

# **Cambridge City Council Audit results report**

Year ended 31 March 2019

20 May 2020



Dear Civic Affairs Committee Members

20 May 2020

We are pleased to present our Audit Results Report, which outlines the status of the audit of Cambridge City Council's Statement of Accounts for 2018/19. As at the date of this report the audit is almost complete. We acknowledge that our own resourcing challenges have contributed to the protracted and stop start nature of the audit and we also highlight in this report the impact of the Council's own challenges in replacing its previously long standing principal accountant. We accept that our resourcing challenges meant that we were carrying out audit procedures after the Council's interim principal accountant had completed his contract. The combined impact is reflected in the high volume and value of adjustments to the published draft statement of accounts. The Council has since strengthened its finance team capability, which has enabled the preparation of a revised set of accounts and a documented understanding of the significant judgements made in key aspects of the Council's financial reporting.

We have worked in collaboration with the Council's finance team to progress the audit but have been required to input significantly more time and effort to complete audit procedures than we had envisaged. We acknowledge that some of this time has not been used as efficiently as we would do normally because of our resourcing issues. We have taken this into account when estimating the additional fee we propose for completing the audit outlined in Section 8. The time and fee has now also been impacted by Covid-19.

In completing the audit we are now considering the uncertainty that Covid-19 has put on local government funding. As a result, we have sought evidence from the Council of its assessment on its future financial resilience and the impact this may have on the 2018/19 accounts and disclosures. This work is currently in progress and may impact the auditor's report.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements. However, the draft at Section 3 may change in light of the financial resilience issues outlined above. A further consequence of Covid-19 is additional quality assurance that EY has introduced in the form of an internal consultation process for our proposed auditor's report. This aims to ensure that we provide the right assurance to the Council and its stakeholders.

We have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Although our approach does not require us to test internal controls we have identified some areas for improvement.

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

We would like to thank your staff for their help during the engagement.

Your faithfully,

Suresh Patel - Associate Partner, For and on behalf of Ernst & Young LLP

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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.psaa.co.uk](http://www.psaa.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.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

# Executive Summary



## Executive Summary

### Scope update

In the Audit Plan that we presented at the January 2019 Civic Affairs Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are carrying out our audit in accordance with this plan but have made a small change to materiality using the draft financial statements. Overall materiality is now £2.7 million (Audit Plan – £2.8 million), which results in updated performance materiality, at 75% of overall materiality, of £2.028 million. The updated threshold for reporting misstatements is £0.135 million.

### Status of the audit

As at 20 May our audit remains in progress. The audit has taken considerably longer than expected due to a combination of two matters, one relating to the Council and the other relating to the audit team. The Council has been adversely impacted by the departure of the Council's Principal Accountant. As a result there has been deficiencies in some aspects of the quality of the draft statements, the quality of working papers and the ability of the Council to respond to the audit. We recognise that the audit team has also been impacted by the departure of the audit manager and lead senior. In addition, we have faced well publicised challenges in resourcing our local government external audits for 2018/19. The combination of these two factors has contributed to the protracted and stop start nature of the audit. In addition, the impact of Covid-19 has now created a late and unexpected delay in concluding the audit.

Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements. We include our current proposed wording at Section 3 but this is subject to change. However until work is complete, further amendments may arise.

We are yet to conclude the following areas:

Agreeing the adjustment to Council Dwellings valuation	Second audit review of the Council's and Group's cash flow statements	Audit review of revised group accounts and disclosures
Audit review of IFRS 9 audit procedures	Revisit additional disclosures as a result of Covid-19	Revisit financial resilience considerations in light of Covid-19

Once we have completed the above procedures we will:

- Request and review the final version of the financial statements to ensure all audit differences have been appropriately amended;
- Complete a subsequent events review;
- Request and review the management representation letter; and
- Completing our final review procedures.

We will issue a final Audit Results Report on completion.



# Executive Summary

## Status of the audit (continued)

### Impact of Covid-19

A number of audit procedures were in progress when the government introduced lockdown measures in late mid-March. As a result, since then we have been working closely with the Finance team to undertake the remaining audit procedures by working remotely. The Finance team have worked hard and effectively to respond to our queries and support audit progress.

We have together learned some lessons on effective remote working that we will both take into the 2019/20 audit.

Specific to the financial statements, Covid-19 has had three main impacts:

#### 1. Financial resilience and going concern

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed assessment to support its assertion and evaluate its financial resilience. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2018/19 statements, for example, we will need to see evidence of an assessment up to and including around May/June 2021. This will need information relevant to the 2021/22 financial year, its budget, etc. This assessment is currently being developed by the Section 151 officer. We will be scrutinising the Council's revised financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We will also discuss with management the need to make specific disclosures in the 2018/19 statements on going concern, financial resilience and in particular any material uncertainties.

#### 2. Accounts and disclosures

Covid-19 will potentially impact on a number of accounting judgements and disclosures. Whilst for the 2018/19 statements, this is likely to impact disclosure only, we have requested management to consider items such as the fair value of assets and liabilities to support a revised post balance sheet event disclosure note.

#### 3. Auditor's report consultation

Following the government's decision to enforce a lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all auditor reports to ensure that we are providing the right assurance to the readers of accounts.



## Executive Summary

### Audit differences

We are continuing to work on audit differences and are working with Management to agree the final financial statements.

#### Uncorrected audit differences

There is one uncorrected audit difference arising from our audit in respect of the pensions liability.

We estimated that the national Guaranteed Minimum Pensions (GMP) ruling would increase the pension liability by £0.792 million and reduce the Council's unusable reserves by the same amount with no impact on the General Fund. In the absence of a formal actuarial estimate, and as this is not material, Management have determined it will not amend the statements.

#### Corrected Audit Differences

The corrected audit differences we wish to report to the Committee are detailed in Section 4 of the report. In summary, to date, we have agreed with management:

1. Three audit differences which increased the unearmarked General Fund by a net £0.382 million.
2. A total of sixteen differences which reduced the surplus on the provision of services by £2.332 million. Half reduced the surplus by £21.805 million with the other half increasing the surplus by £19.471 million. Many of these were complex in nature.
3. Included in 2 above is a £30 million adjustment following our challenge to the Council's valuation of its Dwellings. We identified a weakness in the valuation provided by the Council's expert as the valuation did not account for a dip in values in the final quarter of the year information which we now have access to.
4. The group accounts have had to be reproduced as incorrect methodology had been applied to the consolidation of the Council's Joint Ventures. This will have a material impact on the final group accounts numbers but we are not yet in a position to quantify the impact.
5. We report in Section 4 a total of 43 corrected disclosure related misstatements, many of which are material.

Until our work is complete, further amendments may arise. We will update the Civic Affairs Committee should any further adjustments arise from our remaining work.

## Executive Summary

### Areas of audit focus

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

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our testing, subject to review, and have nothing to report
Other area of audit focus	Findings & conclusions
Valuation and impairment of Property, Plant and Equipment (PPE) and Investment Property (IP)	This work is substantially complete. Officers have agreed an adjustment to Council Dwellings which will reduce the value by approximately £30 million. The Council increased the value of PPE by £3.231 million when reconciling the accounts to the fixed asset register.
Pension liability	We agreed an increase of £4.902 million to the pension liability due to the changes for McCloud and investment valuations. The Council did not adjust for the estimated £0.792 million impact of GMP.
Capital transactions	We queried the treatment of a £27 million land acquisition and subsequent disposal to the Council's Joint Venture. Officers agreed to amend the presentation of the transaction and to appropriate £11 million from the General Fund Capital Financing Requirement (CFR) to the HRA CFR.
Group accounts	Work on this area was suspended to enable Management to address issues with the consolidation methodology and to reflect audit differences from the Council's accounts.
New accounting standards	The Council did not update its accounts for the impact of IFRS 9.
Change in key finance personnel	The departure of a key member of the finance team in the year had a significant negative impact on the quality of accounts produced, the quality of working papers provided for audit and the speed and quality of responses to audit queries. We recognise permanent additions to the Council's finance team have strengthened its financial reporting capabilities.

This report sets out our latest 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.





## Executive Summary

### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

However we have identified key control deficiencies which if corrected would reduce the level of misstatements identified as part of the audit process. Please refer to Section 7 for details.

### Value for money

We did not identify any significant risks around the Council's arrangements to achieve value for money in our Audit Plan. Our work in this regard is complete.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However the Council is below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore do not expect to have any issues to report.

### Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



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## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Management Override: Misstatements due to fraud or error (*Fraud risk*)

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For the Council, we have assessed that this risk could manifest in:

- ▶ Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- ▶ Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council.
- ▶ Management bias in key accounting estimates and judgements.

##### 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.

##### What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures in relation to journal entries and other adjustments
- ▶ Assessed the nature of significantly unusual transactions
- ▶ Considered if management bias was present in key accounting estimates and judgments in the financial statements

##### What are our conclusions?

Our testing is complete. We did not identify any:

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ any other transactions during our audit which appear unusual or outside the Council's normal course of business.



## Areas of Audit Focus

### Significant risk

#### **Incorrect capitalisation of revenue expenditure**

*(Fraud risk)*

##### **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.

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

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

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We have focused on the Council's judgement that an item is capital expenditure in nature.

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

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- ▶ Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

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

Our sample testing of additions to property, plant and equipment:

- ▶ Found they had been correctly classified as capital and included at the correct value.
- ▶ Did not identify any revenue items that were incorrectly classified as capital.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



# Areas of Audit Focus



## Other Areas of Audit Focus - Valuation and impairment of Property, Plant and Equipment and Investment Property

Property, Plant and Equipment (PPE) and investment properties represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Council engaged external expert valuers who applied a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk these assets may be materially misstated.

We have:

- ▶ Considered the work performed by the Council's valuers, 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 valuers in performing their valuation (e.g. floor plans to support valuations based on price per sq m);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for property, plant and equipment and annually for investment properties. We have considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

### Conclusions

We wish to report the following:

- ▶ We engaged EY Real Estate (EYRE) valuation specialists to look at the Council's retail property valuations. Initially they were concerned that the Council's valuer had been provided with insufficient information to provide a valuation. We therefore requested further information be provided to the Council's valuer and that they reconsidered their valuation in light of the new information. Ultimately we have reached the conclusion that the original valuations were supportable but recommend the Council provides their valuer with this additional information as a matter of course in future.
- ▶ We challenged the valuer responsible for the valuation of Council Dwellings as they have provided limited information to support the basis of their valuations. We engaged EYRE to provide our own valuation expertise. This identified that the indexation applied by the Council's valuer did not cover the full year and has led to a £30 million adjustment to the accounts. We encourage the Council to review the appropriateness of indexation being applied by their experts where this forms a material part of the overall valuation.
- ▶ Management have identified and corrected a number of audit differences which affect the presentation and disclosure of valuations of PPE and Investment Property as a result of the audit but these generally relate to the accounting treatments rather than the underlying valuations themselves.

We will update the Committee should any further matters come to light from our remaining work in this area that we wish to report.





# Areas of Audit Focus



## Other Areas of Audit Focus - Capital Transactions

The Council are undertaking a number of large capital transactions, either themselves, or with a partner, some of which will span financial years. It is important for the Council to fully understand the arrangements in place and any accounting implications so that these can be appropriately recognised in the accounts.

Our approach focussed on:

- Understanding the substance of significant one off transactions;
- Reviewing and testing the accounting treatment proposed by management to ensure that it is in accordance with accounting standards and the Code and has been recognised at the correct value and in the correct financial year; and
- Considering the completeness and accuracy of any related disclosures (for example, joint arrangements).

### Conclusions

Our work in this area is ongoing but to date has necessitated the additional involvement of our local government financial reporting specialist, EYRE valuation specialist and significant input from the audit manager to review, understand and assess the Council's working papers supporting the transaction.

We queried the treatment of a £27 million land acquisition and subsequent disposal to the Council's Joint Venture CIP (Cromwell Road) LLP in return for loan notes issued by the CIP. There was reference in the contracts to an underlying lease and Affordable Homes Agreement and it was not clear whether this had been accounted for appropriately. We were concerned whether:

- The original cost of the acquisition was appropriately split between the General Fund and HRA
- The HRA land had actually been disposed of, or as we finally determined that the commercial substance of the transaction for the HRA land was a short term lease to CIP
- The impact of the transaction was correctly applied to the respective HRA and General Fund Capital Financing Requirements; and
- The presentation and disclosures in relation to this transaction were made in accordance with the Code of Practice.

As noted in Section 4 of the report we identified inconsistencies with the financial statements in respect of the capital transaction with CIP and following extensive discussion and correspondence with EYRE valuation specialists, the local government financial reporting specialist, and the audit team, officers agreed to amend the presentation of the transaction and to appropriate £11 million from the General Fund Capital Financing Requirement (CFR) to the HRA CFR.



# Areas of Audit Focus



## Other Areas of Audit Focus - Pension Liability

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.

The information disclosed is based on the IAS19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. 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.

We have:

- Liaised with the auditors of the Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assessed the work of the pension fund actuary (Hymans Robertson LLP) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also considered outturn information available at the time of the audit after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. Finally, we liaised with officers to understand the implications of the McCloud ruling and reviewed the changes made to the statements.

### Findings and Conclusion

The Council re-engaged the actuary to estimate the impact of the McCloud ruling on the pension liability. We reviewed the Council's assessment of the impact and confirmed that the planned changes to the accounts were reasonable.

We also reviewed and agreed with the planned changes to reflect the difference between the year-end actual value of pension fund assets and the estimate used to inform the actuary's assessment of the IAS 19 liability.

The pension liability has increased by £4.902 million.

We concluded we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

We estimate the impact of the Guaranteed Minimum Pension (GMP) ruling would be to increase the pension liability by £0.792 million. In the absence of a formal actuarial estimate, and as this is not material, Management have determined it will not amend the statements. This is therefore shown as an uncorrected audit difference in Section 4.



## Areas of Audit Focus



### Other Areas of Audit Focus - Group accounts

There are a number of entities within the Council's group arrangements. In 2017/18 the Council consolidated its wholly owned subsidiary Cambridge City Housing Company Ltd (CCHC) and Cambridge Investment Partnership LLP (CIP) into its Group accounts. Storeys Field Charitable Trust, Cambridge Live and Visit Cambridge and Beyond were not consolidated. The transactions for these non-consolidated entities were disclosed within related party transactions. It is important that the Council continues to perform a detailed assessment to ensure that all potential associates and joint ventures are appropriately recognised in the accounts.

We have:

- ▶ Reviewed and understood the group boundary assessment completed by the council to ensure all related associates and joint ventures have been correctly accounted for; and
- ▶ Considered the completeness and accuracy of the entities included within the group structure.

#### Findings and conclusions

Our work is ongoing in this regard.

1. The draft group accounts were materially misstated as they incorrectly consolidated the Council's investment in CIP on a line by line basis. The Council's investment in CIP is a joint venture and therefore should be consolidated using the equity method. Under the equity method the Council only accounts for its share of the joint venture's net assets and profit/loss adjusting for unrealised gains or losses in the Council's accounts. As a result the group accounts needed to be revisited by Management and will be subject to a second review by the audit team.
2. We noted and agreed with the decision to consolidate Cambridge Live and Cambridge Live Trading with effect from 1 October 2018 on the basis that the Council effectively took control over the operations from that date.
3. The audited revaluation reserve carried forward as at 31 March 2018 differed from the balance brought forward in the group accounts by £0.565 million in note 11 to the group accounts.



### Other Areas of Audit Focus - Change in key accounting personnel

During 2018/19 the Council had a change in key accounting personnel. We highlighted the change in our Audit Plan as a risk to the quality of accounts preparation, the quality of working papers provided for audit and the speed and quality of responses to audit queries.

As outlined in the status of the audit section of this report, there has been an adverse impact on accounts preparation, working papers and audit query resolution. We acknowledge that late changes in our audit team and our own resourcing deficiencies have exacerbated the problems. We also recognise that the Council's permanent additions to its finance team have strengthened its financial reporting capabilities and enabled the Council to prepare a revised set of accounts, supported by documented judgements and working papers.



# Areas of Audit Focus



## Other Areas of Audit Focus - New accounting standards

The Code required the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- IFRS 9 - Financial instruments
- IFRS 15 - Revenue from contracts
- IFRS 16 - Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 - Financial Instruments	Audit procedures completed with final review ongoing. However we have noted that despite the early communications on the requirements of the new standard, the draft financial statements did not make any of the necessary amendments required by IFRS 9 - in particular the reclassification of financial assets; the removal of the available for sale reserve; and additional disclosures.
IFRS 15 - Revenue from Contracts	Our audit procedures for revenue from contracts have not identified any audit issues.
IFRS 16 - Leases	<p>IFRS 16 replaces IAS 17 Leases and its related interpretations. Its implementation has recently been deferred until 2021/22 financial statements due to the Covid-19. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.</p> <p>The Authority should continue to progress their work on IFRS 16 to ensure they are ready for its implementation.</p>

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
  - new definitions of assets, liabilities, income and expenses
  - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
  - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).



## 03 Audit Report





# Audit Report

## Our draft opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE CITY COUNCIL [SUBJECT TO CHANGE]

#### Opinion

We have audited the financial statements of Cambridge City Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Movement in Reserves Statement
- Authority and Group Balance Sheet
- Authority and Group Cash Flow Statement
- Authority related notes 1 to 43
- Group related note 1 to 12
- Housing Revenue Account Income and Expenditure Account
- Statement of Movement on the Housing Revenue Account Balance
- Housing Revenue Account notes 1 to 10
- Collection Fund and the related notes 1 to 7
- Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Cambridge City Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### 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 Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### Conclusions relating to going concern

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

- the 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.



# Audit Report

## Our draft opinion on the financial statements

### Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages i to xxiv, 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.

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Cambridge City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- 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 draft opinion on the financial statements

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

As explained more fully in the Statement of Responsibilities set out on page ix, 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 2018/19, 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 (C&AG) in November 2017, as to whether Cambridge City 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 Cambridge City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



# Audit Report

## Our draft opinion on the financial statements

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, Cambridge City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Certificate

We certify that we have completed the audit of the accounts of Cambridge City 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 Cambridge City 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 the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Suresh Patel (Key Audit Partner)*  
*Ernst & Young LLP (Local Auditor)*  
*Cambridge*  
*XX XXXXXXX 2020*





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 adjusted differences

Below we list the significant audit differences identified to date that management agreed to correct. The number and nature reflect management’s decision to revisit the draft accounts and working papers, resulting in management identifying a number of changes. We will update the Committee if further significant audit differences are identified from the remainder of our work.

#### Audit differences impacting the General Fund:

1. NDR Levy was overstated by £0.543 million in creditors. The NDR tariff in debtors was overstated by £0.474 million. Taxation and non-specific grant income and the Council’s General Fund increased by £0.068 million as a result of these two differences.
2. Mis-postings to and from Earmarked Reserves meant that the General Fund’s Earmarked Reserves were overstated and General Fund understated by £0.314 million. This also impacted various service areas in the net cost of services.

#### Audit differences not impacting the General Fund:

1. Officers agreed to amend the indexation applied to the value of Council Dwellings as Land Registry Data in the final quarter of the year indicated that prices had fallen year on year and it was agreed that this was not fully reflected in the valuation obtained by the Council. Council Dwelling valuations were reduced by £30 million as a consequence this impacted many areas of the accounts. We are yet to complete our review of this amendment.
2. Grant income received from the Combined Authority of £13.505 million was credited directly to reserves bypassing the CIES. As a result Taxation and non-specific grant income and transfers from the General Fund in the Movement in Reserves Statement were understated by this amount.
3. The Government were refused leave to appeal the McCloud and Sergeant Judgments on 27 June 2019. Consequently we requested Officers to seek a further actuarial valuation. The pension liability was increased and pension reserve reduced by £4.902 million due to both the impact of the judgment and variances between the value of pension assets at the year end compared with the Actuary’s estimate. This also affected the CIES, HRA, MiRS and related disclosures notes.
4. The £27 million acquisition of land at Cromwell Road was reclassified as an addition to property plant and equipment rather than an addition to assets held for sale. The acquisition costs written off to the CIES of £1.7 million were reclassified from other operating expenditure to service line expenditure. Following determination that the HRA land value on acquisition was effectively nil there was a need for an £11 million appropriation from the General Fund CFR to the HRA CFR. As a consequence a change in item 8 adjustments will have a trivial affect on the General Fund.

## Audit Differences

### Summary of adjusted differences (continued)

#### Audit differences not impacting the General Fund (continued):

5. Property plant and equipment, investment property, and intangible assets were understated by a net £3.165 million following the reworking of the fixed asset register. The revaluation reserve was increased by £7.264 million and the CIES and Capital Adjustment Account were charged £4.099 million. This adjustment was the result of a lot of work by management and represents a summary of 25 adjustments made. The gross value of these adjustments was £30.649 million and had a wide ranging impact on disclosures throughout the financial statements.
6. Management released £4.938 million of capital grants received in advance to the CIES and capital grants unapplied account as we agreed that the likelihood of repayment was low. Management have agreed to reassess individual schemes in 2019/20 to determine which ones contain a specific risk of repayment and adjust the balances accordingly.
7. Reserve adjustments were not made following capital receipts in relation to the K1 development. As a result the Deferred Capital Receipts Reserve was overstated and Usable Capital Receipts Reserve was understated by £1.287 million.
8. Service area income and expenditure in the CIES were both overstated by £0.826 million due to revaluation gains reversing earlier losses being incorrectly credited to income.
9. Service area income and expenditure in the CIES were both overstated by £0.83 million due to recharges between services being treated as income.
10. Long term investments included a trade balance of £0.437 million with a group entity which should have been recorded within short term debtors.
11. Long term investments were overstated by £0.39 million due to incorrect postings in respect of loans to CIP (Mill Road). The capital receipts reserve was overstated by £0.618 million and the deferred capital receipts reserve was understated by £0.229 million as a result.
12. The cash flow statement and related notes will be affected by the other audit differences identified. We are yet to review the revised cash flow statement.

#### Audit differences impacting only the group accounts:

1. The draft group accounts were materially misstated as they incorrectly consolidated the Council's investment in CIP on a line by line basis. The Council's investment in CIP is a joint venture and therefore should be consolidated using the equity method. Under the equity method the Council only accounts for its share of the joint venture's net assets and profit/loss adjusting for unrealised gains or losses in the Council's accounts. As a result the group accounts were materially misstated and subject to a second review by the audit team. The group accounts are not yet ready for review as the single entity accounts are not yet finalised.
2. The audited revaluation reserve carried forward as at 31 March 2018 differed from the balance brought forward in note 11 to the group accounts by £0.565 million.

# Audit Differences

## Summary of adjusted differences (continued)

Note	Description	Audit difference
<b>Disclosure differences relating to the CIES</b>		
1	Expenditure and funding analysis	<ul style="list-style-type: none"> <li>a) Management agreed to reduce disclosures in the reconciliation from the CIES to the General Fund and Housing Revenue Account (HRA) to the minimum required by the Code.</li> <li>b) In the subjective analysis of income and expenditure. Minimum Revenue Provision (MRP) of £0.455 million was incorrectly classified as Employment Benefit expenses.</li> </ul>
7	Other operating expenditure	<ul style="list-style-type: none"> <li>a) Gains on disposals of non-current assets were reduced from £3.471 million to £2.312 million</li> </ul>
12	Employee Remuneration	<ul style="list-style-type: none"> <li>a) The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was not correctly disclosed. Two employees were incorrectly excluded from the £50,000 to £54,999 line. Another employee was incorrectly included in the table.</li> <li>b) The total cost of exit packages was understated by £2,000.</li> </ul>
<b>Disclosure differences relating to Capital Expenditure and Financing</b>		
17	Capital Expenditure and Financing	<ul style="list-style-type: none"> <li>a) The draft calculation of the closing capital financing requirement (CFR) understated the CFR by £42.2 million.</li> <li>b) Loans of £31.85 million to the Cambridge Investment Partnership (CIP) and a Local Investment Bond of £2.2 million were excluded from the draft CFR.</li> <li>c) The acquisition of £28.683 million of assets held for sale on behalf of CIP, were excluded from the draft CFR.</li> <li>d) De-minimis capital expenditure of £0.253 million was removed from the draft CFR calculation in the revised statements.</li> <li>e) The following differences were identified in the sources of finance: <ul style="list-style-type: none"> <li>▸ Government grants and other contributions applied were understated by £15.012 million.</li> <li>▸ Revenue and reserves understated by £3.819 million</li> <li>▸ Capital receipts understated by £1.240 million</li> </ul> </li> </ul>
21	Leases	<ul style="list-style-type: none"> <li>a) The future minimum lease payments of operating leases where the Council is lessor were overstated by £0.968 million. The disclosure incorrectly included some leases not due to start until after 31 March 2019 and one lease with a duration of 10 years was calculated on the basis of a 20 year term.</li> </ul>

# Audit Differences

## Summary of adjusted differences (continued)

Note	Description	Audit difference
<b>Disclosure differences relating to Reserves and the Movement in Reserves Statement</b>		
5	Movement in Reserves Statement - adjustments between accounting and funding basis	<ul style="list-style-type: none"> <li>a) The reversal of unapplied capital grants and contributions credited to the CIES increased by £18.441 million. Related to this capital grants applied to finance capital increased by £13.506 million to £16.607 million.</li> <li>b) There was an inconsistency between draft note 5 and the draft CAA note of £2.087 million. Revaluation gains on PPE charged to the CIES were disclosed as £5.181 million in draft note 5. The draft Capital Adjustment Account (CAA) disclosed a gain of £3.094 million. The final agreed revaluation loss through the CIES was £1.8 million.</li> <li>c) The use of Capital Receipts to finance capital expenditure have been reduced by £9.845 million between the draft and final accounts.</li> <li>d) Reductions in the fair value of investment properties were understated by £2.46m largely due to confusion over what assets were included in previous valuations.</li> <li>e) The carrying values of non-current assets written off on disposal to the CIES were understated by £1.365 million in draft note 5 and the CAA note.</li> <li>f) The reversal of items relating to post employment benefits increased by £0.692 million following the McCloud case.</li> <li>g) Capital expenditure charged against the General Fund and Housing Revenue Account per draft note 5 was inconsistent with the CAA disclosures. Both note 5 and the CAA were amended. The disclosure in the CAA was increased by £0.335 million and the amount in note 5 increased by £0.251 million</li> <li>h) There was a difference of £0.39 million between the transfer from the deferred capital receipts to the capital receipts reserve disclosed in the deferred capital receipts reserve in note 32 and the equivalent figure disclosed in note 5. The amount transferred was reduced by £0.229 million in note 32 and £0.619 million in note 5.</li> <li>i) The revised accounts were updated to reflect the requirements of IFRS 9. As a result note 5 was amended to include a transfer from the available for sale reserve to the General Fund of £0.221 million.</li> <li>j) Revenue Expenditure Funded from Capital Under Statute (REFCUS) was overstated by £0.166 million in draft note 5. This error was repeated in the capital expenditure and financing note 17 and CAA disclosure in note 32.</li> </ul>

## Audit Differences

### Summary of adjusted differences (continued)

Note	Description	Audit difference
<b>Disclosure differences relating to Reserves and the Movement in Reserves Statement (continued)</b>		
32	Capital Adjustment Account and Revaluation Reserve	a) The draft revaluation reserve disclosed balances eliminated in respect of disposed assets of £0.19 million. This was inconsistent with the CAA which had no equivalent disclosure. The revised statements disclose £0.9 million. b) Depreciation in excess of historic cost balances are transferred from the revaluation reserve to the CAA. This transfer was understated by £0.324 million in the draft statements. We are yet to confirm the revised transfer.
	Capital Adjustment Account	a) Depreciation and impairment charges disclosed in the CAA were overstated by £0.168 million. The disclosure in the CAA was inconsistent with the equivalent disclosure in note 5 (adjustments between accounting and funding basis). b) Additional impairments to property plant and equipment were incorrectly disclosed in the CAA of £0.439 million. This was inconsistent with the PPE note and note 5 and removed in the revised statements.
	Revaluation Reserve	The draft statements contained a £10.776 million inconsistency between the revaluation gains per the draft CIES to be recognised in the Revaluation Reserve (£17.947 million), and the gains disclosed in the Revaluation Reserve note (£7.171 million).
<b>Disclosure differences relating to the Housing Revenue Account and Collection Fund</b>		
HRA	HRA Income and Expenditure Statement	The gain on disposal of non-current assets was reduced from £3.786 million to £3.254 million as a result of the changes referred to above.
	Statement of Movement in the HRA Balance	
HRA Note 3	Asset Values within the HRA	a) The vacant possession valuation of Council Dwellings was understated by £131 million. b) Asset values disclosed in the note were reduced by £24.6 million as a result of the other audit differences identified.
Collection Fund Note 3	Non-Domestic Rates Income	The current year rateable value disclosed in the draft note of £295,451,617 was inconsistent with the Valuation Office Agency reported figure of £299,159,267



# Audit Differences

## Summary of adjusted differences (continued)

Note	Note title	Audit difference identified
<b>Other disclosure differences</b>		
3	Assumptions made about the future and other major sources of estimation uncertainty	a) The comparative pension liability disclosed in the draft note was understated by £2.8 million. b) Current year disclosures in respect of the pension liability and the impact of depreciation changes were amended as a result of other audit differences.
4	Material items of Income and expenditure	The revaluation losses quoted in respect of the Planning Policy and Transportation service area were removed as following adjustments the valuation movements were accounted for through the revaluation reserve.
14	Property, Plant and Equipment	Revaluation increases in relation to the Guildhall £0.249 million that should have been disclosed as revaluation reserve movements were incorrectly disclosed in the note as gains recognised in the surplus on the provision of services.
15	Property - Valuations	Material changes were made to the table disclosing the carrying values of Property, Plant and Equipment by most recent valuation dates as a result of other audit differences.
33	Contingent Liabilities	Note 33 included reference to a possible liability to NHS bodies in the event they won the case to be considered as a charity for the purposes of business rates. As the NHS Trusts lost the case any liability is now remote. Management agreed to remove the disclosure.
34 & 35	Financial Instruments	Our work in this regard remains subject to review but we note here that the disclosures throughout the draft financial statements did not take account of the impact of IFRS 9. This will lead to additional presentational audit differences. We will update the Committee verbally should there be anything particularly significant we wish to flag.
36	Defined Benefit Pension Schemes	a) Benefits paid were amended from the actuarial estimate of £7.6m to the actual benefits paid of £8.888 million. b) Disclosures were amended to reflect the impact of movements in pension fund asset values since the Actuary's estimate (£4.21 million) and the McCloud court case (£0.692 million).
Group	Expenditure and Funding Analysis	The group notes did not disclose Income and expenditure by nature



## Audit Differences




### Summary of adjusted differences (continued)

Note	Note title	Audit difference identified
<b>Other disclosure differences</b>		
Cash Flow	n/a	The draft statements omitted the new cash flow disclosure for changes in liabilities arising from financing activities.
32	Capital Adjustment Account	Comparative disclosures in the capital adjustment note did not separately identify the £4.303 million transfer of balances from the revaluation reserve in respect of disposed assets.

# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Civic Affairs Committee and provided within the Letter of Representation:

Uncorrected misstatements Council and Group 31 March 2019		 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
			Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
		Comprehensive income and expenditure statement Debit/(Credit)				
		£'000	£'000	£'000	£'000	£'000
Estimated impact of Guaranteed Minimum Pension case		792		(792)		
<b>Total uncorrected audit differences</b>		<b>792</b>		<b>(792)</b>		

In the absence of a formal actuarial estimate, and as our estimate is not material, Management have determined not to amend the statements for this audit difference.

## Uncorrected misstatements in the statement of cash flows

We have not identified any audit differences in respect of the cash flow which management do not expect to correct to date. We will verbally update the committee should any uncorrected audit differences in respect of the cash flow arise from our remaining audit work.

## Uncorrected disclosure misstatements

We have not identified any audit differences in respect of required disclosures which management do not expect to correct to date. We will verbally update the committee should any uncorrected audit differences in respect of the required disclosures arise from our remaining audit work.



05

## Value for Money Risks



# Value for Money

## Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

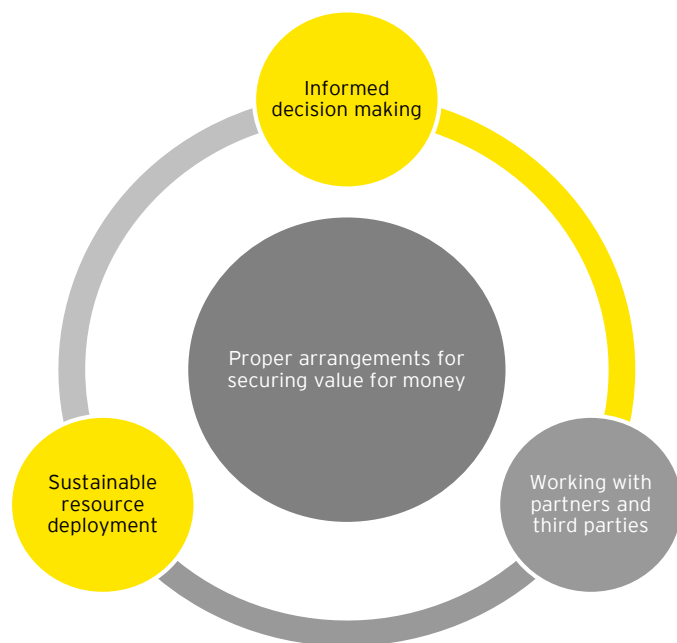
For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



## Overall conclusion

We did not identify any significant risks around these arrangements in our Audit Plan.

Our work in this regard is complete. We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.





## 06 Other reporting issues

## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements. We will re-confirm this is the case when we have received the revised financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

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.

As the Authority falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule.

### 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 did not identify any issues.





07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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 identified the following deficiencies in the design or operation of an internal control that resulted in material misstatements in your financial statements:

- The fixed asset register was not kept up to date and did not reconcile to the general ledger. Officer's were unable to reconcile the position in a timely manner and reverted to the use of spreadsheets. Correcting the position led to several material amendments to the Comprehensive Income and Expenditure Account (CIES), Movement in Reserves Statement (MiRS), notes to the financial statements; the Housing Revenue Account and notes, and the equivalent Group Accounts and notes.
- The financial model used by officers to produce the draft financial statements did not contain:
  - adequate internal consistency checks. As a result material inconsistencies between the PPE note, CIES, MiRS, note 5 to the MiRS, the notes for the Revaluation Reserve; Capital Adjustment Account and Capital Expenditure and Financing were not readily identified as part of the close down process.
  - adequate casting checks. As a result we identified material casting errors in the statements.
- The Council's review of the published draft financial statements presented for audit did not identify material inconsistencies within the statements; the absence of IFRS 9 compliance; nor material misstatements in the group accounts due to an incorrect change in consolidation methodology.





08

## Independence

# Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated January 2019.

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 you and your Civic Affairs Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the next meeting of the Civic Affairs Committee.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.



# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. In our Audit Plan we indicated a range for the additional audit work we were aware of at that time. We have indicated the final additional fee where that work is complete.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements, though we are engaged to act as reporting accountant in respect of the Housing Benefit Subsidy claim, as set out below. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale fee	40,024	40,024	51,979
Audit of group accounts	10,500	7,500 - 10,500	8,150
Capital transactions	10,500	7,500 - 10,500	8,750
FMS Implementation	-	-	19,978
Cash flow restatement	-	-	750
Scale fee variation for overruns	55,000 - 70,000	-	-
<b>Total audit</b>	<b>116,024 - 131,024</b>	<b>55,024 - 61,024</b>	<b>89,607</b>
Other non-audit services not covered above Housing Benefits Subsidy Claim	20,750	12,568	15,077
Pooling of Housing Capital Receipts Return	-	3,750 - 4,250	3,750
<b>Total other non-audit services</b>	<b>20,750</b>	<b>16,568</b>	<b>18,827</b>
<b>Total fees</b>	<b>136,774 - 151,774</b>	<b>71,342 - 77,842</b>	<b>108,434</b>

*All fees exclude VAT. We will agree the additional fees with the Finance Manager before seeking approval from PSAA.*

**Note 1:** We will confirm the final fee on completion of the audit.



09

## Appendices

## Appendix A

# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:


- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Investment properties			
Short term debtors			
Short & long term borrowing			
Short & long term creditors			
Provisions			
Other long term liabilities			
Capital grants received in advance			
Reserves			

## Appendix B

# Required communications with the Civic Affairs Committee 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 Civic Affairs 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 Plan - January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - January 2019
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 - May 2020

## Appendix B

		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 are currently awaiting management's financial resilience assessment and consideration of any disclosures required in the accounts.
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 - May 2020
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Civic Affairs Committee Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report - May 2020
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the 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>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>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 the Committee's responsibility.</li> </ul>	Audit Results Report - May 2020



## Appendix B





		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures, Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report - May 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <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> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	Audit Plan - January 2019 and Audit Results Report - May 2020



## Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
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>	We have received all requested confirmations
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 Civic Affairs Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the 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 - May 2020

## Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - May 2020
Material inconsistencies or misstatements	<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 - May 2020
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 - May 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - January 2019 and Audit Results Report - May 2020

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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