Agenda Item 8

CAMBRIDGESHIRE COUNTY COUNCIL

REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Audit and Accounts Committee - 14 September 2016

BDO

PURPOSE AND USE OF THIS REPORT

We present our report to the Audit and Accounts Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit and Accounts Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters section of this report.
- Two additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated 6 May 2016. These are in relation to the valuation of property, plant and equipment and the lawfulness of lender option, borrower option (LOBOs) loans (see pages 7 and 8).
- We have had to change our planned audit scope in order to address the risk arising from the LOBOs as set out on page 8. There were no restrictions placed on our work.
- Our materiality levels have been revised following receipt of the draft financial statements. Further information is included on page 32.

AUDIT OPINION

- Subject to the successful resolution of matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016. It should be noted that the outstanding work in respect of journals and the lawfulness of LOBO loans has the potential to generate material issues.
- We have no matters to report in relation to the annual governance statement, subject to review by the Engagement Lead which has not been completed at the time of drafting.
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

KEY AUDIT AND ACCOUNTING MATTERS

- Subject to completion of our outstanding work, the key matters that have arisen in the course of our audit to date are summarised below:

  i. The surplus/deficit on the provision of services reported in the draft financial statements was overstated by £22.569 million due to:

     - application of growth deal funding of £17.422 million in 2015/16 not being recognised in the comprehensive income and expenditure account
     - incorrect treatment of the finance lease associated with Castle Court. The impact of this on the CIES was £1.343 million. This also generated a material balance sheet adjustment which has reduced the value of investment property by £19.957 million and increased long term receivables of £21.300 million.
     - Management have also made non-material adjustments relating to the incorrect recognition of earmarked reserves as provisions, PFI life cycle replacement costs incorrect recognised and the double counting of public health income and expenditure. The net impact of these issues was £3.804 million.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND ACCOUNTS COMMITTEE

- Our observations on the quality of the audit are set out in Appendix VIII.
- We have not identified any threats to our audit independence and objectivity. Further information is provided in Appendix V below.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in our 2015/16 audit planning report dated 6 May 2016. In the following table these significant risks have been highlighted in red and our audit findings have been reported against them.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have identified two additional significant risks in relation to the valuation of property, plant and equipment and the lawfulness of the Council's lender option, borrower option (LOBO) loans. These are also recorded in the table below. ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments to the financial statements. We also reviewed accounting estimates for evidence of possible bias.	Our work in this area was delayed due to some technical difficulties in obtaining a complete download of data from the ledger system. The Council, Fujitsu and BDO have worked together to resolve the data completeness issues identified and we have now received a complete data set. Our detailed audit procedures have commenced and we will provide a verbal update to members on progress at the Audit and Accounts Committee.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. In particular, we consider there to be a significant risk in relation to the completeness and existence of fees and charges and property rental income recorded in the Consolidated Income and Expenditure Statement (CIES).	Our review of revenue recognition focused on testing the completeness and existence of an increased sample of fees and charges across all service areas within the Comprehensive Income and Expenditure Statement.	Our work in this area is in progress. We will provide a verbal update to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

■ Significant risk of material misstatement ■ Normal risk of material misstatement ■ Other issue

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
OPENING BALANCES - TRANSPORT INFRASTRUCTURE ASSETS	The predecessor auditor identified that the Council do not maintain a sufficiently detailed asset register to support the transport infrastructure assets balance recognised in the balance sheet. These assets had a net book value of £687m as at 31 March 2015. The nature of the assets meant that the Council were unable to construct an asset register to support the existing balance. Due to this issues identified in the prior year, there is a risk that the brought forward balances associated with this category of asset are materially misstated.	We considered the conclusions reached by the predecessor auditor to satisfy ourselves that the risk of material misstatement in the brought forward balances has been reduced to an acceptably low level. This included engaging in appropriate technical consultation with our Technical Standards Group. We considered to what extent the Council's recognition and measurement of transport infrastructure assets is consistent with our understanding of the methodology employed by the wider local government sector.	We are satisfied that the balances brought forward in relation to infrastructure assets are materially correct. We have obtained adequate evidence that movements in the infrastructure assets balance during the year are materially correct.
PROPERTY PLANT AND EQUIPMENT VALUATIONS	Property, plant and equipment have been revalued during the year. The valuations were based on assumptions that are uncertain by nature. There is a risk of material misstatement if inappropriate or inaccurate assumptions are used in the calculation of fair values. We highlighted this as a risk of material misstatement in our Planning Report in May 2016, but at that time we did not assess the level of risk to be significant. Subsequently, our review of the Council's draft financial statements presented for audit identified that the movement on the value of property due to revaluation was lower than expected in the context of national indices. Specifically, we identified revaluation losses where national indices indicated that revaluation increases would be expected. Given the uncertain nature of the assumptions used and unexpected valuation movements, we consider that the valuation of property, plant and equipment now presents a significant risk of material misstatement.	We reviewed the significant assumptions used by the valuers for accuracy and reasonableness. We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We considered the independence, objectivity and competence of the external valuers engaged by management.	Our work in this area is in progress. We will provide a verbal update to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

■ Significant risk of material misstatement ■ Normal risk of material misstatement ■ Other issue

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
LENDER OPTION BORROWER OPTION (“LOBO”) LOANS	A number of councils which hold LOBO loans have received objections as to the lawfulness of the decision to take this form of borrowing. While no objection has been received in relation to LOBO loans held by Cambridgeshire County Council, the National Audit Office has issued guidance to auditors of local authorities that, where a local authority has material LOBOs, the auditor should complete sufficient work around the lawfulness of the decision to enter into the LOBO agreements. The Council has £79.5m of LOBO borrowing.	We have requested documentation regarding the decisions made in respect of LOBOs from the Council’s Treasury Management team. We will review the documentation to establish the conditions under which the LOBO borrowing was taken in order to determine, with appropriate legal and technical advice, whether the decision to take out these loans was unlawful.	This is a national issue that came to light after the time period within which the public could exercise their right to object to an item of account came to a close in August. Technical consultation internally and externally (through the NAO’s local government technical forum) is underway at the time of drafting. Legal advice obtained suggests that, in the event of the decision to take out these loans being unlawful, it is not clear whether restitution for the lender would require amendment to the financial statements. Therefore, we are not able to provide our opinion on the financial statements until we have been able to conclude this work. We will provide a verbal update to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address the risks of material misstatement identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
ASSETS UNDER CONSTRUCTION	In response to concerns raised during the audit of the 2014/15 financial statements the Council undertook a significant amount of work to determine a materially accurate balance for assets under construction (AUC) recognised in the balance sheet. Following this work, the external auditor raised a recommendation that the year-end position be reviewed on an annual basis to ensure the correct treatment was applied to AUC completed during the year. We have obtained evidence to demonstrate that the Council has implemented the recommendation made by the external auditors in the prior year. We have performed audit procedures to satisfy ourselves that the AUC balance is materially correct, including that assets recognised in this category exist and that the balance reflects work completed on assets as at the balance sheet date.	We are satisfied that a review of projects has been undertaken and amounts transferred from the AUC balance where appropriate. We have no matters to report to you in respect of this work.
BETTER CARE FUND	2015/16 is the first year of operation of the Better Care Fund. This is a pooled budget arrangement between the Council and local clinical commissioning groups (CCGs). The treatment of the Better Care Fund is subject to the requirements of three accounting standards: • IFRS 10 – Consolidated Financial Statements • IFRS 11 – Joint Arrangements • IFRS 12 – Disclosure of interests in other entities	Our work in this area is in progress. We will provide a verbal update to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
PENSION LIABILITY ASSUMPTIONS	The net pension liability comprises the Council's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability. We have agreed the disclosures to the information provided by the pension fund actuary. As the auditors of the Cambridgeshire Pension Fund, we have reviewed the controls for providing accurate membership data to the actuary. We have reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data using the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.	Our work in this area is substantially complete. We are not aware of any issues relating to the Council from the work completed on the Cambridgeshire Pension Fund. We will provide a verbal update to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
COMPLETENESS OF VEHICLES, PLANT AND EQUIPMENT	The Council does not hold any vehicle, plant, furniture and equipment assets outside of the three PFI arrangements. Given the nature of the Council and its operations, there is a risk that the vehicles, plant and equipment category of property, plant and equipment is incomplete. We have reviewed the Council's accounting policy regarding the recognition of this type of asset. We have considered whether the de-minimis level set by the Council is appropriate and does not result in the omission of assets which have a material value. We have also reviewed the Council's operations to establish the nature of vehicle, plant and equipment that we would expect the Council to hold.	Our work in this is in progress. We will provide a verbal update to members at the Audit and Accounts Committee.
ADULT SOCIAL CARE INCOME AND EXPENDITURE	Our review of the adult social care system identified that checks are undertaken to verify that the interface between the Swift system and the general ledger has correctly transferred data. We have selected a sample of income and expenditure transactions from the adult social care system and confirmed that they have been correctly posted to the general ledger.	Our work in this area is in progress. We will provide a verbal update to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address risks of material misstatement identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: **Significant risk of material misstatement** **Normal risk of material misstatement** **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
NARRATIVE REPORTING	The Council is required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements. The Narrative Report includes additional information not previously included in the Explanatory Foreword. We compared the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included. We reviewed the narrative report to ensure consistency with our understanding of the entity and the financial statements.	We provided feedback to the Council on the content of the narrative report included in the draft accounts presented for audit. The Council have provided an updated version, which we are in the process of reviewing. We will provide a verbal update to members at the Audit and Accounts Committee.
FRAUD AND ERROR	We enquired of management regarding any instances of fraud in the period and, throughout the audit, considered the possibility of material misstatements due to fraud or error.	The audit procedures we have completed to date have not identified any material errors due to fraud.
TRANSPORT INFRASTRUCTURE ASSETS - REQUIREMENTS OF 2016/17 CODE OF PRACTICE	The Code will adopt the revised basis for valuations of highways network assets from 2016/17 (depreciated historic cost to depreciated replacement cost), and this will require implementation from 1 April 2016 but with no restatement for 2015/16. Should the Council fail to produce an accurate transport infrastructure asset register in a timely fashion, it is unlikely that the necessary information to allow recognition of an accurate balance in the 2016/17 financial statements will be recorded. We reviewed the Council's progress on implementing systems to facilitate compliance with the new reporting requirements. This includes whether or not there is an adequate system to identify and record transport infrastructure assets at an appropriate level of detail. We also reviewed the 'new standards adopted but not yet implemented' disclosure note to ensure that the potential impact (where quantified) on the 2016/17 financial statements on the valuation of the highways network asset is disclosed.	We have received a copy of the project plan and requested the most recent progress report, which we expect to receive before the Audit and Accounts Committee on 20 September 2016. We will provide a verbal updated to members at the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address risks of material misstatement identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Significant risk of material misstatement** ■ **Normal risk of material misstatement** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CLASSIFICATION OF LEASES ASSOCIATED WITH INVESTMENT PROPERTIES	During 2015/16, the Council recognised Castle Court as an investment property following the completion of capital works to convert it from offices to student accommodation. Castle Court has been leased to a third party and, for accounting purposes, the agreement was treated as an operating lease in the draft Financial Statements provided for audit. Our review of the agreement highlighted indicators suggesting that this should be treated as a finance lease (accounting standards require that an asset leased to a third party under a finance lease should not be recognised by the lessor). Further work by officers confirmed that the nature of the agreement was such that it should have been treated as a finance lease. Accounting standards require that any assets leased to a third party under a finance lease should not be recognised on the balance sheet. In place of the asset, a receivable has been recognised to reflect the income to be received over the life of the agreement (125 years in the case of Castle Court). Reclassification of the lease has resulted in de-recognition of the associated asset in the balance sheet, reducing the value of investment properties by £19.957 million and increasing long term receivables by £21.300 million. Transactions associated with the investment property recognised in the CIES have also been adjusted, reducing other operating expenditure by £12.002 million and financing and investment income by £10.659 million. The net impact of these adjustments is a decrease in the deficit on the provision of services of £1.343 million.	Management amended the financial statements to remove the investment property and recognise a finance lease receivable in its place.
TREATMENT OF GROWTH DEAL FINDING	Subsequent to preparing the draft financial statements, the Council identified that a capital contribution of £17.422 million relating to Growth Deal funding should have been applied during the year but had remained in the capital grants receipts in advance account. Correct treatment of the funding has reduced long term liabilities by £17.422 million. The reported surplus has reduced by the same amount.	Management amended the financial statements to correctly reflect the application of the capital contribution during the year.

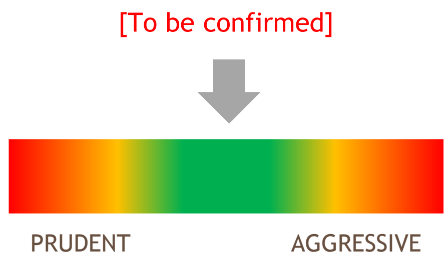
KEY AUDIT AND ACCOUNTING MATTERS
Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities arrived at the preparation of your financial statements, are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

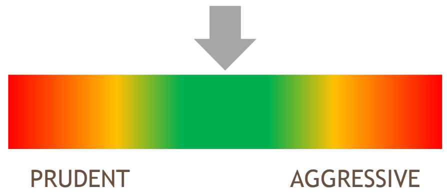
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PROPERTY, PLANT & EQUIPMENT (PPE) VALUATIONS Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value at the Balance Sheet date. The valuation for land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management engage both internal and external experts to undertake valuation of land and buildings. Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices). The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances.	The Council engaged an external valuer to value its schools, libraries, Shire Hall office, assets held for sale, farms, surplus assets and investment properties as at 1 April 2015. This resulted in a net upward revaluation movement of £42.719 million in the year for PPE and a loss of £70,000 for investment properties. We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert. We are currently in the process of completing our work to review the valuations provided and the valuation methodology applied, to confirm that the basis of valuation for assets valued in year is appropriate based on Code requirements. We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.



KEY AUDIT AND ACCOUNTING MATTERS
Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
PENSION LIABILITY ASSUMPTIONS The pension liability comprises the Council’s share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.	As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased by £79.417 million compared to the balance at 31 March 2015. It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement. The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council’s liabilities as at 31 March 2016 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions. The key changes to the financial assumptions relate to: • a reduction in the pension increase rate from 2.4% to 2.2% • a reduction in the salary increase rate from 4.3% to 4.2% • an increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). These changes have resulted in the significant decrease in the present value of the scheme liabilities at 31 March 2016. As part of our audit procedures, we compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We will update the Audit and Accounts committee to confirm whether or not the assumptions used are reasonable or outside of the expected ranges.

[To be confirmed]



KEY AUDIT AND ACCOUNTING MATTERS
Continued

FINANCIAL STATEMENT DISCLOSURES	
Our views on the sufficiency and content of your financial statements' disclosures are set out below:	
DISCLOSURE AREA	**AUDIT FINDINGS AND CONCLUSIONS**
ACCOUNTING POLICIES	Our review of the Council's accounting policies in the draft financial statements identified either inconsistencies between the stated policy and the policy applied or policies which did not reflect changes to accounting standards, primarily in respect of property, plant and equipment: • The depreciation accounting policy stated that infrastructure assets are depreciated using the reducing balance method. The depreciation for this category of asset is in practice (correctly) calculated on a straight line basis. • The property, plant and equipment accounting policy had not been updated to reflect the implementation of IFRS 13 Fair Value, and stated that all assets were held at fair value. With the exception of assets held for sale, surplus assets and investment properties, assets should be held at current value in existing use. Management have amended the financial statements to correct the above.
IMMATERIAL DISCLOSURES	Our review of the draft financial statements identified a number of immaterial disclosures which management have agreed to remove, including the removal of their associated policies.
SENIOR OFFICER REMUNERATION DISCLOSURES	Senior officer remuneration disclosures are determined by legislation. The legislation defines an employee as "a member of the relevant body and a holder of an office under the relevant body, but does not include a person who is an elected councillor". This definition excludes individuals who are not employed by the Council. The senior employees section of the officer's remuneration disclosure note includes Local Government Shared Services (LGSS) employees who do not meet the statutory definition of an employee. Whilst this does not comply with the legislation, we are satisfied that the disclosures made accurately reflect the management arrangements which operate at the Council and provide readers of the financial statements with an explanation of the relationship between the Council and those senior managers not directly employed by the organisation.
OPERATING LEASE DISCLOSURES	Future amounts receivable in respect of operating leases had been calculated incorrectly. Amounts included in the disclosure note did not reflect changes to rents which have taken place during the lease term to date and were, therefore, not based on current rent levels. This note also included income associated with the Castle Court lease. This has since been reclassified as a finance lease (further details are included on page 13). In the draft financial statements presented for audit, future minimum lease payments receivable under operating leases were disclosed as £237.452 million. Management have amended the note to reflect actual future minimum lease payments of £47.634 million. Management have recalculated the amounts receivable and have amended the disclosure note. As this is a disclosure only, there is no impact on the financial position or performance of the authority in the current year. We have raised a recommendation regarding this matter.

KEY AUDIT AND ACCOUNTING MATTERS
Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 6 May 2016.
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated 6 May 2016.
3	Significant difficulties encountered during the audit	All relevant matters have been included within this report. We welcome feedback on the audit process and will hold a debrief meeting with officers to discuss how we can streamline processes next year and improve the efficiency of the audit.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	All such matters have been dealt with elsewhere in this report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	The only matter arising in this respect is the LOBO borrowing issue detailed on page 8 of this report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	Our work is well progressed and we have no matters to report at the time of drafting, subject to the test for completeness of disclosures being completed.

OUTSTANDING MATTERS

Our audit work in respect of the financial statements for the year ended 31 March 2016 remains in progress.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Accounts committee at which this report is considered:

1	Completion of the “not started” and “in-progress” sections described in the “Key audit and accounting matters” section above and also shown in the “Summary of Audit Findings” section below
2	Completion and clearance of partner and manager reviews
3	Review and agreement of the final WGA data collection tool against the final set of financial statements
4	Technical clearance and completion of quality control procedures
5	Subsequent events review
6	Receipt of final set of financial statements for checking
7	Management representation letter, as attached in Appendix VII to be approved and signed

SUMMARY OF AUDIT FINDINGS

As at 14 September 2016

	STATUS	REPORTING LEVEL
🔴	Not started	Significant issue
🟡	In progress	Raised for your attention
🟢	Complete	No issue identified

The position reflected in the table below only reflects known and agreed audit results as at 14 September 2016.

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
🔴	Journals	🟢	No	No	No	No
🟡	Property, plant and equipment	🔴	Yes	Yes	Yes	Yes
🟡	Debtors	🟢	No	No	No	No
🟡	Cash and cash equivalents	🟢	No	No	No	No
🟡	Creditors	🟢	No	No	No	No
🟡	Short and long term borrowing	🔴	Yes	No	No	No
🟡	Employee benefits	🟢	No	No	No	No
🟡	Other expenditure	🟢	No	No	No	No
🟡	Grant income	🟢	No	No	No	No
🟡	Other income	🟢	No	No	No	No
🟡	Related party transactions	🟢	No	No	No	No
🟡	Financial instruments	🟢	No	No	No	No
🟡	Cash Flow Statement	🟢	No	No	No	No
🔴	Whole of Government Accounts	🟢	No	No	No	No
🟡	Annual Governance Statement	🟢	No	No	No	No

SUMMARY OF AUDIT FINDINGS

As at 14 September 2016

STATUS	REPORTING LEVEL
Not started	Significant issue
In progress	Raised for your attention
Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
In progress	Narrative Report	Raised for your attention	No	No	No	No
Complete	Use of resources	No issue identified	No	No	No	No

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	Local authorities are required to publish their draft Statement of Accounts by 30 June following the financial year to which those statements relate. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	The draft financial statements, within the Statement of Accounts, were published by the Council and provided to us for audit on 30 June 2016.
2	We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	We have no matters to report at this time.
3	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	We provided feedback to the Council on the content of the narrative report included in the draft accounts presented for audit. We have received an updated version, which we are in the process of reviewing. We will provide a verbal update to members at the Audit and Accounts Committee.

CONTROL ENVIRONMENT
Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal controls.

SIGNIFICANT DEFICIENCIES

At this time we have no significant deficiencies to report but we are actively discussing the robustness of controls designed to prevent and detect fraud and error that might occur in the processing of journals.

We will provide an update to the Audit and Accounts Committee.

CONTROL ENVIRONMENT

Other deficiencies and observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
RETENTION OF DOCUMENTATION BY SCHOOLS	Our income sampling included a transaction which related to income received by an infant school for uniform items. No supporting documentation for the relevant sales was available as it had been shredded by the school during the year.	While we have been able to obtain alternative evidence to demonstrate that the income was received, failure by schools to retain all documentation for an appropriate length of time may result in the Council being unable to support transactions reflected in their accounts.	Remind all schools of the need to retain documentation for audit purposes.	Retention of Financial Records is included within the Financial Regulations for Schools which maintained schools are directed towards on an annual basis as part of the Corporate Requirements. However the Schools Finance Team will contact all maintained schools by the end of November 2016 to remind them of the requirement to retain documents for audit purposes.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	HM Treasury's WGA team issued a newsletter at the end of June to explain the reasons for late issue of the DCT which was eventually released on Monday 4 July. This meant that local authorities' deadline to submit the unaudited DCT to HM Treasury was extended to 12 August 2016 and similarly our deadline to issue our audit opinion on the DCT has been extended to 21 October 2016. Our review of the Council's WGA Data Collection Tool (DCT) is in progress.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued in March 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES	The Council, like other authorities, is facing a significant reduction in grants. The 2016/17 budget includes expected funding of £542m excluding grants retained by schools which equates to a 12% reduction compared to 2015/16. The Council needs to deliver £51m of savings in 2016/17 alone and £123m over the next five years. This represents a substantial challenge for the Council and will require robust project management and significant transformation of services and the Council as a whole. Inevitably, difficult decisions will need to be made in order to deliver the new priority outcomes based model. There is a significant risk that without appropriate arrangements in place, the Council will fail to deliver the required level of savings. We reviewed the assumptions contained within the medium term financial plan to assess their reasonableness, reviewed in detail some of the savings plans, both delivered and proposed, and conducted interviews with a number of officers to challenge the proposed plans. We also reviewed the process for designing and implementing plans for new operating models to achieve transformational savings. We reviewed the budget setting process and the in-year financial monitoring to ensure there are robust and accurate processes in place.	The assumptions contained within the medium term financial plan appear to be comprehensive and reasonable. Overall, in a very uncertain financial future the Council's Budget Plan sets out a path for the sustainable use of resources available. We have concluded that the Council understands the financial challenges that it faces and has adequate arrangements is place to manage the financial position moving forward.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES (Continued)	See below	All directorates have either met or reported underspends against their revised budgets, leading to an overall revenue underspend for the year.

Revenue Outturn 2015/16

2015/16 was a challenging financial year with a 3% reduction in Government funding coupled with a growing population. The original net revenue budget was £360m after savings required in year of £29.8m. However, The Council not only operated within its reduced revenue resources but achieved a further £16.5m savings. £9.9m of this was attributable to a change in policy on the Minimum Revenue Provision (MRP).

The outturn position for 2015/16 is summarised below.

Service	Revised Budget	Actual Spending	Variance
	£M	£M	£M
Economy, Trans & Environt	71.6	70.3	-1.3
Children, Families & Adults	260.0	258.4	-1.6
Public Health	0.0	0.0	0.0
Corporate Services	4.4	3.5	-0.9
LGSS Managed	0.2	0.7	0.5
CS Financing	35.5	32.7	-2.8
Minimum Revenue Provision	0.0	-9.9	-9.9
	371.7	355.7	-16.0
Financing Items	-1.40	-2.00	-0.6
	370.3	353.7	-16.6

It should be noted that the in the early months of 2015/16 the Council was predicting an overall budget deficit. The June 2015 position was a £4.5m forecast overspend mainly from the Children's Families and Adults (CFA) service. This position improved during the year with forecast surpluses being reported from September 2015 onwards.

The Chief Finance Officer (CFO) commented that the overall variances are very small in percentage terms and reflect a pessimism/prudence in the early months as savings plans are being implemented. As well as the unplanned MRP saving, there were significant savings from the changes to the Care Act and savings in financing charges due to slippage in the capital programme and favourable cash balances.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES (Continued)	**Capital Expenditure** The inability to develop the infrastructure needed for a growing County is a key risk on the corporate risk register. The capital programme is dominated by infrastructure developments linked to growth most notably highways and schools schemes. The capital programme for 2015/16 was £219m. The table below shows the outturn.	The Council have taken action to address the causes of the significant slippage reported against the capital programme during the year.

Original £M	service	Revised £M	Actiual £M	Variance £M
102.2	Economy, Trans & Environt	87.4	48.0	-39.4
104.9	Children, Families & Adults	106.2	92.1	-14.1
0.3	Corporate Services	0.4	0.1	-0.3
11.4	LGSS Managed	15.3	6.6	-8.7
	LGSS Operational	0.2	0.5	0.3
218.8	Total	209.5	147.3	-62.2

	The programme shows significant slippage on schemes – outturn was £62m (30%) less than budget. As part of the interviews we explored the causes of slippage and the key explanation was delays in building developments (for example due to the slowdown in house building) which delayed whole schemes in the programme. The CFO did however recognise that this was an area where improvement was needed and had set-up the Capital Programme Management Board as a result.	
	Business Plan 2016-21 The Business Plan 2016-21 is a comprehensive suite of documents including: • Strategic Framework • Medium Term Financial Plan • Capital Strategy. In addition there are detailed tables and commentary on each service and the factors taken into account in setting their year on year cash limits.	The Business Plan 2016-21 recognises the financial challenges the Council faces and these are incorporated into the medium term financial plan. The Business Plan also recognises that efficiency savings are unlikely to be sufficient to achieve the savings required, and that transformation of the way in which services will be delivered is required.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES (Continued)	The Business Plan 2016-21 sets-out, as follows, the significant financial challenge facing the Council over the next 5 year planning process. Reduced Government grants and a number of other factors lead to a projected gap of £124m in the period to 2020-21.	

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m	£m
Loss (Gain) of funding	7.9	7.6	0.5	-8.7	-13.3	-6.0
Inflation	8.0	7.8	8.8	9.0	9.5	43.1
Demand	5.9	6.6	6.2	6.3	6.3	31.3
Pressures & Investment	12.0	6.3	6.5	7.7	8.0	40.5
Capital	0.9	2.9	0.9	0.3	-0.5	4.5
Reserves	3.9	2.5	-1.4	2.6	0.7	8.3
Other	2.2	0.0	-0.1	-0.1	-0.1	2.0
Total	40.8	33.7	21.4	17.1	10.6	123.7

The assumptions contained within the medium term financial plan appear to be comprehensive and reasonable. Considerable work has gone into developing this plan and envisaging the impact on services and charges to achieve the levels of recurrent savings required. The Plan also recognised that savings achieved within each directorate, by reducing cash limits and improving the efficiency of services, are unlikely to achieve the level of saving needed by 2021. Therefore service reductions, the development of new service operating models, cross directorate savings and increased fees and charges will be key over the next 5 years.

The interviews conducted support the view that considerable effort has gone into developing the plan and also 2016/17 savings. The CFO highlighted new additional controls for central monitoring of savings – via the Savings Tracker and an associated review process that had been introduced early in 2016/17. In addition the CFO set out the actions to set up a Transformation Team based in Finance for managing the achievement of the plan by developing, implementing and monitoring cross-directorate savings involving new operating models.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
INFORMED DECISION MAKING	We reviewed the governance arrangements and processes in place to ensure that high quality and timely information is provided to support informed decision making. We have undertaken the following work to support our findings in relation informed decision making: • Review of key reports and papers (e.g. Business Plan 2016-21 and Finance and Performance reports) • Interviews with the Chief Finance Officer, Executive Director of Children, Families and Adults Service (CFA), Director of Transformation, Director of Infrastructure Management and Operations, Service Director of Strategy and Commissioning (CFA) and Head of Highways. The Council operates a committee structure with a key role in decision making played by the General Purposes Committee. The governance structure supports informed decision making. Members are provided with professionally produced and comprehensive reports and given opportunities to question officers on these. The latter was evidenced in the minutes of General Purposes Committee which were reviewed. Financial and other information to support decision making is strong. The Integrated Resource and Performance Reports for General Purposes and two service departments (CFA services and Economy, Transport and Environment (ETE) services) were examined. The reports are very comprehensive including reporting on performance against key performance indicators as well as a wide range of financial information covering revenue, capital and treasury management. Reports include summaries and informative commentaries on budget variances. The achievement of savings plans are tracked by departments but are not explicitly reported upon other than being referred to in the commentary on individual variances. The CFO recognised that this is a potential weakness in control and has introduced a central 'Savings Tracker' for 2016/17. Internal audit reviewed Budgetary Control (Dec 2015) and found *"Finance and Performance Reports and Integrated Resources and Performance Reports were found to be of high quality"*. Interviews with officers in CFA and ETE indicated that budgetary control information was considered monthly in some detail at Executive Director, Service Director and Service Head levels. These monthly reviews were well supported by management accountants from LGSS. The Council operates and regularly reviews a corporate risk register. This enables officers and members to understand the key risks to the organisation and how these are being managed. In addition there is a Controls Assurance Framework which shows how risks are being managed and how assurance is being gained - including the deployment of Internal Audit resources. Some weaknesses in business cases for capital and savings plans in the past have been recognised and steps have been taken in the current year to improve these and to increase central scrutiny and monitoring.	Senior officers and members are provided with comprehensive financial and non-financial information as part of the Council's decision making processes. There is evidence of challenge to ensure information provided is robust. The Council has identified some weaknesses in the reporting of progress against savings plans and has taken steps to address these.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
WORKING WITH PARTNERS	We have undertaken the following work to support our findings in relation working with partners: • Review of key reports and papers (e.g. Business Plan 2016-21 and Finance and Performance reports) • Interviews with the Chief Finance Officer, Executive Director of Children, Families and Adults Service (CFA), Director of Transformation, Director of Infrastructure Management and Operations, Service Director of Strategy and Commissioning (CFA) and Head of Highways. The Council clearly recognises the importance of partnerships in pursuing its strategy and achieving value for money. The interviews undertaken provided assurance that officers were managing relationships well with their existing partners and are working to building new relationships with partners, contractors and third party organisations. The key partnerships discussed in interviews with officers were: **Peterborough** - Shared Chief Executive - Actively seeking other shared posts and services – such as Trading Standards **LGSS** - A well established shared service arrangement for back office services including Finance, HR and IT **City Deal** - £100m partnership with Cambridge City Council, South Cambridgeshire District Council and Cambridge University and the Local Enterprise Partnership - Major programme overseeing prioritised schemes which can potentially receive up to £500m in central government funding to improve transport infrastructure, facilitate housing delivery and skills improvement improve skills in and around Cambridge. **Highways - Contract with Skanska** - Cambridgeshire County Council, building on existing good relations, is currently working to enable a more integrated model of working with the partner driving the achievement of outcomes. **Residential Care providers** - Faced with a risk of a shortage of providers, the Council regularly meets with key providers to have meaningful discussions on current issues and how they can jointly work together to tackle existing pressures – for example by rationalising routes to ensure patients are able to access services without the need for long and fragmented commute.	The Council works with partners across all areas of its business to ensure the efficient and effective delivery of services. Officers continues to seek out new partnership opportunities as the Council seeks to change the way it delivers its services.

USE OF RESOURCES
Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
WORKING WITH PARTNERS (Continued)	**WASTE Management – PFI with AMEY** - Cambridgeshire County Council has a 25-year PFI agreement with AMEY. This has been challenging due to national changes in the re-cycling policy. - To effective manage this relationship, robust governance structure consisting of a Waste Management Strategic Board cascading down to a Contract Management Board and a Liaison Committee with joint attendance from both the council and AMEY have been put in place. **Lighting - PFI with Balfour Beatty** - The Council has a 25-year agreement with Balfour Beatty to replace all of the existing street lighting equipment in the County. The scheme is on track to replace all street lights in the County during 2016/17. **Health and Social Care** - The Executive Director of CFA jointly chairs the Cambridgeshire Executive Partnership Board with the Chief Officer of the Cambridgeshire and Peterborough CCG - The Board was originally set up to manage the Better Care Fund and is now aligned with the sustainability and transformation plan (STP) - Cambridgeshire County Council is actively working to ensure that its organisation goals are aligned to that of the STP aims. - There is joint commissioning of Children's Health (Including CAHMs and SEN provision) between Cambridgeshire, Peterborough and the CCG.	

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Cambridgeshire County Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit and Accounts Committee.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: • The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) • Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Accounts and Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Subject to the outstanding work to be completed, management has made corrections in the revised draft financial statements in respect of the following material adjustments:

- application of growth deal funding of £17.251 million in 2015/16 not recognised in the draft financial statements
- the treatment of the finance lease associated with Castle Court, which was incorrectly recognised as an investment property in the balance sheet

Management have also made non-material adjustments relating to the incorrect recognition of earmarked reserves as provisions, PFI life cycle replacement costs incorrect recognised and the double counting of public health income and expenditure.

The above corrections have reduced the deficit for the year by £22.569 million

UNADJUSTED AUDIT DIFFERENCES

Subject to completion of our outstanding work, there is one unadjusted audit difference identified by our audit work in relation to the understatement of a revaluation gain. This does not impact on the reported deficit for the year.

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

An update will be given to the Accounts and Audit Committee on 20 September 2016.

APPENDIX II: AUDIT DIFFERENCES
UNADJUSTED AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHEET	
UNADJUSTED AUDIT DIFFERENCES	£'000	DR £'000	CR £'000	DR £'000	CR £'000
Deficit on the provision of services	91,116				
DR PPE Other land and buildings				706	
CR Revaluation reserve					(706)
Being the projected difference due to a system error on behalf of Fujitsu, due to which the revaluation gain on a particular asset has been understated.					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**-**	**-**	**-**	**706**	**(706)**
Deficit on the provision of services if adjustments accounted for	91,116				

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
FINANCIAL STATEMENTS					
CLASSIFICATION OF LEASES	The lease associated with Castle Court was not adequately assessed to determine whether or not it should be treated as an operating lease or a finance lease. As a result, Castle Court was incorrectly recognised on the balance sheet.	For each new lease entered into (whether as lessee or lessor), complete an assessment against the requirements of the Code and relevant accounting standards to determine whether or not the agreement should be treated as an operating or finance lease.	The assessment of type of lease is normally completed for all new leases, however with a change in staff, resource pressures and also a significant shift from internal to external valuations, this work was not fully completed for the 2015-16 accounts. Moving forward, the process for assessing leases will be put back in place and revised to take into account the shift from use of internal to external valuers.	Urban Asset Manager / Group Accountant (Capital)	By January 2017
OPERATING LEASE DISCLOSURES	Future amounts receivable in respect of operating leases had been calculated incorrectly. Amounts included in the disclosure note did not reflect changes to rents which have taken place during the lease term to date and were therefore not based on current rent levels.	Review operating leases as part of closedown process to determine whether there have been any changes in rent levels, either as a result of clauses in the original lease agreement which have crystallised as a result of events during the year or rent reviews.	All leases are reviewed as part of the closedown activity and the information is already provided as to any change in rent levels. Previous auditors had requested that we use original rents as the basis of our calculations; now this has been corrected by BDO we will continue to use current rents moving forward.	Group Accountant (Capital)	By June 2017 for the draft accounts

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
CONTROL ENVIRONMENT					
RETENTION OF DOCUMENTATION BY SCHOOLS	Failure by schools to retain all documentation for an appropriate length of time may result in the Council being unable to support transactions reflected in their accounts.	Remind all schools of the need to retain documentation for audit purposes.	Retention of Financial Records is included within the Financial Regulations for Schools which maintained schools are directed towards on an annual basis as part of the Corporate Requirements. However the Schools Finance Team will contact all maintained schools by the end of November 2016 to remind them of the requirement to retain documents for audit purposes.	Schools Corporate Accountant	November 2016

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	14,935,000	12,500,000
Clearly trivial threshold	299,000	250,000

Planning materiality of £12,500,000 was based on 1.5% of gross expenditure incurred on the provision of services as per the 2014/15 audited financial statements.
Our final materiality is based 1.5% gross expenditure on the provision of services included in the draft 2015/16 financial statements. The increase in the materiality level arose only because of an increase in gross expenditure as reported in the draft financial statements compared to that estimated and used at the planning stage to calculate indicative materiality.

APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin - Engagement lead	1	31 March 2021
Barry Pryke – Engagement manager	1	31 March 2026

APPENDIX V: INDEPENDENCE
Continued

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS
We have provided services other than audit to the Council as set out in Appendix VI.

Other than the non-audit service, relating to reporting on government grants, set out in Appendix VI, we have not identified any potential threats to our independence as auditors. We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	2015/16	PwC 2014/15	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£	£		
Audit fee(1)	94,061	141,415(4)	N/A	N/A
TOTAL AUDIT FEE	**94,061**	**141,415**		
Questions and objections from members of the public(2)	TBC	TBC		
Grant certification:				
- Skills Funding Agency - controls over subcontracting	3,794	-	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
- Local Transport Plan Major Projects Grant	4,000	-	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
- Teachers Pensions(3)	-	10,000		
TOTAL ASSURANCE SERVICES	**104,855**	**10,000**		

(1) The final audit fee will not be confirmed until the audit work is sufficiently complete to do so, in particular the work required to conclude upon the significant risk in respect of LOBO loans set out on page 8. The fee shown here is the Public Sector Audit Appointments Ltd scale fee for the audit.

(2) The scale fee for the audit does not include work required to investigate questions or objections received from members of the public. Time spent dealing with questions and objections will be billed separately. We are currently dealing with one such request but are not able to confirm the associated fee at the time of drafting.

(3) We note that we may be engaged by management to provide reporting accountant assurance on the teachers' pensions return for the year ending 31 March 2016. This work is outside of the framework which governs the Code audit work. Should we be appointed to undertake this work we will report the fee to the Audit and Accounts Committee once agreed with management.

(4) The comparative fee shown for 2014/15 comprises the scale fee plus additional fee charged by PwC in respect of known audit risks and additional work determined as necessary during their planning. No fee is included in respect of increases requested by the PwC in respect of scope changes due to additional work performed on assets under construction.

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

29 September 2016

Dear Sirs

Financial statements of Cambridgeshire County Council for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

APPENDIX VII: DRAFT REPRESENTATION LETTER

Continued

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

- Fair value of land and buildings
- Depreciation
- Assumptions underpinning the reported pension liability (as set out in Note XX to the core Financial Statements).

Specifically for property, plant and equipment we confirm that:

- The useful economic lives for buildings as advised by the valuer are appropriate to the future intentions and planned usage of the asset by the Council
- That the basis of valuation methods applied by the valuer for the valuation of specialised buildings using modern equivalent assets are appropriate
- Information provided by the valuer in respect of the componentisation of property, plant and equipment for significant components of assets with differing asset lives is appropriate for estimating the Council's depreciation charges.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Chris Malyon

Chief Finance Officer and S151 Officer

29 September 2016

Councillor Michael Shellens

Chairman of the Audit and Accounts Committee

Signed on behalf of the Audit and Accounts Committee

29 September 2016

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to, one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.

FOR MORE INFORMATION:

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