

**Cambridge City Council**

**Audit Results Report**

Year ended 31 March 2021

13 September 2021



Building a better  
working world



Civic Affairs Committee  
Cambridge City Council  
The Guildhall  
Peas Hill  
Cambridge  
CB2 3QJ

13 September 2021

Dear Civic Affairs Committee Members

### 2020/21 Audit Results Report

We are pleased to attach our Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Civic Affairs Committee.

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

This report is intended solely for the information and use of the Civic Affairs Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Civic Affairs Committee meeting on the 22 September 2021.

Yours faithfully

*MARK HODGSON*

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP  
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



# 01 Executive Summary

# Executive Summary

## Scope update

In our Outline Audit Plan, dated 3 May 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ **Changes in materiality:** In our Outline Audit Plan, we communicated that our audit procedures would be performed using a materiality of £2.826 million. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. As a result of an error identified early during the audit process that impacted the materiality basis (gross expenditure), this was amended to reflect the draft results inclusive of this adjustment. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £2.820 million. This results in updated performance materiality, at 75% of overall materiality, of £2.115 million, and an updated threshold for reporting misstatements of £0.141 million.

## Additional Risk Identified

As communicated in our External Audit Update dated 9 July 2021, we have identified an additional inherent risk around the Accounting for Collection Fund disclosures, due to the impact of COVID-19 on Collection Fund income.

## Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, approved financial statements from 31 July to 30 September 2021 for all relevant authorities.

## Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

- **Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:
  - Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
  - Agreed IPE to scanned documents or other system screenshots.

# Executive Summary

## Status of the audit

Our audit work in respect of the Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Completion of procedures in relation to the Pension Liability, including the resolution of an emerging national issue (as set out on Page 20);
- ▶ Completion of documentation in relation to our Income & Expenditure testing (all testing is complete);
- ▶ Review of the Narrative Report; and
- ▶ Group Accounting.

### Closing Procedures:

- ▶ Subsequent events review;
- ▶ Agreement of the final set of financial statements;
- ▶ Receipt of signed management representation letter; and
- ▶ Final Manager and Engagement Partner reviews.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

We expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and financial statements which could influence our final audit opinion.

# Executive Summary

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

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

The specified reporting criteria are:

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

## Status of the audit – Value for Money

In the External Audit Update dated 9 July 2021, we reported that we had completed our Value for Money (VFM) risk assessment and had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness.

As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary by the end of October 2021 as part of issuing the Auditor's Annual Report. Our provisional wording for the VFM Commentary is included at Appendix E of this report.

## Audit differences

### Uncorrected differences

At the date of issuing this report, there are no uncorrected misstatements in the accounts that have an effect on the surplus/deficit on the provision of services.

### Corrected differences

Management have corrected misstatements amounting to £6.451 million in relation to grossing up of Income & Expenditure for recharges within the Council. This has no net impact on the surplus/deficit on the provision of services.

Management also intend to correct for material misstatements in relation to an increase in the return on the Pension Fund's assets upon receipt of a revised IAS 19 report. The final figure for this adjustment is to be confirmed, as at the date of this report.

We also identified a number of minor audit disclosure differences in the financial statements, which have been adjustment by Management, including revisions to the Going Concern disclosure note.

# Executive Summary

## Areas of audit focus

In our Outline Audit Plan we identified a number of key areas of focus for our audit of the financial report of Cambridge City Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

*Management Override: Misstatements due to fraud or error*

- *We have completed our testing and found no indication of management override of controls.*

*Management Override: Inappropriate capitalisation of revenue expenditure*

- *We have completed our work in this area and have no matters to report.*

*Management Override: Inappropriate claims under the Local Government Compensation Scheme*

- *We have completed our work in this area and have no matters to report.*

*Significant Risk: Accounting for Covid-19 related grant funding*

- *We have completed our work in this area and have no matters to report.*

*Significant Risk: Investment Property Valuations*

- *We have completed our work in this area and have no matters to report.*

*Inherent Risk: National Non-Domestic Rates Appeals Provision*

- *We have completed our work in this area and have no matters to report.*

*Inherent Risk: Bad debt provision and recoverability of Debtors*

- *We have completed our work in this area and have no matters to report.*

*Inherent Risk: Pensions valuations and disclosures*

- *At the date of issuing this report, our work in this area is still ongoing. We will update the Committee on our findings once the work is finalised.*

*Inherent Risk: Valuation of Other Land & Buildings*

- *We have completed our work in this area and have no matters to report.*

*Inherent Risk: Council House Valuations*

- *We have completed our work in this area and have no matters to report.*



## Executive Summary

### Areas of audit focus (Continued)

#### *Inherent Risk: Group Accounting*

- *At the date of issuing this report, our work in this area is still ongoing. We will update the Committee on our findings once the work is finalised.*

#### *Inherent Risk: Accounting for Collection Fund Disclosures*

- *We have completed our work in this area and have no matters to report.*

#### *Area of Focus: Going Concern disclosures*

- *We have completed our work in this area and have no significant matters to report. Management have updated the relevant disclosure note.*

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Civic Affairs Committee or Management.

## Executive Summary

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### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have identified that the conclusion of the Annual Governance Statement required additional narrative to specifically set out whether any significant governance issues had been identified. This amendment has been made within the revised Annual Governance Statement. We have no other 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, as at the date of this report the NAO have not issued their guidance to auditors. However, as we do expect, based on prior year guidance that the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return (Threshold - £500 million). We do not expect therefore to have any issues to report.

### Control observations

During the audit, we did not identify any significant deficiencies in internal control.

### Independence

Please refer to Section 10 for our update on Independence.



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## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK 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.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. The specific procedures undertaken to address this are set out on the next page. This page details standard procedures we undertake to respond to the risk of fraud and error on every engagement.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Documented our understanding 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.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Reviewed the accounting estimates for evidence of management bias.
- ▶ Evaluated the business rationale for significant unusual transactions

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

##### What are our conclusions?

We have not identified any material weakness in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.

We have not identified any inappropriate journal entries or other adjustments to the financial statements.



## Areas of Audit Focus

### Significant risk

#### **Incorrect capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

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

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

As the Council is more focused on its financial position over medium term, we have considered the risk of manipulation to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment and Investment Property given the extent of the Council's capital programme.

##### **What did we do and what judgements did we focus on?**

In order to address this risk we undertook the following audit procedures:

- ▶ Obtained a listing of REFCUS for the year and confirmed that total REFCUS is not material;
- ▶ Obtained an analysis of capital additions in the year, reconciled it to the Fixed Assets Register (FAR), and reviewed the descriptions to identify whether there are any potential items that could be revenue in nature;
- ▶ Sample tested additions to Property, Plant and Equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. There were no Investment Property additions above our performance materiality threshold; and
- ▶ Used our data analytics tool to identify and test journal entries that move expenditure from revenue codes into capital codes.

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

Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.

Our sample testing did not identify any revenue items that were incorrectly classified.

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



## Areas of Audit Focus

### Significant risk

#### Inappropriate claims under the Local Government income compensation scheme

##### What is the risk?

In response to the Covid-19 pandemic, MHCLG introduced the local government income compensation scheme for lost sales, fees and charges as a result of COVID-19.

We have identified an opportunity and incentive to overstate claims through this grant, to increase income received against any ongoing losses. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the material nature of these claims.

This could then result in overstating income for funds inappropriately received, which may ultimately need to be repaid.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the claims back to the original budgeted income and actual income receipt to ensure the overall accuracy and compliance with scheme requirements; and
- ▶ Documented our understanding of the assurance process MHCLG have over claims under the scheme.

##### What are our conclusions?

Our review of claims through the Local Government income compensation scheme did not identify any inappropriate claims under the scheme.



## Areas of Audit Focus

### Significant risk

#### Accounting for Covid-19 related grant funding

##### What is the risk?

In response to the Covid-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these.

Given the volume of these grants, and the new conditions for the Council to understand the accounting impact of, there is a significant risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Sample tested Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature.
- ▶ Sample tested Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.
- ▶ Reviewed the instructions and conditions of a sample of grants to corroborate the Council's assessment of whether they were acting as an Agent or Principal in disbursing the grants
- ▶ Compared the Council's assessment of whether they were acting as agent or principal for a sample of Covid-19 related grants to other Councils' assessment to determine whether Cambridge City were an outlier in their treatment of any particular grant, and thus further review was required.

##### What are our conclusions?

Our sample testing of Covid-19 related grant funding did not identify any grants that were incorrectly classified as specific or non-specific in nature, or any grants where the incorrect accounting treatment was applied.

Our work also did not identify any grants where Cambridge City's assessment of their role as Agent or Principal was inconsistent with other Councils.



## Areas of Audit Focus

### Significant risk

#### Valuation of Investment Properties

##### What is the risk?

The Council's investment property portfolio is a material balance (£163 million at 31 March 2020) disclosed on the Council's balance sheet. In addition, the Council holds other assets valued using market information.

In light of the ongoing Covid-19 pandemic, individual asset markets may react differently to the Covid-19 outbreak and considerations must be given to ensure sufficient and appropriate market data is used for valuations during the 2020-21 period. Whilst RICS guidance on material uncertainty has been lifted, there is still a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income based measures, given difficulties in estimating future income.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the work performed by the Council's valuer (Bidwells), 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 (for example market rents and other market information);
- ▶ Engaged EY Real Estate as our internal specialists to review a sample of the valuations, assumptions and conclusions reached by the external valuers in regard to investment properties and other assets valued using market information;
- ▶ Ensured accounting entries have been correctly processed in the financial statements; and
- ▶ Reviewed assets not revalued in the year for any indications of potential material movements

##### What are our conclusions?

In line with IAS 40, under the fair value model investment properties should be remeasured at the end of each reporting period. A full revaluation has not been undertaken for £8.621 million of the total portfolio of £158.594 million. Based on the work performed above, we have determined a potential range of movements on these assets between an impairment of £0.822 million (based on Gerald Eve indices) and a valuation uplift of £0.237 million (based on movements in the revalued portfolio).

Our work and the work of our specialists has therefore concluded that Investment Property valuations are materially correct.

We have no other findings to report.



## Areas of Audit Focus

### Inherent risk

#### National Non-Domestic Rates Appeals Provision- Inherent Risk

##### What is the risk?

The calculation of the NNDR Appeals Provision is estimate based. Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.

In light of this we consider there to be a risk of misstatement of the Council's NNDR appeals provision.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the assumptions made by the Council's NNDR appeals provision specialist; and
- ▶ Assessed the reasonableness of any local adjustments made by the Council on the NNDR appeals provision;

##### What are our conclusions?

Our work did not identify any issues with the assumptions used by Council's specialist in the calculation of the NNDR appeals provision.

Where the Council had made local adjustments to reflect on local knowledge and developing appeals, these were also found to be reasonable.

We have no other matters to report.



## Areas of Audit Focus

### Inherent risk

#### Recoverability of Debtors - Inherent Risk

##### What is the risk?

As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the calculation of the bad debt provision for reasonableness and accuracy; and
- ▶ Considered the recoverability of debts in testing a sample of trade receivables;

##### What are our conclusions?

Our work did not identify any issues with the reasonableness, accuracy or sufficiency of the Bad Debt Provisions made.

Our sample testing of trade receivables also did not identify any issues around the recoverability of Debtors held on the Balance Sheet at year end.

We have no other matters to report.



## Areas of Audit Focus

### Inherent risk

#### Pension valuations and disclosures - Inherent Risk

##### What is the risk?

The Authority makes extensive disclosures within its financial statements regarding its membership of Pension Scheme administered by Cambridgeshire County Council. At 31 March 2020 the liability totalled £103 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

For 2020/21, there may be an impact of Covid-19 on pension asset values as at 31 March 2021.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Liaised with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cambridge City Council;
- ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) 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 by considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within Cambridge City's financial statements in relation to IAS19, considering Fund assets and the Council's liability.

##### What are our conclusions?

We have reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have undertaken the work required without identifying any issues.

We have agreed the Council's IAS 19 disclosures to the actuaries' report to ensure these are fairly stated in the accounts.

The Cambridgeshire Pension Fund auditor highlighted a material movement in the valuation of Investment Assets of the Pension Fund, in their assurance letter to us.

As a result, the Council are currently awaiting an updated IAS19 report from the Actuary to determine the impact on the Council's Pension Liability. The financial statements will be updated for this revised figure. We will update you the outcome of this report at the Civic Affairs Committee.

(Continued on next page).



## Areas of Audit Focus

### Other Areas of Audit Focus - continued

#### Pensions valuations and disclosures - Inherent risk

##### What are our conclusions?

We have been notified of an issue has arisen across all Local Government audits within the sector that needs to be resolved prior to us being able to fully conclude our work in this area.

This is in relation to the impact of the new auditing standard on accounting estimates on planned procedures. We planned to take an audit approach to this estimate based on procedures to evaluate Management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.

Neither we, nor PWC as Consulting Actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements.

Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an Auditor's estimate, in order to gain sufficient appropriate assurance. The impact of this additional procedure may impact on our timeline for issuing the audit opinion. We will provide the Committee with a verbal update on progress at the 22 September 2021 meeting.



## Areas of Audit Focus

### Inherent risk

#### Valuation of Other Land & Buildings

##### What is the risk?

Other land and buildings (OLB) represents a significant balance in the Council's accounts (£145 million at 31 March 2020) and is 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.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Considered the work performed by the Council's valuers (Bidwells), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE, and that any changes were communicated to the valuer
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was 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.

##### What are our conclusions?

Our work did not identify any issues with the valuation of Other Land & Buildings.



## Areas of Audit Focus

### Inherent risk

#### Council House Valuations

##### What is the risk?

Council dwellings represent a significant balance in the Council's accounts (£608 million at 31 March 2020) and are subject to valuation changes, impairment reviews and depreciation charges. As the value of council houses are significant, and the outputs from the its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Considered the work performed by the Council's valuer (Wilkes Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Tested a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; and
- ▶ Considered and reviewed the use of indices to derive the 31 March valuation for beacons that are revalued on an indexation basis.

##### What are our conclusions?

Our work did not identify any issues with the valuation of Council Dwellings.



## Areas of Audit Focus

### Inherent risk

#### Group Accounting

##### What is the risk?

The Council has been preparing group accounts for several years.

The Council will need to undertake its annual assessment of the group boundary to determine the procedures it needs to undertake to consolidate the relevant component entities.

We have yet to engage with the auditors of the significant components to understand and evaluate any risks they have recognised on the 2020/21 audits and what impact that has on our consideration of the group accounts.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the Council's assessment of its group boundary;
- ▶ Determined we would be able to obtain sufficient assurance of the group consolidation without the need to liaise with component auditors;
- ▶ Evaluated any risks at component level on the group accounts; and
- ▶ Audited the consolidation process and group accounts.

##### What are our conclusions?

At the date of issuing this report, we are still concluding our work in this area, as we are waiting for the final audited accounts for the joint ventures under the Cambridge Investment Partnership.

We will provide an update to the Civic Affairs Committee with our findings once the work is finalised.



## Areas of Audit Focus

### Inherent risk

#### Accounting for Collection Fund disclosures

##### What is the risk?

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

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

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

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Performed an analytical review of collection fund income, building in any changes in relief as appropriate;
- ▶ Documented our understanding of the process for the raising of specific additional reliefs
- ▶ Reviewed the Collection Fund disclosures with respect to ongoing guidance in accounting requirements and for compliance with Code requirements

##### What are our conclusions?

Our work did not identify any issues with the accounting for Collection Fund disclosures.



# Areas of Audit Focus

## Going concern

Management have disclosed that the financial statements are prepared on a going concern basis. We have obtained and audited management's going concern assessment, and reviewed the Statement of Accounting Policies where the going concern disclosure is included in the accounts to provide the details of that assessment and management's conclusion. This has been informed by management's actual reserves position as at the 31 March 2021, and their forecast reserves position during the going concern period. It has also considered the Council's Cash Flow forecasting.

We focused on management's assessment of the going concern assumptions in preparing the Council's financial statements. We also reviewed management's cash flow forecasts to determine whether expected income appeared reasonable and whether it was sufficient to enable the Council continue its operations.

Our procedures around Going Concern included:

- Reviewing for any bias in the Council's Going Concern assessment, and whether it was consistent with the accounts.
- Reviewing the financial modelling and forecasts prepared by the Council.
- Considering key assumptions applied in the Council's forecasts, and whether these were reasonable and in line with our expectations.
- Ensuring that an appropriate Going Concern disclosure has been made within the financial statements.

We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern. Management have used the basis of their assessment to produce the disclosures included within the draft financial statements.

We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the Balance Sheet date.

## Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty.

Our procedures around estimates included:

- Identifying key estimates within the financial statements and assessing the level of complexity, uncertainty and judgement of these estimates
- Obtaining and documenting our understanding of key aspects of estimation processes
- Documenting our understanding of the methods, models and assumptions used for significant estimates
- Where applicable, considering the use of internal specialists and engaging our own specialists where appropriate

We have not identified any issues in respect of estimates included within the financial statements.



**03**

**Audit Report**

**DRAFT**



## Our proposed opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE CITY COUNCIL

#### Opinion

We have audited the financial statements of Cambridge City Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement,
- ▶ the related notes 1 to 42 to the Authority Accounts,
- ▶ the related notes 1 to 8 to the Group Accounts,
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 10,
- ▶ Collection Fund and the related notes 1 to 8, and
- ▶ And the 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 2020/21.

In our opinion the financial statements:

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

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (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.



## Audit Report - continued

### Our proposed opinion on the financial statements

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

#### Other information

The other information comprises the information included in the 'Statement of Accounts for the year ended 31 March 2021' other than the financial statements and our auditor's report thereon. The Head of Finance is responsible for the other information contained within the 'Statement of Accounts for the year ended 31 March 2021'.

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.

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 course of 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 themselves. 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.

#### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;



## Audit Report - continued

### Our proposed opinion on the financial statements

- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

### Responsibility of the Head of Finance

As explained more fully in the 'Statement of Responsibilities' the Head of Finance set out on pages iv, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



## Audit Report - continued

### Our proposed opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- ▶ Local Government Act 1972,
- ▶ Local Government and Housing Act 1989 (England and Wales),
- ▶ Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992,
- ▶ Local Government Act 2003,
- ▶ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- ▶ The Local Audit and Accountability Act 2014, and
- ▶ The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Cambridge City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the Head of Internal Audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, Council policies and procedures and other information.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified, inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS) and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure. including Revenue Funded from Capital Under Statute (REFCUS), we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was appropriate.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested the appropriateness of the journal and that it was accounted for appropriately. We assessed accounting estimates for evidence of management bias and evaluated the business rationale for significant unusual transactions.

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.



## Audit Report - continued

### Our proposed opinion on the financial statements

#### **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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the Cambridge City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those 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 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, 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.

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.

Or

#### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

#### **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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



# 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 unadjusted differences

There are no uncorrected material misstatements identified as part of our audit at the date of this report.

### Summary of adjusted differences

We highlight misstatements greater than £141,005 which have been corrected by management that were identified during the course of our audit.

- ▶ Income & Expenditure for Recharges - £6.451 million in relation to the grossing up of Income & Expenditure for recharges within the Council. This has no net impact on the Surplus/Deficit on the Provision of Services.
- ▶ Pension Liability - Management also intend to update the Pension Liability figure, pending receipt of an updated IAS19 report from the Pension Fund Actuary. The final figure for this adjustment is to be confirmed.

### Disclosure Issues

**Going Concern** - The impact of Covid-19 has substantial implications for the Council's finances. We therefore had to assess the work performed by the Council to ensure that it was still operating as a going concern up to 12 months from the audit opinion date. Minor disclosure amendments are required to the note originally included in the draft Statement of Accounts.

A small number of other disclosure and presentational items have been highlights to management for amendment. We do not deem these to merit inclusion in this report.



05

## Value for Money



# Value for money

## The Council's responsibilities for value for money (VFM)

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

We issued an External Audit Update dated 9 July 2021 which confirmed we had concluded our detailed VFM planning and risk assessment and that we had not identified any significant weaknesses in the Council's arrangements.

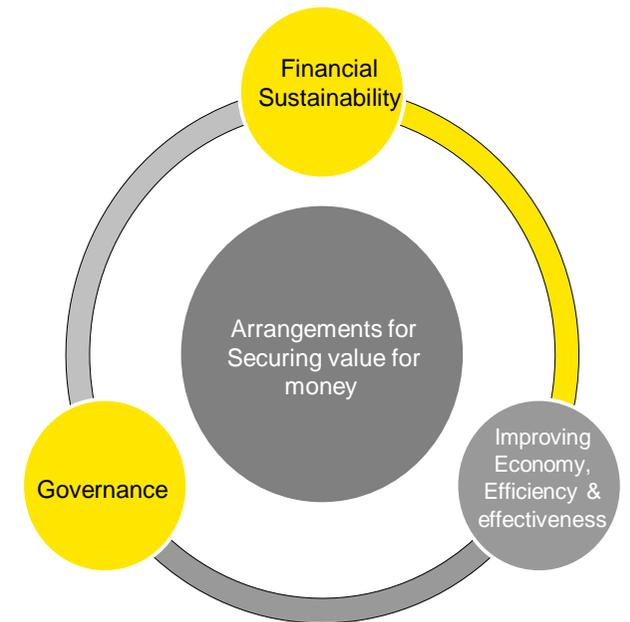
We have now revisited our procedures during the completion of our audit of the financial statements, and confirm that we have not identified any risks of significant weaknesses against the three reporting criteria we are required to consider under the NAO's 2020 Code.

## Status of our VFM work

We have completed our planned VFM procedures and have no matters to report 'by exception' in our Auditor's Report (See Section 3).

We set out our provisional commentary on the Council's VFM arrangements in Appendix E to this report.

We will formally issue this commentary within our Auditor's Annual Report, which we plan to issue by the end of October.





## 06 Other reporting issues

## 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 Narrative Report 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 Narrative Report and published with the financial statements was consistent with the audited financial statements, subject to completion of our final audit procedures on the Narrative Report.

We have identified that the conclusion of the Annual Governance Statement required additional narrative to specifically set out whether any significant governance issues had been identified. This amendment has been made within the revised Annual Governance Statement. We have no other matters to report as a result of this work.

### 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.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors. However, based on prior year guidance the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return (Threshold - £500 million). We do not expect therefore to have any issues to report.

## Other reporting issues

# Other reporting issues

### 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 did not receive any correspondence or Objections from Members of the Public.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have reported in respect of going concern earlier in this report on page 25. We have no other matters to report.



07

Independence

## Relationships, services and related threats and safeguards

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1<sup>st</sup> April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Civic Affairs Committee.

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.

In addition to our audit of the accounts, we will also be performing the Reporting Accounting role for the certification of Cambridge City's 2020/21 Housing Benefits claim. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020. We confirm that we have not undertaken any additional non-audit work.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£'s	£'s	£'s
Total Fee - Code work	40,024	40,024	40,024
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	40,020		40,020
Audit of the Group Account consolidation	-		8,607
<b>Revised Proposed Scale Fee</b>	<b>80,044</b>	<b>40,024</b>	<b>88,651</b>
<b>Additional work:</b>			
2019/20 Additional Procedures required and as reported within the Annual Audit Letter (Note 2)	-	-	34,569
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: <ul style="list-style-type: none"> <li>Accounting for Covid-19 related Government Grant income, NDR Appeals provision, Collection Fund Accounting, Recoverability of Receivables, Going Concern &amp; Investment Property Valuations</li> </ul>	Note 3	-	
<b>Total fees</b>	<b>TBC</b>	<b>40,024</b>	<b>123,220</b>

### All fees exclude VAT

**Note 1** - For 2019/20 we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our 2019/20 Audit Results Report. Our proposed increase has been discussed with management and is with PSAA for determination. For 2020/21 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and is subject to approval by PSAA Ltd.

**Note 2** - The 2019/20 Additional Procedures fee was reported in our Annual Audit Letter. The fee has been agreed with Management and is subject to formal approval by PSAA Ltd.

**Note 3** - As set out in this report, we have had to perform additional audit procedures to respond to the financial reporting an associated audit risks pertaining to Covid-19. As we are concluding our work in relation to these areas, we cannot quantify the fee impact at this time. We will provide an update on the additional fee implications at the conclusion of the audit and report this within the Annual Audit Letter.



## 08 Appendices

## Appendix A

# Required communications with the Civic Affairs Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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.	Outline Audit planning report - 17 May 2021 - Civic Affairs Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Outline Audit planning report - 17 May 2021 - Civic Affairs Committee
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>	<p>Outline Audit planning report - 17 May 2021 - Civic Affairs Committee</p> <p>Audit Results Report - 22 September 2021 - Civic Affairs Committee</p>

## Appendix A

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
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 related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</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 - 22 September 2021 - Civic Affairs Committee
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Civic Affairs Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Civic Affairs Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</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 entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to the Civic Affairs Committee responsibility.</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee
Related parties	<p>Significant matters arising during the audit in connection with the entity'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</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee
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>Outline Audit planning report - 17 May 2021 - Civic Affairs Committee</p> <p>Audit Results Report - 22 September 2021 - Civic Affairs Committee</p>

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<p>Communications whenever significant judgements 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 2019:</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> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Civic Affairs 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>	Audit Results Report - 22 September 2021 - Civic Affairs Committee
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 audit committee may be aware of</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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 - 22 September 2021 - Civic Affairs Committee
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	<p>Outline Audit planning report - 17 May 2021 - Civic Affairs Committee</p> <p>Audit Results Report - 22 September 2021 - Civic Affairs Committee</p>
Written representations we are requesting from management and/or those charged with governance	<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 - 22 September 2021 - Civic Affairs Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - 22 September 2021 - Civic Affairs Committee

## Appendix B

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Pension liability	Awaiting re-run report from the Council's actuary	EY and management
Income & expenditure testing	Conclude our sample testing in these 2 areas	EY and management
Narrative Report	Complete our review of the narrative report for consistency of financial information	EY and management
Group Accounting	Conclude the accuracy of the consolidation based on final audited accounts of joint ventures	EY and management
Whole of government accounts procedures	NAO instructions to be received and reviewed	EY and management
Receipt of management representation letter	Management to prepare and provide us with their representation letter for the 2020/21 audit	Management
Subsequent events procedures	Extension of some audit procedures like review of minutes and testing for unrecorded liabilities and provisions up to the date of our auditor's report	EY and management
Checks to the final amended set of accounts	EY to receive final set of accounts with all audit adjustments, and review it for consistency with our schedule of misstatements	EY and management



# Appendix C – Request for a Management Representation Letter

## Request for a Management Representation Letter



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Caroline Ryba  
Head of Finance  
Cambridge City Council  
The Guildhall  
Peas Hill  
Cambridge  
CB2 3QJ

13 September 2021

Ref:  
Your ref:  
Direct line: 01223 394547  
Email: M.Hodgson@uk.ey.com

Dear Caroline,

### Cambridge City Group and Council – 2020/21 financial year Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Group and Council.

I would expect the letter of representation to include the following matters.

#### General statement

That the letter of representations is provided in connection with our audit of the financial statements of Cambridge City Group and Council ("the Group and Council") for the year ended 31 March 2021.

That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300501 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.



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You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 (as amended in 2020 for Covid-19) and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. That you acknowledge as members of management of the Group and Council, your responsibility for the fair presentation of the Group and Council's financial statements. You believe the Group and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. You have approved the Group and Council financial statements.
3. That the significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, you believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. You have disclosed to us any significant changes in your processes, controls, policies and procedures that you have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### B. Non-compliance with law and regulations, including fraud

1. That you acknowledge that you are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that you are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. That you acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.



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3. That you have disclosed to us the results of our assessment of the risk that the Group and Council financial statements may be materially misstated as a result of fraud.
4. You have no knowledge of any identified or suspected non-compliance with laws and regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council’s financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council’s activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that we have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the Group and Council financial statements, including those related to the COVID-19 pandemic.
3. That you have made available to us all minutes of the meetings of the Group and Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 22 September 2021.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Council financial statements.



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5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
6. That you have disclosed to us, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the Group and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. That from the date of your last management representation letter to us, through the date of this letter, you have disclosed to us any unauthorized access to your information technology systems that either occurred or to the best of your knowledge is reasonably likely to have occurred based on your investigation, including of reports submitted to you by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to your information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the Group and Council financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Group and Council financial statements (please specify the Notes) all guarantees that you have given to third parties.

### E. Subsequent Events

1. That other than the disclosure described in Note X (Insert Note) to the Group and Council’s financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2020-21.
2. You confirm that the content contained within the other information is consistent with the financial statements.

### G. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:



# Appendix C – Request for a Management Representation Letter

## Request for a Management Representation Letter



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- That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
- That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### H. Expenditure Funding Analysis

1. You confirm that the financial statements reflect the operating segments reported internally to the Group and Council.

#### I. Going Concern

1. That the Group and Council has prepared the financial statements on a going concern basis and that Note X (insert note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, your future financial plans and the veracity of the associated future funding allocations from the Ministry of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.

#### J. Ownership of Assets

1. That except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

#### K. Reserves

1. You have properly recorded or disclosed in the Group and Council financial statements the useable and unusable reserves.

#### L. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the valuation of the Group and Council's Property, Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included within the Group and Council's financial statements and the underlying accounting records. That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.



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2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
3. You confirm that the significant assumptions used in making the valuation of Property, Plant and Equipment appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
4. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on Property, Plant and Equipment valuations and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 pandemic.
6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
7. You confirm that for assets carried at historic cost, that no impairment is required.

#### M. Retirement benefits

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the pension scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.
2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
4. You confirm that the significant assumptions used in making the valuation of the pension scheme liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
5. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the Pension Scheme Liability and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.



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## Request for a Management Representation Letter



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6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 Pandemic.

### N. Business Rates Appeals Provision Estimate

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the Business Rates Appeals Provision are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

2. You agree with the findings of the specialists that you engaged to evaluate the Business Rates Appeals Provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

4. You confirm that the significant assumptions used in making the valuation of the Business Rates Appeals Provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

5. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the Business Rates Appeals Provision and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 Pandemic.

### O. Bad Debt Provision Estimate

7. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the Bad Debt Provision Estimate are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

8. You agree with the findings of the specialists that you engaged to evaluate the Bad Debt Provision Estimate and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.



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9. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

10. You confirm that the significant assumptions used in making the valuation of the Bad Debt Provision Estimate appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

11. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the Bad Debt Provision Estimate and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

12. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 Pandemic.

### P. Group audits

1. There are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

3. You confirm that entities excluded from the Group financial statements are immaterial on a quantitative and qualitative basis.

### Q. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Civic Affairs Committee) on the proposed audit opinion date (date to be advised) on formal headed paper.

Yours sincerely

Mark Hodgson  
Associate Partner  
Ernst & Young LLP  
United Kingdom

## Appendix D

### Implementation of IFRS 16 Leases

In previous reports to the Civic Affairs Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliant with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	Management should: <ul style="list-style-type: none"> <li>▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>▶ Whether to adopt a portfolio approach</li> <li>▶ What low value threshold to set and agree with auditors</li> <li>▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>▶ What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

**Financial Sustainability**

For 2020/21, the Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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

The Council produce the Budget Setting Report in February prior to the start of the financial year. The Medium Term Financial is then updated during the year. Senior Leadership and the Executive are involved throughout the Budget setting process, ensuring that priorities are considered and relevant financial pressures taken into account. The Medium Term Financial Strategy and Budget are taken to Strategy and Resources Scrutiny Committee before approval at Full Council.

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

The five-year funding gap is re-assessed each year through the Medium Term Financial Strategy, subject to uncertainties such as the Local Government finance settlement, with sensitivity analysis performed as part of this process. In previous years the Council has undertaken a series of service reviews to achieve the required level of savings and provide the necessary headroom to fund its priorities. Due to the potential for further significant savings to be required in response to the as yet unknown timing and impacts of the Fair Funding Review and the Review of Business Rates, the Council has embarked on a Transformation and Recovery Programme aimed at re-designing services, whilst also acknowledging the impacts of Covid-19 on service user requirements. The Medium Term Financial Strategy considers a worst case scenario for savings requirements. Based on the latest updates to the Medium Term Financial Strategy in October 2020, the Council was looking to utilise £2.1 million of reserves in 2020/21 to achieve a balanced budget. The final outturn position was the utilisation of £0.7 million of the General Fund reserves.

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

The budget setting process allows for the consideration of budget changes service by service, based on how the changes support the Council's priorities and impact service delivery. Each budget proposal is supported by narrative which explains the context of the proposal and its impact. Capital proposals are supported by a summary business case. The Council have identified additional pressures in 2020/21 in respect of Covid-19, which amounted to £10 million in the Medium Term Financial Strategy. Whilst additional spending and further lost income has been incurred since, amounting to £20.1 million, this has been partially offset by £11.6 million of additional government grant funding, leaving a residual gap of £8.5 million. The Council have taken mitigating actions to reduce the pressure, including the delay of capital projects. The Council are conscious that there will be an element of unavoidable spending and build headroom in the savings requirements to take account of this fact.

**Financial Sustainability (continued)*****4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system***

The Council have a number of joint arrangements in place with other local councils to achieve effectiveness and efficiency of service delivery. Finances are planned through the Medium Term Financial Strategy and budget setting processes. The Council's Corporate Plan is presented and approved alongside the budget, the Treasury Management Strategy and the Capital Strategy in February each year. This sets out the wider objectives of the Council in respect of service delivery.

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

Budget holders and Heads of Service are responsible for delivering services within allocated budgets, and Heads of Service review financial and performance monitoring reports. Throughout the year, the Senior Leadership Team receive financial reports which identify and explain significant forecast outturn variances and summarise the impact on the overall financial position. Where concerns are identified these are actioned to ensure that the final outturn is consistent with the financial sustainability plans set out in the Medium Term Financial Plan (October 2020). The Medium Term Financial Plan sets out risks and uncertainties that could impact the Council's financial position.

## Governance

For 2020/21, the Council has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

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

The Council maintains risk registers covering corporate, service, shared service and project risks. These are reviewed by Senior Management, the Shared Services Board and programme and project boards as appropriate. Internal Audit undertakes a programme of annual risk-based reviews and provides assurance to the Civic Affairs Committee. The Civic Affairs Committee also receives an Annual Report on the anti-fraud work of Internal Audit and the fraud team within the Revenues and Benefits Service.

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

The Council produce the Budget Setting Report in February prior to the start of the financial year. The Medium Term Financial Strategy is then updated during the year. Senior Leadership and the Executive are involved throughout the Budget setting process, ensuring that priorities are considered and relevant financial pressures taken into account. The Medium Term Financial Strategy and Budget are taken to Strategy and Resources Scrutiny Committee before approval at Full Council.

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

The Council operates a modern, cloud-based financial management system. This enables budget holders to review their budgets on screen and regularly update their forecast spend. Budget holders are supported and challenged in this by Service Accountants. Internal Audit review aspects of the system of financial control on a rolling basis and report their findings to the Civic Affairs Committee as part of their annual Internal Audit reporting programme.

***4. How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee;***

Decision making processes and delegations are set out within the Council's Constitution and Financial Regulations for all Committees, together with the decision making processes that are delegated to Council Officers. Where formal decisions are required they are pre-scrutinised by the appropriate Scrutiny Committee in advance of presentation to Full Council. This ensures that the necessary information is provided and that recommendations can be challenged before decisions are made.

 Appendix E - Provisional VFM Commentary (continued)**Governance (continued)**

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

The Council maintains appropriate Registers of Gifts and Hospitality, and guidance is provided on the Council's intranet. Any matters, for example from whistle-blowing processes or complaints, are investigated in accordance with agreed processes and/or referred to Internal Audit or the Monitoring Officer, as appropriate. Councillors are required to complete and update the Council's Registers of Interest which are available on the Council's public website.

### **Improving economy, efficiency and effectiveness**

For 2020/21, the Council has had the arrangements we would expect to enable it to use information about its costs and performance to improve the way it manages and delivers services.

#### ***1. How financial and performance information has been used to assess performance to identify areas for improvement;***

Regular reporting of performance and financial information is undertaken. As part of this, the Council consider the delivery of services and the Council priorities and previous performance. The Council, Executive & Scrutiny Committees receive a variety of performance and financial based reports throughout the year to continuously monitor performance. The Annual Report and Annual Governance Statement set out the review of performance for the year.

#### ***2. How the body evaluates the services it provides to assess performance and identify areas for improvement***

The Corporate Plan sets out key performance indicators for the Council's objectives, and provision of services are assessed against these objectives. The nature of monitoring therefore is dependent on the nature of the service provided and the key performance indicators monitored. The Narrative Report sets out a review of achievements against the Corporate Plan.

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

The Council ensures that it is represented on partnership bodies by relevant senior managers or members, as required. Regular reports are brought to the relevant Scrutiny Committee for review, for example on shared services and work with the Combined Authority. Other key partnerships include the Greater Cambridge Partnership, where the Council have a nominated member who sits on the Executive Board for key decision making at the partnership.

#### ***4. Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.***

The Council has a procurement team which provides advice and support to officers undertaking procurement activities. The team also maintain procurement guidance and templates, the contract register and a separate procurement system. Internal Audit also review procurement as part of their Internal Audit programme of work. In accordance with the Constitution, significant procurements must be approved by the Executive Councillor following scrutiny at the relevant committee. The Monitoring Officer has overall responsibility for ensuring the Council complies with relevant laws and regulations.

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