no depreciation is being charged. However, the sites includes buildings and infrastructure elements to the assets which should be depreciated.

The impact of these findings is not above our reporting threshold in 2020/21 but the cumulative impact in future years could lead to a material impact on the accounts.

Recommendation: We recommend that the Council review the CIPFA Asset Management system and ensure that assets are being correctly treated.

## Reserves

Our audit procedures on the Council's Capital Financing Requirement (CFR) as disclosed in note 30 identified that:

- There is a difference of £0.14 million in the opening CFR that the Council are unable to reconcile.
- The Minimum Revenue Provision (MRP) identified that the Council's Investment Properties had been attributed a 50 year rather than a 40 year life as required by the Council's MRP policy. Recalculation based on a 40 year life indicates an in year difference of £0.09 million.

Whilst the 2020/21 impact of these findings is immaterial on the Minimum Revenue Provision the cumulative impact may become material in future years.

Recommendation: We recommend that the Council reviews it's MRP calculation to ensure that the expenditure and financing has been appropriately recorded in accordance with the CIPFA Code of Practice and Capital Financing Regulations.



08

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 July 2022 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 Corporate Governance Committee on 12 October 2023.

## 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 2020 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 2021 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.

### EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

[EY UK 2022 Transparency Report | EY UK](#)

# Independence

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## Fee

Following completion of the 2019/20 audit we submitted a proposed additional fee of £176,573 to PSAA as reported in our 2020/21 Audit Planning Report. This relates to proposed uplifts to the base scale fee due to increased regulatory requirements, as well as additional work in 2019/20 in respect of risks identified, findings from our audit procedures, new NAO Code of Audit Practice and ISA requirements. PSAA Ltd determined, with agreement from the Council, a final additional fee for 2019/20 of £153,260.

The scale fee for 2020/21 is £40,021 (2019/20 £40,021). The level of risks identified for the audit and the issues we have reported to the Committee in our Audit Planning Report, the July 2023 Progress Report, this Audit Results Report and the protracted nature of the audit has required additional audit resources to complete the audit which are not allowed for in the scale fee set by PSAA (please see their website\* for more details on the basis on which they set audit scale fees).

We will provide details of our proposed fees to the Section 151 officer for discussion. On the basis of that discussion, we will then update the Audit and Governance Committee on the proposed fee. Our fee is subject to approval by the PSAA.

\* [www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2019-20-auditor-appointments-and-audit-fee-scale/](http://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2019-20-auditor-appointments-and-audit-fee-scale/)







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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		
Required communications	 What is reported?	  When and where
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 - July 2023
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - July 2023
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 - October 2023

# 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>	We have not yet completed our work on the Council's going concern assessment.
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 - October 2023
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 - October 2023
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 - October 2023




# 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 - October 2023
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 - July 2023  Audit Results Report - October 2023

# 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 - October 2023
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 Planning Report - July 2023

# Appendix A

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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 - October 2023
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 - October 2023
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 - October 2023
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 - July 2023 Audit Results Report - October 2023
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report



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