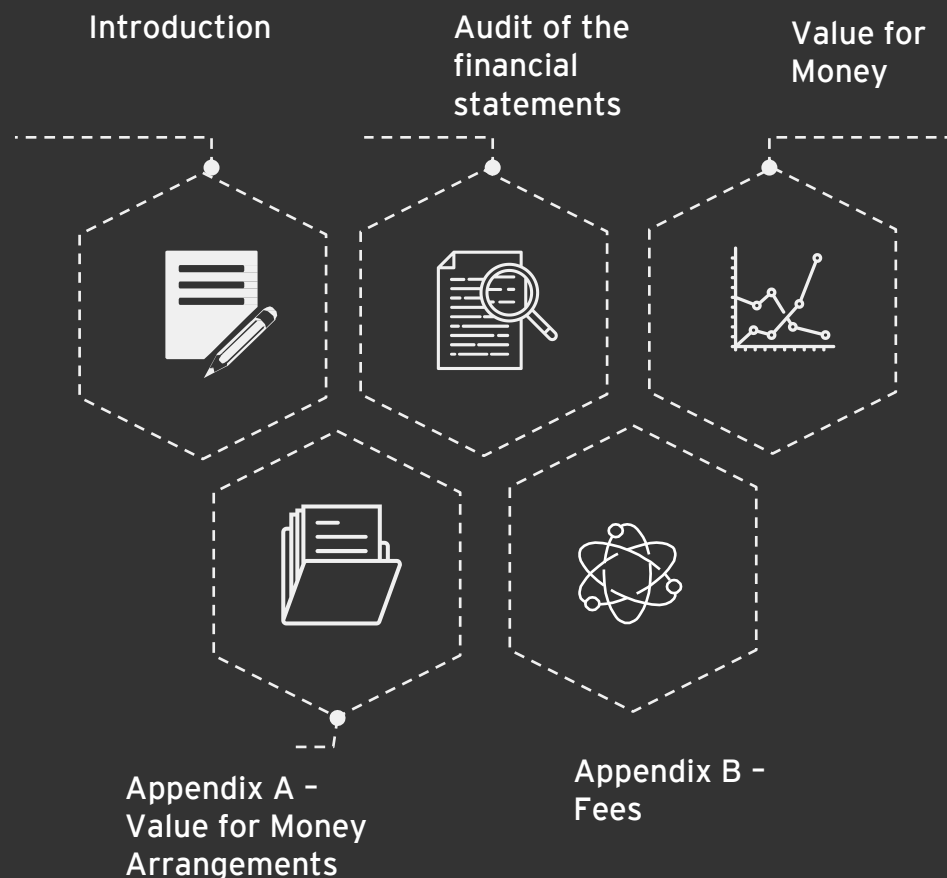




**South Cambridgeshire
District Council
Auditor's Annual
Report**

Year ended 31 March 2021

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated July 2021)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Council and management of South Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council and management of South Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Council and management of South Cambridgeshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Introduction

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan we issued in May 2023. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements of the Council;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council are responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2020/21 Conclusions - South Cambridgeshire District Council

Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. We issued our auditor reports on 4 December 2023.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the Council financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited Council.
Value for money (VFM)	We reported one matter by exception on the Council's VFM arrangements. We have included our VFM commentary in Appendix A.
Consistency of the annual governance statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We issued our certificate on 4 December 2023.



Audit of the financial statements - South Cambridgeshire District Council

Key findings

The Narrative Statement and Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 4 December 2023, we issued an unqualified opinion on the financial statements for the Council. We reported our detailed findings to the Audit and Governance Committee in our Audit Results Reports dated 3 October 2023 and 20 November 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or error

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.

Conclusion

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied.

Our testing of journals did not identify adjustments outside of the normal course of business. All journals tested had appropriate rationale.

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

Inappropriate capitalisation of revenue expenditure

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.

We did not identify any Property, Plant and Equipment additions that were incorrectly capitalised.

Our testing of Revenue Expenditure Funded from Capital under Statute (REFCUS) identified two misstatements where expenditure was incorrectly classified as REFCUS only part of this expenditure recorded in the financial statements related to 2020/21.

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



Audit of the financial statements – South Cambridgeshire District Council

Significant risk

Valuation of Investment Properties

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.

Conclusion

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. We identified the following issues.

We 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 identified that three of the Council's assets did not fall within a reasonable range resulting in a material decrease in the valuation of investment properties as:

- Assets were incorrectly valued as freehold properties when the property is held on long leaseholds.
- Valuations did not fully reflect the particulars of leases in place regarding voids, rent free period and the occupation/vacancy at the balance sheet date.
- Valuations did not include the required a deduction for purchaser costs.
- The square footage used for one asset in the valuation was lower than that actually lettable at the property.

We did not identify any misstatements regarding the processing of accounting entries in the financial statements.

We reviewed Investment Property disclosures and found that these were adequate.

We identified that one material land asset that did not meet definition of an investment property as per the CIPFA Code of Practice and should have been classified as a Surplus asset.

We identified one risk of significant weakness in the Council's VFM arrangements for 2020/21.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have reported one matter by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Council which was based on a combination of our cumulative audit knowledge and experience, our review of Council reports, meetings with officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and identified one significant weakness in the Council's VFM arrangements. As a result, we reported one matter by exception in the audit report on the financial statements.

Our detailed commentary for 2020/21 is set out on page 8. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2020/21. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	One significant risk identified	One significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2021. Our risk assessment did not identify any risk of significant weakness in arrangements to secure financial sustainability.

The general economic conditions have affected all Councils in recent years as central government focuses on deficit reduction and has sought to transfer the risk of reduced Non-Domestic Rates (NDR) income, or increased demand for Council tax reduction, to local government, and the impact of COVID-19 pandemic. This has prompted large scale savings plans and fundamental service reviews with the aim of achieving budget whilst maintaining good levels of service delivery.

The Council has a good track record of financial management and reporting, identifying and of delivering savings required to balance the budget over the medium term. The Council has a Medium Term Financial Strategy (MTFS) which sets out sustainable and affordable financial plans that address the Council's priorities over the next five years. It provides for realistic levels of spending and is not dependent upon the use of one-off reserves. It provides for a prudent level of reserves for contingencies. The MTFS is reported to the Scrutiny & Overview Committee and Cabinet which include the savings to be made and the outturn position by month against the forecasted year end position. During 2020/21 the Council began formulation a transformation programme in response to the funding gap identified in the MTFS. This is expected to include a programme of targeted service reviews to ensure that value for money is obtained in the delivery of services, together with the continuation of the programme of investment and commercialisation that has commenced, and which has been strengthened by the recent review of the Council's Investment Strategy.

The financial structure of the entity is primarily governed by the Council's Treasury Management Strategy (TMS) which is approved annually by Full Council. The Treasury Management Strategy (TMS) sets out the prudential indicators by which the Council bounds itself including borrowing and investment strategies and limits. The TMS complies with the CIPFA Prudential Code for Capital and Capital Finance in Local Authorities.

South Cambridgeshire District Council has set up two wholly owned companies, South Cambs Ltd t/a Ermine Street Housing (to invest in domestic property for rental and resale with the aim of maximising income for the group) and Shire Homes Lettings Ltd.

The Business Plan's for Ermine Street Housing and Shire Homes Lettings Ltd are refreshed annually, agreed by the Company's Board of Directors and are shared with Cabinet for information. The Company's Board of Directors review and refresh the Business Plan's annually to reflect changes in the composition of the portfolio, the gross rental yields achieved and the latest market values of the portfolio. The Business Plan's also consider the performance of the Company's in relation to the previous year's trading period, updates financial assumptions and revises key risks and key business sensitivities.

Conclusion: Based on the work performed, the Council had proper arrangements in place during 2020/21 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2021. Our risk assessment identified one risk of significant weakness in arrangements to ensure sound governance regarding the Council's ability to prepare and publish its accounts by the dates outlined in the Accounts and Audit (A&A) Regulations 2014.

The Council is structured with elected members (via the Cabinet and Committee system) to make decisions, such as strategic initiatives and major transactions and probes for explanations of past results (e.g., budget variances), which are challenged by the Scrutiny & Overview Committee. The Audit & Corporate Governance Committee reviews the findings of internal and external audit and other inspections and requires appropriate responses and actions from management.

The Audit & Corporate Governance Committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done. It provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the governance, risk and control environment.

Key decisions are taken by Cabinet or Council and they are provided with full reports to enable them to make those decisions. There is also opportunity for the Scrutiny & Overview Committee to comment and challenge these decisions either through pre-scrutiny or the call-in process designed to hold Cabinet to account. Audit & Corporate Governance Committee has particular responsibility for scrutiny of governance, activity of the Corporate Fraud team, treasury and final accounts.

Management has regularly reported to Audit & Corporate Governance Committee the need to increase resources in the Finance team to resolve issues in the Council's Fixed Asset Register and improve delays in the preparation of statutory financial statements. Management has included a risk to this effect in the Council's Risk Register. Whilst overall there has been recent improvements through employing additional resources in the finance team, there have also been changes to the Finance team throughout the period which have caused delay's in the work on the accounts. In March 2021 it was reported to the Audit & Corporate Governance Committee that the Finance team needed extra resources to effectively manage the financial statements audit process. In July 2021 management reported to the Audit & Corporate Governance Committee that an additional officer was required to work on the fixed asset register and that extra resources were required to assist with the budget and finance monitoring, whilst work on the financial statements was ongoing. The council subsequently recruited a 0.5 full time equivalent member to accountancy in December 2021 and confirmed that two interim project accountants were contracted in October 2022 to assist with the preparation and audit of the Council's financial statements

The 2020/21 financial year was the sixth 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 Council 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 22 December 2022 due to weaknesses in the manual process used by the council to prepare the financial statements from underlying financial systems. The length of time between the financial year and financial statement publication means that officers preparing the accounts may not have been involved in, nor have detailed knowledge of, the underlying transactions resulting in challenges in providing timely responses to audit queries as evidence to support the historic transactions.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks (Continued)

This is evidence of a significant weaknesses in proper arrangements for supporting its statutory reporting requirements and effective processes and systems for accurate and timely management information. We recommend that the Council continues 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. The Council should also 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.

The Council implemented a 4 day working week trial in January 2023 which is planned to run to the end of March 2024. The Council has been subject to increased scrutiny and media coverage regarding this trial including the issue of a non-statutory Best Value Notice. We recommend that the Council continues to consider the impact of guidance and any statutory direction it may receive to ensure proper governance over these arrangements and continued delivery of value for money in its services.

Conclusion: Based on the work performed, we identified a significant weakness in the Council's arrangements in place in 2020/21 to make informed decisions and properly manage its risks, in relation to financial reporting.



Value for Money (continued)

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

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2021. Our risk assessment did not identify any risk of significant weakness in arrangements over improving economy, efficiency and effectiveness.

The Council's Section 151 officer has overall statutory responsibility for the proper administration of the authority's financial affairs, including preparation of the Statement of Accounts and making arrangements for the appropriate systems of financial control.

Management continually monitor their finances, primarily against budget, with formal financial performance reviews taking place monthly which are reported and monitored within the finance department and the senior management team. Quarterly finance monitoring reviews take place which are then reported to Cabinet and the Scrutiny & Overview Committee. The finance report provides information on the revenue position each month along with their estimated projection and explanation for any variances. Performance reporting arrangements allow performance monitoring and management to take place by providing opportunity to examine quality of service provision and progress against Business Plan actions and timescales, to identify any areas of concern and decide on the appropriate action. KPI information is used to assess performance and where there is a shortfall these have been addressed.

The Council operates within a number of shared services with other Council's and is implementing a "recharge model" for existing shared services which been a priority in order to ensure that recharges are fair and consistently applied and that taxpayers in one area are not subsidising services provided in another. This has resulted in an adjustment in the level of recharges that will be phased over the next three years resulting in saving for the Council in 2020/2021 and future years.

The Council works with a number of partners on different projects such as Community Health, Community safety and the Northstowe development. The Council has regular monitoring meetings which report to the leadership team, Cabinet or the Investment Governing Board (IGB) as appropriate. These forum's are able to hold the partnerships to account to ensure the delivery of objectives.

Risk and opportunity management is embedded throughout the authority and in its partnership working arrangements. The Audit & Corporate Governance Committee is independent of the executive and scrutiny functions and embedded as a key part of the authority's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for Audit & Corporate Governance Committees.

The Council continues to deliver any required savings through a mixture of service reviews, collaborative working, income generation and operational efficiencies. Supply of services to the Council is governed by the Public Contract Regulations (PCR) 2015 and its Directives, UK Law and the Constitution of the Authority. This is supported by a procurement strategy which sets what the Council's aim to achieve when they procure works, supplies and services.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices



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Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Findings

The Council have a Medium Term Financial Strategy (MTFS) which is approved by Cabinet and Full Council. The MTFS sets out sustainable and affordable financial plan that addresses the Council's priorities over the next five years. It provides for realistic levels of spending, not dependent upon the use of one-off reserves. It provides for a prudent level of reserves for contingencies. The MTFS is reported in the Scrutiny & Overview committee & Cabinet which include the savings to be made and the out turn position by month against the forecasted year end position.

The Council have a good track record of financial management and reporting identifying and of delivering savings required to balance the budget over the medium term.

The Council refreshes its MTFS twice a year in accordance with best practice.

The Council's transformation programme was being formulated during 2020/21 and was in response to the funding gap identified in the MTFS. At that time the Fair Funding Review was expected in 2021/22 and a loss of business rates and new homes bonus funding was forecast from that year. Other spending pressures are identified either through the budget setting process or in consultation with officers well in advance of when the pressure is expected to hit. All known pressures be they funding reductions or expenditure increases are factored into the MTFS. The quarterly monitoring process can also assist with identifying budget pressures particularly those that may be of a shorter term nature.

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body plans to bridge its funding gaps and identifies achievable savings

The general economic conditions have affected all Councils in recent years as central government focuses on deficit reduction and has sought to transfer the risk of reduced Non-Domestic Rates (NDR) income, or increased demand for Council tax reduction, to local government, and the impact of COVID-19 pandemic. This has prompted large scale savings plans and fundamental service reviews with the aim of achieving budget whilst maintaining good levels of service delivery.

The MTFS is reported in the Scrutiny & Overview Committee & Cabinet which include the savings to be made and the out turn position by month against the forecasted year end position.

A service transformation programme has been developed in response to the funding gap and the financial challenges over the medium term and a detailed report was considered by Cabinet at its meeting on 4 December 2019. This is expected to include a programme of targeted service reviews to ensure that value for money is obtained in the delivery of services, together with the continuation of the programme of investment and commercialisation that has commenced, and which has been strengthened by the recent review of the Investment Strategy.

The budget gap was identified at £5.7m in February 2020 and a significant amount of this was to be found from expanding the number of investment properties the council owned. Since then the response to the Public Works Loan Board (PWL) consultation in November 2020 made this approach somewhat more difficult. A transformation programme was also being formulated which would lead to identifying savings to be found through efficiencies.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

An annual budget is set & approved by the Council prior to the start of the financial year. The budget sets the level of Council tax and council dwelling rent increases. Budget holders are allocated specific cost codes which they are responsible for monitoring against on an ongoing basis. The financial system allows budget holders to see actual outturn vs budget in real time, however for the most part they tend to focus their formal monitoring procedures at the end of every month.

Performance against any previous plan objectives are reported quarterly to the Scrutiny & Overview committee and Cabinet, including a review of financial performance and updates on Council's Strategic Risk registers.

The financial structure of the Council is primarily governed by the Council's Treasury Management Strategy (TMS) which is approved annually by Full Council. The Treasury Management Strategy (TMS) sets out the prudential indicators by which the Council bounds itself including borrowing and investment strategies and limits. The TMS complies with the CIPFA Prudential Code for Capital for Capital Finance in Local Authorities.

In order to be able to deliver the Council's aspirations as set out in its Business Plan, approved by Council at its meeting on 21 February 2019, and meet its statutory responsibilities the Council must take a proactive approach to managing its resources effectively. The MTFs is a key tool for proactive financial management which allows for future projected funding requirements to be identified thus enabling the Council to identify appropriate actions to deal with any funding shortfalls.

The MTFs looks at the five year expected income and expenditure and also takes account of agreed priorities in the business plan. Where there are projects ahead, resources are set aside to meet those costs, eg the renewables reserve has resources set aside to meet related expenditure. The budget process considers fees and charges and the level of increase to apply with reference to cost of provision and effect on demand of increases. Additional income generated from this process helps to bridge the gap. One of the factors considered when trying to decide whether to carry out a project or investment is whether it will deliver ongoing savings which again would bridge the gap. A robust review of budgets also takes place when the budget is constructed to remove any allocations that are no longer needed.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Findings

Management continually monitor their finances, primarily against budget, with formal financial performance reviews taking place monthly which are reported and monitored within the finance department and the senior management team. Quarterly finance monitoring reviews take place which are then reported to Cabinet and the Scrutiny & Overview Committee. The finance report provides information on the revenue position each month along with their estimated projection and explanation for any variances.

The Council aim to meet their budget each year and make modifications throughout the year to ensure they achieve this.

The MTFS is the Council's key financial planning document and sets out the Council's strategic approach to the management of its finances and Council Tax levels over the medium term, thereby allowing sufficient lead time to develop services consistent with the forecast resource envelope.

The Council also has a Treasury Management Strategy (TMS) which is approved annually by the council and governs the financial structure of the entity. The TMS sets out the prudential indicators by which the Council bounds itself including borrowing and investment strategies and limits. The Treasury Management Strategy complies with the CIPFA Prudential Code for Capital for Capital Finance in Local Authorities.

The Council is a member of the CIPFA Treasury Management benchmarking club. Actual performance is also reported at annually to Members.

South Cambridgeshire District Council has set up two wholly owned companies namely South Cambs Ltd t/a Ermine Street Housing (to invest in domestic property for rental and resale with the aim of maximising income for the group) and Shire Homes Lettings Ltd.

The Business Plan's for Ermine Street Housing and Shire Homes Lettings Ltd are refreshed annually, agreed by the Company's Board of Directors and are shared with Cabinet for information. The Company's Board of Directors review and refresh the Business Plan's annually to reflect changes in the composition of the portfolio, the gross rental yields achieved and the latest market values of the portfolio. The Business Plan's also consider the performance of the Company's in relation to the previous year's trading period, updates financial assumptions and revises key risks and key business sensitivities.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council have a MTFS which is approved by Cabinet and Full Council. The MTFs sets out sustainable and affordable financial plan that addresses the Council's priorities over the next five years. It provides for realistic levels of spending, not dependent upon the use of one-off reserves. It provides for a prudent level of reserves for contingencies.

The Council has in place a range of key performance indicators which it uses to measure its performance. These indicators are developed for each of the council's main priorities in the corporate plan. The main organizational assessment is around Value for Money, the Council's external auditor's judge and report back to the council on arrangements for securing financial resilience and challenging and improving value for money.

The Council's forward plan of work is regularly reviewed to ensure that planned activities are prioritised and will be delivered at the earliest opportunity, and to respond to emerging external unplanned factors.

Revenue budgets are monitored monthly by the Council's Budget Holders, Management Team and Portfolio holder for finance with quarterly performance reports taken to Executive. Capital programmes are monitored less frequently. These provide an analysis and explanation for sig variances and forecast year end position, and therefore impact on reserve levels. The budget is not set in stone and amendments can be made as necessary as events in the year unfold and as financial monitoring recognises the need for changes and for any new risks identified. These changes have to be agreed by Council.

The Council has a risk register in place which highlights all the risks identified by the Council along with the control measures in place. This risk register is updated with the risk rating based on the control measures implemented by the council for the risks. The risk register identifies risks for areas such as Financial, Business continuity, change management, climate change, governance, major projects etc. Based on the council's risk management strategy, roles & responsibilities of each group/ individual of the council are identified and includes quarterly review of the risk register by the Cabinet.

A specific risk is included within the Risk register around financial resilience. The risk highlights the mitigation taken where possible and assesses the residual risk. The unallocated General Balance is available for any unexpected expenditure increases in year and this is substantially above 25% of Net budget requirement.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans (Continued)

Impact of Coronavirus:

In response to the pandemic the Council implemented various measures through its business continuity framework, with continuous risk management in this period. Examples included formation of task force, risk management, prioritisation of services, flexible working policies, and regular communication within the Council and the community.

Most of the Council's services have been impacted to some degree by the pandemic. In particular:

(a) Revenue collection and benefit payment – there has been, and will continue to be, some reduction in revenue generated by local tax – both council tax paid by local residents and non-domestic rates (NDR) paid by local businesses. Claims for housing benefit and universal credit have also increased. Workload for the Council's revenue and benefits section has increased significantly, both in terms of increased claims for benefit but also through the administration of grants paid to support local business during the period of physical restrictions on movement. The revenue collection process is supported in part by Central Government, for example expenditure on Housing Benefits is matched in grant funding provided by DWP.

(b) Reduction on planning applications and associated processes

(c) Reduction in income collected from services such as car park income and leisure services etc.

The council responded to external factors such as Covid-19 and Brexit. They reprioritised resources to focus on the critical activities, and this helped them to deliver resources where it was needed most. The Council's Forward-Plan of work is regularly reviewed to ensure activities are prioritised according to need, and this enables us to respond to emerging and unplanned events. The Council delivered an updated Medium-Term Financial Strategy and commenced work on Financial Resilience to support the Financial Management Code. The Council maintains a Business Plan and ongoing revisions will recognise these pressures to help manage financial resilience and stability.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Findings

The Head of Internal Audit provides an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework. The internal audit performs periodic reviews of internal control which is the entity's primary tool in the monitoring of controls

The effectiveness of the key elements of the governance framework is reviewed throughout the year. This activity is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and from the comments received from External auditors and other review agencies and inspectorates.

Those charged with governance provide effective oversight over the entity's external financial reporting and related internal control.

Management makes recommendations to Council. Elected members (via the Cabinet and Committee system) then make decisions, such as strategic initiatives and major transactions and probes for explanations of past results (e.g., budget variances), which appear to be constructively challenged by the Scrutiny & Overview Committee.

The Audit & Corporate Governance Committee reviews the findings of internal and external audit and other inspections and requires appropriate responses and actions from management.

The Council regularly updates its strategic risk register and reports to Audit & Corporate Governance Committee twice a year. Internal audit carry out work assessing the adequacy of controls across a range of Council functions on a risk basis. A Corporate Fraud team was set up in early 2020 and they investigate any instances of fraud against the Council.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

How the body approaches and carries out its annual budget setting process

The Council agrees the budget and the policy framework, such as the Corporate plan, MTFS. The Council consists of 45 members who meet in February every year to approve the budget. The Cabinet, Council's principal decision making body, is charged with implementing the budget and policy framework agreed by Council. During the year expenditure and income is monitored and significant variances are reported to the council.

A suite of financial plans: housing revenue; housing capital, GF revenue and capital, is approved at a full Council meeting before the start of each financial year. The budget is drawn up using a base line adjusted for inflationary factors and other expected changes. The budget is then scrutinised and challenged in Executive and Council meetings and is amended where approved by the Council.

The revenue and capital budgets are monitored quarterly by the Council's Cabinet, alongside performance reports on services. The budget monitoring reports provide analysis and explanation for any significant variances and forecast year-end outturn, and therefore the impact on the reserve levels.

A detailed refresh of the MTFS was considered by Cabinet, at its meeting on 6 December 2019, and this provided (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. The determination of the 2020/21 revenue budget has, therefore, been informed by the MTFS financial forecasts, together with established and effective budget monitoring arrangements that have created a sound foundation for the management of the Council's financial resources.

HRA budgets continue to be set in the context of a 30-year business plan, which is reviewed in November and February of each year. The HRA budget setting report covers both HRA revenue and capital spending.

Budget setting starts in September and culminates in the budget setting report the following February. There is a bids and savings process where each new item is agreed or otherwise prior to its inclusion. Detailed working papers are provided and all information is discussed with spending officers before adding to the budget databases. The detailed budgets are presented to Scrutiny for their input. There is significant consultation with spending officers and members to ensure that resources are allocated to appropriate areas at appropriate levels. Consultation also takes place with Partner authorities on Shared Budgets where SCDC are the host authority. During the year budgets are refined as part of the monitoring process and this information is used to assess whether budget should be retained or reprofiled.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Findings

Management makes recommendations to Council. Elected members (via the Cabinet and Committee system) then make decisions, such as strategic initiatives and major transactions and probes for explanations of past results (e.g., budget variances), which appear to be constructively challenged by the Scrutiny & Overview Committee.

The Audit & Corporate Governance Committee reviews the findings of internal and external audit and other inspections and requires appropriate responses and actions from management.

The S151 officer has overall statutory responsibility for the proper administration of the authority's financial affairs, including preparation of the Statement of Accounts and making arrangements for the appropriate systems of financial control.

Management communicates regularly with the personnel, both in person, e.g., during the annual performance review process and through established means of communication - such as the weekly internal email, staff briefings, EMT blog & Corporate Brief meetings information passed onto staff via publication on Insite (Intranet).

In terms of establishing reporting lines and responsibilities, there are written job descriptions for each member of staff which sets out their duties and formal lines of reporting.

Monitoring Information is provided on a monthly basis to spending officers comparing budgets with actuals to date. Accountants deal with each area and liaise with budget managers to gain an understanding of the risk facing service areas. Information from these reports is used to report to members on key areas and where corrective action is necessary what that might be. There are regular meetings with budget holders as well as quarterly reporting on financial monitoring that support this process.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit & Corporate Governance Committee

Findings

Elected members (via the Cabinet and Committee system) make decisions, such as strategic initiatives and major transactions and probes for explanations of past results (e.g., budget variances), which appear to be constructively challenged by the Scrutiny & Overview Committee.

The Audit & Corporate Governance Committee reviews the findings of internal and external audit and other inspections and requires appropriate responses and actions from management.

The Audit & Corporate Governance Committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done. It provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability.

The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the governance, risk and control environment

Key decisions are taken by Cabinet or Council and they are provided with full reports to enable them to make those decisions. There is also opportunity for the Scrutiny & Overview Committee to comment and challenge these decisions either through pre-scrutiny or the call-in process designed to hold Cabinet to account. Audit & Corporate Governance Committee has particular responsibility for scrutiny of governance, activity of the Corporate Fraud team, treasury and final accounts.

Management has regularly reported to Audit & Corporate Governance Committee the need to increase resources in the Finance team to resolve issues in the Council's Fixed Asset Register and improve delays in the preparation of statutory financial statements. Management has included a risk to this effect in the Council's Risk Register. Whilst overall there has been recent improvements through employing additional resources in the finance team, there have also been changes to the Finance team throughout the period which have caused delay's in the work on the accounts. In March 2021 it was reported to the Audit & Corporate Governance Committee that the Finance team needed extra resources to effectively manage the financial statements audit process. In July 2021 management reported to the Audit & Corporate Governance Committee that an additional officer was required to work on the fixed asset register and that extra resources were required to assist with the budget and finance monitoring, whilst work on the financial statements was ongoing. The council subsequently recruited a 0.5 full time equivalent member to accountancy in December 2021 and confirmed that two interim project accountants were contracted in October 2022 to assist with the preparation and audit of the Council's financial statements

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit & Corporate Governance Committee (Continued)

Findings

The 2020/21 financial year was the sixth 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 Council 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 22 December 2022 due to weaknesses in the manual process used by the council to prepare the financial statements from underlying financial systems. The length of time between the financial year and financial statement publication means that officers preparing the accounts may not have been involved in, nor have detailed knowledge of, the underlying transactions resulting in challenges in providing timely responses to audit queries as evidence to support the historic transactions.

This is evidence of a significant weaknesses in proper arrangements for supporting its statutory reporting requirements and effective processes and systems for accurate and timely management information. We recommend that the Council continues 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. The Council should also 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.

The Council implemented a 4 day working week trial in January 2023 which is planned to run to the end of March 2024. The Council has been subject to increased scrutiny and media coverage regarding this trial including the issue of a non-statutory Best Value Notice. We recommend that the Council continues to consider the impact of guidance and any statutory direction it may receive to ensure proper governance over these arrangements and continued delivery of value for money in its services.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Findings

The Constitution includes the roles and responsibilities of the Executive, Committees, Full Council and chief officers and the rules under which they operate. In particular how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute, while the Council has determined others locally. The Monitoring Officer provides advice on the interpretation and application of the Constitution. Executive decisions are made by the Executive Body being the Leader and Cabinet, within the overall policy and budgetary framework approved by Full Council. Any decisions the Executive wishes to take outside of the framework must be referred to Full Council to decide. Scrutiny & Overview Committees monitor the work of the Executive Body.

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper practice standards. The authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of efficiency, effectiveness and economy. In discharging this accountability, the authority is responsible for putting in place and maintaining, proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

All officers of the authority have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided as necessary and appropriate induction sessions are carried out. Compliance assessments are carried out by management, auditors and through the work of statutory inspectors.

The Council has a monitoring officer with overall responsibility for monitoring and advising on these matters. The monitoring office has an independent person they can use for advice and assistance if required. There is also a standards committee that oversees this work. There is a gifts and hospitality book held for registering such things and all participants are required to declare any interests they might have that could conflict with their role as an officer or member of the Council. Each year all members and senior officers are required to sign a related party declaration.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>How financial and performance information has been used to assess performance to identify areas for improvement</p>	<p>The S151 officer has overall statutory responsibility for the proper administration of the authority's financial affairs, including preparation of the Statement of Accounts and making arrangements for the appropriate systems of financial control.</p> <p>Management continually monitor their finances, primarily against budget, with formal financial performance reviews taking place monthly which are reported and monitored within the finance department and the senior management team. Quarterly finance monitoring reviews take place which are then reported to Cabinet & the Scrutiny & Overview Committee. The finance report provides information on the revenue position each month along with their estimated projection and explanation for any variances.</p> <p>The Council aim to meet their budget each year and make modifications throughout the year.</p> <p>Quarterly performance reports are presented to Cabinet. Performance reporting arrangements allow performance monitoring and management to take place by providing opportunity to examine quality of service provision and progress against Business Plan actions and timescales, to identify any areas of concern and decide on the appropriate action.</p> <p>KPI information is used to assess performance and where there is a shortfall these have been addressed. A good example is where the Council was missing the target on paying suppliers within 30 days. Work to identify particular areas of failure and raise awareness has improved this indicator significantly.</p>
<p>How the body evaluates the services it provides to assess performance and identify areas for improvement</p>	<p>The 2020/21 Quarter 1 Performance report presents Cabinet with the Council's Quarter One (Q1) position regarding its operational Key Performance Indicators (KPIs) and, for the first time, 2020-25 Business Plan actions, for consideration and comment.</p> <p>These performance reporting arrangements allow performance monitoring and management to take place by providing opportunity to examine quality of service provision and progress against Business Plan actions and timescales, to identify any areas of concern and decide on the appropriate action.</p> <p>The Scrutiny & Overview Committee monitors the performance of the Leader and Cabinet and scrutinises services and policies throughout the district, whether or not South Cambridgeshire District Council provides them, and makes recommendations for improvement.</p> <p>There are quarterly reports on key performance indicators that are considered by Scrutiny and Cabinet. Where an indicator is not being met remedial action if possible is recorded and where not possible explanation is provided.</p> <p>The Internal Audit team were asked to review the planning performance for Quarter 2 of 2020 where they issued a limited assurance opinion. Similar review was performed by the Internal Audit for Quarter 2 of 2021 where they noted improvements from the previous review and provided Reasonable Assurance.</p>

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Findings

The Business Plan for the Legal Service, part of 3C Shared Services, for 2020/21 describes how the shared service arrangement outlined in the approved Business Case will be delivered to ensure objectives are achieved and business benefits are realised within a robust governance framework and in the context of the partner Councils' corporate plans.

In relation to partnership arrangements, the implementation of a "recharge model" for existing shared services has been a priority in order to ensure that recharges are fair and consistently applied and that taxpayers in one area are not subsidising services provided in another. This has resulted in an adjustment in the level of recharges that will be phased over a three year period. The adjustments result in a saving to the Council in 2020/2021 and this has been factored into the revenue budget.

Risk and opportunity management is embedded throughout the authority and in its partnership working arrangements. The Audit & Corporate Governance Committee is independent of the executive and scrutiny functions and embedded as a key part of the authority's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for Audit & Corporate Governance Committees. The membership is politically proportionate.

The Finance Director, along with other key accounting personnel, monitors new and significant changes in financial reporting pronouncements and standards. A paper is presented to the Audit & Corporate Governance Committee for approval, discussing the changes and detailing the effect on the financial statements.

The Council has a formal risk register in place which identifies business risks, evaluates the significance of those risks and the likelihood of occurrence. The risk register is present to the Cabinet quarterly.

Internal Audit utilises this risk register to focus their programme throughout the year and report on the risks identified in each assignment

The Council works with a number of partners on different projects such as Community Health, Community safety, the Northstowe development with two investment partnerships. The Council has regular monitoring meetings which report to the leadership team, Cabinet or the Investment Governing Board (IGB) as appropriate. These forum's are able to hold the partnerships to account to ensure the delivery of objectives.

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Findings

The Council continues to deliver any required savings through a mixture of service reviews, collaborative working, income generation and operational efficiencies. Supply of services to the Local Authority is governed by the Public Contract Regulations (PCR) 2015 and its Directives, UK Law and the Constitution of the Authority. This is supported by a procurement strategy which sets what the authority aim to achieve when they procure works, supplies and services. Significant contracts for the services provided are held in the Council's contract register.

The Council has a Procurement officer and an assistant who monitor all contracts and procurements ensuring that Council and procurement rules are adhered to. The Procurement Officer is fully qualified in his field and the Assistant is actively studying. Records are kept of savings achieved from the procurement process and where applicable other benefits are recorded.

The Council will analyse its expenditure and perform review to identify opportunities to rationalise suppliers, save money, increase competition, contract jointly with other public bodies, make use of collaborative contracts or otherwise contract more effectively.

Appendix B - Fees - South Cambridgeshire District Council

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. 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.

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

* For 2020/21 the PSAA increased the rate per hour for each audit grade by 25%.

Audit Fees - South Cambridgeshire District Council	Final Proposed Fee (Note 2)	Final PSAA approved Fee (Note 1)	Final Proposed Fee (Note 1)
	2020/21	2019/20	2019/20
PSAA scale fee	£40,021	£40,021	£40,021
Changes in work required to address additional professional and regulatory requirements and changes in scope associated with risk	£33,032	£10,795	£26,427
2020/21 Additional Procedures required in response to additional risks identified in the Audit Plan and other areas of audit work:			
• Significant Risk: Capital Accounting Entries	£29,392	£18,962	£23,479
• Significant Risk: Valuation of Investment Properties	£18,955	£9,970	£12,348
• Inherent Risk: COVID grant Accounting	£6,845	-	-
• Inherent Risk: Presentation and disclosure of accounting items	£24,858	£19,869	£19,869
• Area of Audit Focus: Going Concern	£5,106	£3,300	£4,086
• Group Consolidation	£6,225	£4,971	£4,971
• VFM - New NAO VFM Code and qualification in relation to Council's weaknesses in meeting financial reporting duties for publishing draft and audited accounts	£10,663	£3,569	£3,569
• Impact of March 2022 Triennial valuation	£3,423	-	-
• Response to national issue relating to Infrastructure Assets	£1,756	-	-
• Additional audit overruns & delays	£88,182	£76,379	£76,379
• Other 2019/20 specific risk fees (NDR appeals provision and Impact of Covid-19)	-	£5,445	£5,445
Total additional Fee	£228,437	£153,260	£176,573
Total Fees (*All fees exclude VAT)	£268,458	£193,281	£216,594

Appendix B - Fees - South Cambridgeshire District Council Relationships, services and related threats and safeguards

Note 1: Following completion of the 2019/20 audit we submitted a proposed additional fee of £176,573 to PSAA. 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 to the risks and additional areas of audit work as detailed in the table on the previous page. PSAA Ltd determined, with agreement from the Council, a final additional fee for 2020/21 of £153,260.

Note 2:

For 2020/21 the PSAA increased the rate per hour for each audit grade by 25%.

The scale fee for 2020/21 will again be impacted by the increased regulatory requirements and our proposed uplifting of the base scale fee. An increased fee is also proposed for additional audit procedures required to respond to the risks identified and other additional areas of work as detailed in the table on the previous page which are not reflected in the PSAA scale fee. The proposed additional fee is yet to be discussed with management and remains subject to determination by PSAA.

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