

Cambridge City Council

External audit update

Year ended 31 March 2021

9 July 2021

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To the members of the Civic Affairs Committee

External Audit Update

We are pleased to attach a short audit update report focusing on:

1. The outcome of our VFM risk assessment under the new NAO Code which applies for the audit of the Council's 2020/21 accounts.
2. An update to the audit risks that we included in the Outline Plan we presented to the 17 May 2021 Committee meeting.
3. A general update on progress with the audit of the Council's 2020/21 statement of accounts.

In addition, there will be change in the EY Partner in Charge for the 2020/21 audit as I leave EY in early August. Mark Hodgson who leads the EY Government and Public Sector team for the East of England will take over.

If Committee members have any questions or comments please contact me or Jacob McHugh (jmchugh@uk.ey.com).

Yours faithfully

Suresh Patel (SPatel22@uk.ey.com)

For and on behalf of Ernst & Young LLP

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Audit update

1. Value for money (VFM) risk assessment

Scope

In the Outline Audit Plan we included details of the new NAO Code of Audit Practice (the Code) in respect of VFM and outlined that at that time we had yet to complete our risk assessment procedures. Under the Code we are required to carry out sufficient work to enable us to provide a commentary against the arrangements shown in Appendix 1.

Risk assessment

We have now completed our assessment of the risk of significant weaknesses in the arrangements outlined in Appendix 1. We have based our assessment on a combination of our cumulative audit knowledge and experience, our review of committee reports, meetings with finance officers and evaluation of associated documentation through our regular engagement with management. We have not identified any risk of significant weakness.

Reporting

The NAO is cognisant of the pressures facing local authorities and auditors to meet their reporting requirements for 2020/21 whilst dealing with the challenges and issues presented by the pandemic. As a result, the NAO have now confirmed the following requirements:

1. The Code requires auditor's to report by exception within the auditor's opinion on the financial statements if they have identified a significant weakness in VFM arrangements, i.e. if auditor's have not identified a significant weakness then the audit opinion does not include reporting in respect of VFM. For 2020/21 the NAO's revised guidance allows auditors to issue the audit opinion even when the auditor has not concluded on their VFM work to address identified risks of significant weaknesses in arrangements, as long as the risks do not impact the financial statements. We expect to complete all our planned VFM procedures, which include revisiting the risk assessment, before we issue the auditor's opinion.
2. The Code requires auditor's to issue their commentary on VFM as part of a new Auditor's Annual Report (AAR) by the end of September. For 2020/21 the NAO's revised guidance allows auditors to issue the commentary on VFM and AAR by 3 months after the date of the audit opinion on the statements.

We expect to issue the VFM commentary and AAR shortly after issuing the audit opinion on the financial statements.

Audit update

2. Update to audit risks

In the Outline Audit Plan we included details of the risks and areas of focus we had identified for the audit of the Council's 2020/21 statement of accounts. We also reported that we had yet to complete all our risk assessment procedures. These are now complete and we have one new inherent risk to report to the Committee.

What is the inherent risk

Accounting for Collection Fund disclosures

During 2020-21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of collection fund income.

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There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief for the financial year. On review of the draft accounts, it is evident that this has caused significant changes on the Collection Fund and within Taxation and Non-Specific Grant Income.

There is therefore an inherent risk of incorrect accounting based on the significant level of change in the year.

What will we do?

We will consider the Council's accounting for Collection Fund disclosures by:

- Performing an analytical review of collection fund income, building in any changes in relief as appropriate.
- Understanding the process for the raising of specific additional reliefs.
- Reviewing the Collection Fund disclosures with respect to ongoing guidance in accounting requirements and for compliance with the CIPFA Code.



Audit update

3. General audit update

We received the draft statement of accounts from the Council and commenced our audit on the 14 June.

We have received good quality supporting working papers from the Council and have made good progress with our audit procedures with prompt and effective cooperation from the finance team. We are awaiting the Council's narrative report and annual governance statement that were not part of the draft statements.

We are scheduled to complete audit procedures by the end of July and then aim to complete final review and conclusions procedures soon after.

We have two areas of the audit where we are awaiting information:

- The auditor of the Cambridge Pension Fund in order to complete our procedures on the Council's pension liability and associated disclosures.

• Our valuation specialists who we have engaged to test a sample of investment properties.



Appendix 1 - VFM arrangements

Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services.

1. How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them.
2. How the Council plans to bridge its funding gaps and identifies achievable savings.
3. How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.
4. How the Council 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.
5. How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

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Governance

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

1. How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.
2. How the Council approaches and carries out its annual budget setting process.
3. How the Council 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.
4. How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from the audit committee.
5. How the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).



Appendix 1 - VFM arrangements

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.

1. How financial and performance information has been used to assess performance to identify areas for improvement;
2. How the Council evaluates the services it provides to assess performance and identify areas for improvement;
3. How the Council 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; and
4. Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits

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