

## Appendix 3 – Audit Recommendations and Responses

Audit Results Report Page No.	Finding / Recommendation	Response
13	<p>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.</p>	<p>This finding relates specifically to the Council's investments in central Cambridge Shopping Centres. Whilst the information we originally provided to the valuers was consistent with previous years, we recognise that this is likely to be an area of increased audit focus going forwards, and that additional evidence is now required to support these property valuations.</p> <p>We have therefore already held constructive conversations with the Council's external valuers, and other interested third parties, to ensure that we can obtain the required data and provide this to valuers on a timely basis in future years.</p>

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13	<p>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.</p>	<p>This issue arose in part due to the fact that valuations must be completed very close to the year-end date, in order for the Council to meet the statutory requirement to publish accounts by 31 July. As a result, additional market data became available after the initial valuation had been carried out, which formed the basis of the auditor's challenge.</p> <p>Whilst the risk of this reoccurring in future years can not be completely eliminated, we have already held discussions with the Council's external valuer and agreed steps to mitigate this. This will include them carrying out an additional assessment of the likelihood of material valuation changes as a result of further data becoming available after the valuation date. They will also ensure that documentation to support their judgement in this respect is retained and made available to auditors.</p> <p>Further mitigating actions will include an additional review of the valuations by officers in the period prior to the audit commencing, to ensure that indexation has been applied consistently, and there have been no further material movements in the indices since the valuation date.</p>

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37	<p>The fixed asset register was not kept up to date and did not reconcile to the general ledger. Officers 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.</p>	<p>An exercise has now been completed to fully reconcile the electronic fixed asset register to the 2018/19 accounts, and this will provide a basis for ensuring that the register is kept up to date going forwards. In addition, we have recently received an update to the software which addresses some previous issues around revaluation movements and will reduce the level of manual adjustments required to the ledger.</p> <p>During 2020/21 we intend to provide systems training to two further key officers to increase the number of officers who are able to use the fixed asset register, thereby reducing the historic reliance on a very small number of individuals to complete this work. This will further improve our resilience in this area.</p>
37	<p>The financial model used by officers to produce the draft financial statements did not contain:</p> <ul style="list-style-type: none"> <li>• 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 closedown process.</li> <li>• adequate casting checks. As a result we identified material casting errors in the statements.</li> </ul>	<p>The model used was the same as in the previous year, however the high level of staff turnover within the Finance team, and in particular the loss of the Principal Accountant, meant that it was not implemented effectively and many issues were missed in the draft Statement of Accounts.</p> <p>We have now significantly improved our resourcing position through the appointment of a permanent Deputy Head of Finance and Senior Accountant (Technical &amp; Financial Accounting). The accounts model has been reworked from scratch as part of the exercise to address the issues in the 2018/19 accounts, and we are confident that we now have a model which works and is well understood, which we can roll forward for future years.</p>

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37	<p>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.</p>	<p>This is again linked to the high staff turnover and loss of key officers at the beginning of the closedown process. For 2019/20, a new process has been put into place utilising Microsoft Teams to ensure that all working papers provided for audit will be subject to review by a second officer, and that this review will be evidenced for audit purposes. A revised process has also been put into place for the high level review of the Statement of Accounts, whereby a detailed review of all notes will be undertaken by the Deputy Head of Finance, with further review of selected notes and working papers being undertaken by the Head of Finance utilising a risk-based approach.</p> <p>We are therefore confident that the draft Statement of Accounts, and audit working papers, will be of a significantly higher quality for 2019/20.</p>