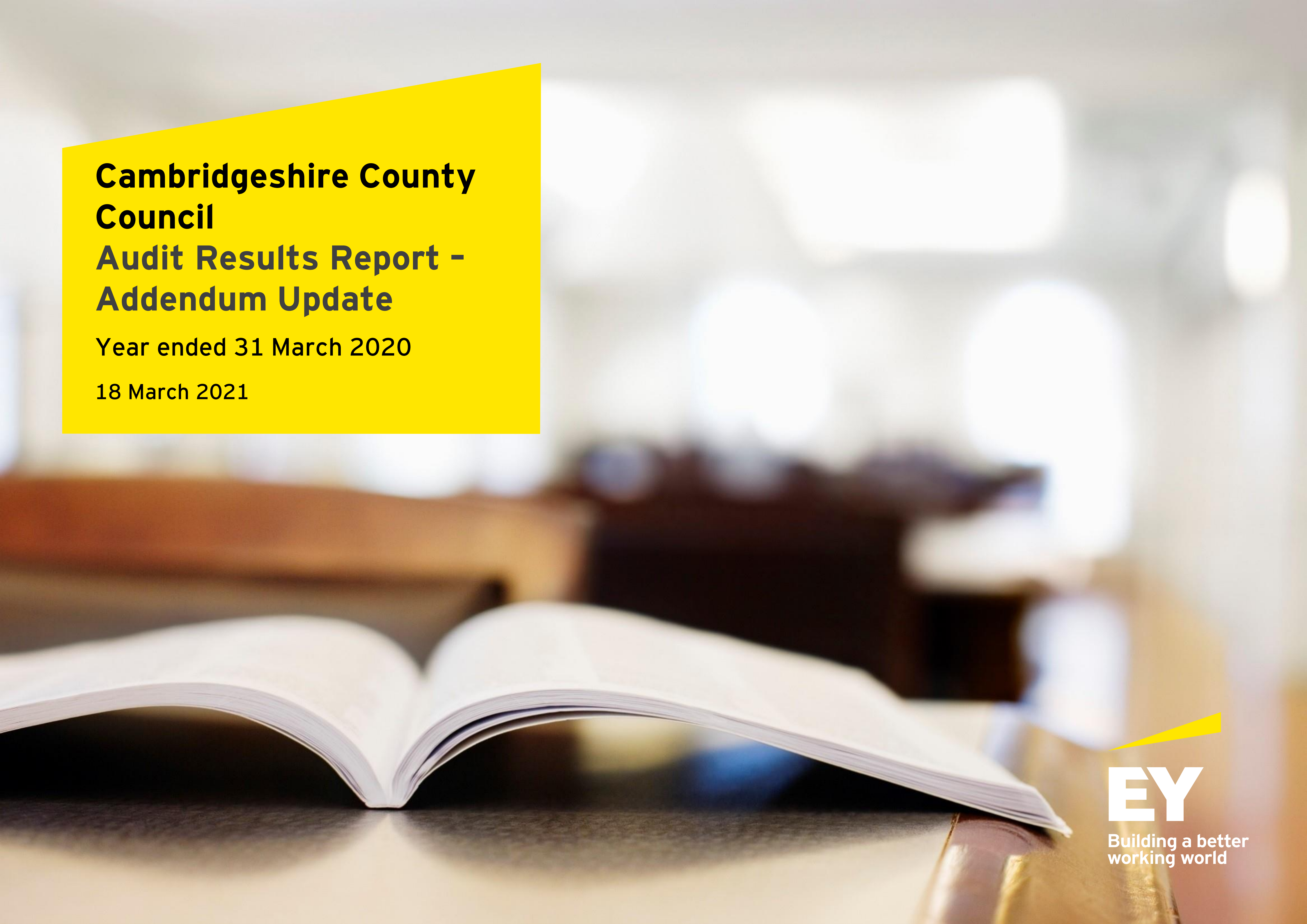
Cambridgeshire County Council

Audit Results Report - Addendum Update

Year ended 31 March 2020

18 March 2021



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01 Executive Summary

Executive Summary

Status of the audit

This Audit Results Report – Addendum Update provides a bridge between our report presented to the Audit and Accounts Committee on the 24 November 2020 and the position following the conclusion of the outstanding audit procedures stated within that report.

We have now completed our audit of Cambridgeshire County Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Plan.

Subject to satisfactory completion of the final conclusion procedures set out below we expect to issue an 'unqualified opinion' on the Council's financial statements as previously reported. Our audit report will not contain any emphasis of matter paragraphs.

The final conclusion procedures are:
- Review of the final version of the financial statements;
- Completion of subsequent events review; and
- Receipt of the signed management representation letter and financial statements

We will not be able to issue the Audit Certificate at the same time as the audit opinion, as we have yet to complete key elements of the Code of Audit Practice – namely:
- the Whole of Government Accounts submission; and
- Value for Money Conclusion.

Executive Summary

Areas of audit focus
Our Audit Plan identified key areas of focus for our audit of Cambridgeshire County Council's financial statements. In our Audit Results Report presented to the Audit and Accounts Committee on the 24 November 2020 we provided our observations and conclusions on the areas we had concluded on at that time. We have summarised our consideration of all matters below, and have provided further details on those areas where we had not previously concluded, in the "Areas of Audit Focus - Updated" Section 02 of this report.

Risk	Findings & Conclusions
Fraud Risk - Misstatements due to fraud or error (management override)	No update from Audit Results Report – 24 November 2020. We have completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls.
Fraud Risk - Incorrect capitalisation of revenue expenditure	No update from Audit Results Report – 24 November 2020. We have completed our audit work on capital additions and REFCUS and have not identified any audit differences.
Fraud Risk - Accounting adjustments made in the 'Movement in Reserves Statement	We have completed our audit work in regards to adjustments made to the Movement in Reserves Statement and have not identified any audit differences.
Significant Risk – Property, Plant & Equipment - Valuation of Land and Buildings and Investment Properties	We have completed our audit work in this area. We employed the use of our own expert to support the work in relation to the valuation of Land & Buildings and Investment Properties. We have identified an number of audit differences in relation to these valuations, the net impact being that the Council's Balance sheet is overstated by £165.94 million in respect of Property, Plant & Equipment and overstated by £3.42 million in respect of Investment Properties. Further explanation of these adjustment is included in Section 03 – Adjusted Differences.
Significant Risk - Pensions Liability – IAS19	No update from Audit Results Report – 24 November 2020. We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. We have received IAS 19 assurances from the Pension Fund auditor. Those audit assurance procedures identified audit differences in relation to the valuation of investments and the McCloud and Goodwin legal cases. The Council obtained an updated IAS19 report which adjusted for these elements, increasing the Council's overall pension liability by £5.03 million. Further explanation of this adjustment is included in Section 03 – Adjusted Differences.
Significant Risk - Accounting for Grants	No update from Audit Results Report – 24 November 2020. We have completed our audit work on Grants. We have identified one material audit difference of £14.79 million in respect of the classification of Grants within the Comprehensive Income and Expenditure Statement. Further explanation of this adjustment is included in Section 03 – Adjusted Differences.

Executive Summary

Areas of audit focus (Continued)

Risk	Findings & Conclusions
Other Risk - Conversion of schools to Academies	No update from Audit Results Report – 24 November 2020. We have completed our audit work on schools converting to Academies and have not identified any audit differences.
Other Risk - Sensitive disclosures	No update from Audit Results Report – 24 November 2020. We have completed our audit work on the Sensitive disclosures with the Statement of Accounts and have not identified any audit differences.
Other Risk - Private Finance Initiative (PFI)	No update from Audit Results Report – 24 November 2020. We have completed our audit work on PFI. We identified one audit difference in regards to the Council's Street Lighting PFI, where the unadjusted difference identified during the 2018/19 audit had not been updated within the 2019/20 Statement of Accounts. Further explanation of this adjustment is included in Section 03 – Adjusted Differences.
Other Risk - Valuation of Heritage Assets	No update from Audit Results Report – 24 November 2020. We have completed our audit work on the Council's Heritage Assets and have not identified any audit differences.
Other Risk - Dedicated Schools Grant Deficit Accounting	No update from Audit Results Report – 24 November 2020. We have completed our audit work on the accounting for Dedicated School grants and have not identified any audit differences.
Going concern disclosure	No update from Audit Results Report – 24 November 2020. We have received the Council's Going Concern assessment and supporting documentation and following our work in this area we consider Management's assessment to be robust and appropriate. Management have included an additional detailed disclosure note within the revised financial statements in respect of Going Concern.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Accounts Committee.

Executive Summary

Adjusted Audit Differences

We have identified thirteen key areas where audit differences totalled £336.42 million.

The most significant areas of difference are in relation to the Balance Sheet – Property, Plant & Equipment valuations, classification of Borrowings (Long-term to Short-term) and the classification of Grant Income. We have discussed and agreed these adjustments with Management who are processing the audit adjustments within the revised Financial Statements.

Full details of these adjustments can be found in Section 3 - Adjusted Audit Differences.

Unadjusted Audit Differences

We identified four unadjusted audit differences as set out in Section 3 – Unadjusted Audit Differences.

Management have chosen not to adjust for these.

We ask that this adjustment be corrected or a rationale as to why they are not corrected be approved by the Audit and Accounts Committee and include in the Letter of Representation. The aggregated impact of unadjusted audit differences is £8.05 million. We concur with management's assessment that the impact is not material to the financial statements as a whole.

02 Areas of Audit Focus - Updated

Our Audit Plan identified key areas of focus for our audit of Cambridgeshire County Council's financial statements. In our Audit Results Report presented to the Audit and Accounts Committee on the 24 November 2020 we provided our observations and conclusions on the areas we had concluded on at that time. We provide within this section the details of those areas where we had not previously concluded (previous conclusions remain extant).

Areas of Audit Focus – **Updated**

Fraud risk – accounting adjustments made in the 'Movement in Reserves Statement'

What did we do?

The adjustments between accounting basis and funding basis under regulation in the financial statements materially changes the charges to the General Fund balance.

This line is shown in the Movement in Reserves Statement. As the Regulations are varied and complex there is an inherent risk that management use this line to manipulate the General Fund balance.

To address this risk we:

- Sample tested REFCUS to ensure the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state;
- Reconciled entries for consistency to other audited accounts within the financial statements, for example our work on property, plant and equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- Performed testing of revaluations made during 2019/20 and reviewed other documentation to determine whether there was any indication that assets required impairment.
- Undertook substantive analytical review procedures over the depreciation charge to determine that the annual charge was correct.
- Reviewed the Council's policy and application of the 'Minimum Revenue Provision'.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a way of achieving these targets.

We have considered the key areas where management has the material opportunity and incentive to override controls and consider the risk applies to accounting adjustments made in the Movement in Reserves Statement (MiRS):

- The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning;
- Revenue Expenditure Funded from Capital Under Statute (REFCUS);
- Capital Grants;
- Depreciation, impairments and revaluation losses; and
- Minimum Revenue Provision (MRP)

What are our conclusions?

Our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the Council's financial position through manipulation of postings to the Movement in Reserves Statement.

Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state;

We did not identify any inconsistency whilst reconciling entries in the Movement in Reserves Statement;

We did not identify any misstatements in regards to the 2019/20 depreciation charge;

We did not identify any material issues with the Council's policy and application of Minimum Revenue Provision. We have raised a recommendation in regards the Council's Minimum Revenue Provision in Section 03 of this report; and

We did not identify any misstatements in regards to revaluation adjustments posted to the movement in reserves statement.

Areas of Audit Focus - **Updated**

Significant Risk - Valuation of Land and Buildings and Investment Properties

What is the risk?

The Council has engaged a new external valuation specialist (Bruton Knowles) for the 2019/20 valuations.

The external valuer will apply a number of complex assumptions and judgements assess the Councils assets to determine their value. Some of the issues they will consider include whether there is any indication of impairment, increases in value and changes to useful lives.

As the Council's asset base is material, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated.

There is also the potential for significant impact of Covid-19 on the estimations and assumptions applied to asset valuations. In particular, on those asset, such as Investment Properties, that are valued as Fair Value at the balance sheet date.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- Considered the work performed by the Council's valuer, 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), and agreed this to what had been recorded in the Fixed Asset Register and General Ledger;
- Considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer;
- Reviewed changes to useful economic lives as a result of the most recent valuation;
- Assessed changes in valuation methodology applied by the new valuer;
- Engaged our own EY valuation experts to perform a review of valuation assumptions and methodologies on those more complex methodologies such as depreciated replacement cost and the valuation of retail park assets; and
- Tested accounting entries to confirm they had been correctly processed in the financial statements.

We focused on aspects of the Land and Buildings and Investment Property valuations which could have a material impact on the financial statements, primarily:

- any significant changes in the asset base;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

Areas of Audit Focus - **Updated**

Significant Risk - Valuation of Land & Buildings and Investment Properties (continued)

What are our conclusions?

Our work on the valuation of Land & Buildings and Investment Property is complete.

We employed the use of our own expert to support the work in relation to the valuation of land and buildings. Our work and the review by our own experts identified:

Investment Properties

1. During the financial year the Council purchased a number of Investment Property assets:
- Cromwell Leisure Park, Tesco Newmarket Road, the Kings Bridge Centre and Evolution Business Park.

These assets were recorded at cost in the Statement of Accounts but the CIPFA Code of Practice requires all Investment Properties to be held at Fair Value at the Balance Sheet date. This resulted in an overstatement of these assets in the Council's Balance Sheet of £3.42 million, further details can be found in Section 3.

2. The valuation methodology used to value Brunswick House Student accommodation at the Balance sheet date, utilised an average of the past two years income in determining its Fair Value. The asset should be valued using a future income approach. Whilst the methodology used to value this asset is not in line with standard practice the value reported by the Council fell within our acceptable valuation range and therefore no adjustment to the Statement of Accounts was required.

Land and Buildings

We identified a significant number of issues in regards to the assumptions and methodologies applied to the valuation of land and buildings assets. These issues include:

- Use of methodologies that were not in line with standard valuation practices;
- Use of rates that were not supportable by evidence or market data; and
- Incorrect inputs into the valuation calculation, such as land areas, useful lives and pupil numbers (for the valuation of School assets).

The total impact of these issues is an overstatement of Land & Building assets in the Council's Balance Sheet of £165.94 million. Further details can be found in Section 3.

Areas of Audit Focus - **Updated**

What is the risk/area of focus?	What did we do?
<u>Going concern disclosures</u> This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. CIPFA LASAAC and the extant (IFRS based but adapted) Code of Practice for Local Authority accounting 2018/19 presume that organisations operate as a going concern until Central Government discontinues the services. There is a statutory prescription that operational services will continue to be provided for the foreseeable future. That presumption has not changed in light of C19. The Code para 2.1.2.6 states that local authority financial statements shall be prepared on a going concern basis. However, the Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 – Audit of financial statements of public sector bodies in the United Kingdom still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting in the auditor's report. In particular where there is insufficient assurance from the entity's representations, stress testing, modelling and forecasting or the lack of third-party confirmations and guarantees. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.	We confirm that we have performed the following procedures: ▸ Obtained and reviewed managements going concern assessment; ▸ Challenged management's assessment of going concern using sensitivity analysis; ▸ Reviewed supporting evidence such as cash flow forecasts and post year-end valuation statements for evidence to support managements going concern assessment; and ▸ Ensured sufficient disclosure within the financial statements. Since the Audit and Accounts Committee on the 24 November 2020 we have re-performed our considerations of the Council's going concern based on Management's updated medium term financial position and cashflow modelling. Since November with the inception of the vaccination program, the Government's road map out of lockdown, the receipt of additional COVID grant funding alongside the publication of the Local Government Settlement, there is now significantly more certainty over the Council's finances over the going concern period (which is 12 months from the date of approval of the financial statements). In November, our draft Audit Report (within the Audit Results Report) set out the possibility of an Emphasis of Matter paragraph in relation to Going Concern, as we had not completed our audit procedures on Going Concern at that time, and we wanted to be clear on a potential reporting outcome. The updated fact pattern in Management's assessment, alongside the updated disclosure note within the Council's financial statements, lead us to conclude that we an 'Emphasis of Matter' is not required within our Audit Report. Following our work in this area we consider Management's assessment to be robust and appropriate. Following further discussion Management have included an additional detailed disclosure note within the revised financial statements in respect of Going Concern.

03 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.98 million which have been corrected by management that were identified during the course of our audit:

1. **Classification of Interest Expense**

Interest expense related to borrowing for capital purposes in 2019/20 had been incorrectly classified within 'Cost of Services' rather than in 'Finance and Investment Income and Expenditure' in the Comprehensive Income and Expenditure Statement.

- Debit: Comprehensive Income Statement and Expenditure – Cost of Services - £1.74 million
- Credit: Comprehensive Income Statement and Expenditure – Finance and Investment Income and Expenditure - £1.74 million

2. **Classification of Creditors**

A payment to HMRC for clearance of a PAYE creditor was incorrectly posted to 'Short-term Debtors' rather than to the corresponding 'Short-term Creditors' in the Balance Sheet.

- Debit: Balance Sheet – Short-term Creditors - £4.73 million
- Credit: Balance Sheet – Short-term Debtors - £4.73 million

3. **Correction of prior year unadjusted audit differences in relation to the Street Lighting PFI**

As reported in our 2018/19 Audit Results Report, audit differences in relation to the Street Lighting PFI were not amended for by the Council, these audit differences have been amended for in the 2019/20 Statement of Accounts.

- Debit: Balance Sheet – Long-term Finance Lease Liability - £1.10 million
- Debit: Balance Sheet – Short-term Finance Lease Liability - £0.083 million
- Credit: Balance Sheet – Capital Adjustments account - £1.183 million

4. **Classification of Grant Income**

Grant Income had been incorrectly classified within 'Cost of Services' rather than in 'Taxation and Non-specific Grant Income' within the Comprehensive Income and Expenditure Statement.

- Debit: Comprehensive Income and Expenditure Statement – Cost of Services - £14.79 million
- Credit: Comprehensive Income and Expenditure Statement – Taxation and Non-specific Grant Income - £14.79 million

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Audit Differences

Summary of adjusted differences (continued)

5. **Pension Liability (IAS 19)**

The Council's Pension Liability was understated due to the impact of a decrease in the valuation of Pension Fund Assets at the Pension Fund level and as a result of the impact of the Goodwin legal judgement and of the McCloud consultation on the actuarial assumptions.

- Debit: Comprehensive Income Statement – Remeasurement of net pension liability - £6.86 million
- Credit: Comprehensive Income Statement – Cost of Services - £1.83 million
- Credit: Balance Sheet – Other Long-term Liabilities - £5.03 million

6. **Guided Busway Debtors**

Two debtors in relation to the Guided Busway project had been incorrectly included in 'Long-term Debtors' in the Balance sheet. The income for one of the debtors of £1.35 million had been received and therefore the debtor no longer existed at year end. One debtor of £1.06 million was no longer receivable from the contractor and therefore was incorrectly recorded within the debtors balance at year end.

- Debit: Comprehensive Income and Expenditure Statement – Taxation and None-specific grant income - £2.41 million
- Credit: Balance Sheet – Long-term Debtors - £2.41 million

7. **Classification of Borrowings**

A number of the Council's borrowings were incorrectly classified between long-term and short-term.

- Debit: Balance Sheet – Long-term Borrowings - £54.74 million
- Credit: Balance Sheet – Short-term Borrowings - £54.74 million

8. **Payment for Teachers' Pensions**

A number of payments in advance held within 'Debtors' in the Balance sheet had been raised in respect of payments made by the Council for Teachers Pensions. The Council's Balance Sheet already contained entries for these as creditors and therefore the creditor balances had not been correctly cleared upon payment during the year.

- Debit: Balance Sheet – Short-term Creditors - £1.42 million
- Credit: Balance Sheet – Short-term Debtors - £1.42 million

9. **Classification between Revaluation Reserve and Net Cost of Services**

Accounting adjustments in relation to the revaluation of 'Non-current Assets' had been incorrectly classified within 'Net Cost of Services' in the Comprehensive Income and Expenditure Statement. These adjustments should have been classified within the Council's Revaluation Reserve.

- Debit: Comprehensive Income and Expenditure Statement – Net Cost of Services - £5.53 million
- Credit: Balance Sheet – Revaluation Reserve - £5.53 million

Continued on next page.

Audit Differences

Summary of adjusted differences (continued)

10. Classification of Cash

Developer and Client funds held by the Council had been incorrectly classified as credit balances to 'Cash and Cash Equivalents' in the Balance Sheet. These funds should be classified under 'Short-term Creditors'.

- Debit: Balance Sheet – Cash and Cash Equivalents - £8.58 million
- Credit: Balance Sheet – Short-term Creditors - £8.58 million

11. Investment Properties Valuations

During the financial year 2019/20 the Council purchased a number of Investment Property assets: Cromwell Leisure Park; Tesco Newmarket Road; The Kings Bridge Centre; and Evolution Business Park. These assets were recorded at cost in the Financial Statements but the CIPFA Code of Practice requires all Investment Properties to be held at Fair Value at the Balance Sheet date.

- Debit: Comprehensive Income and Expenditure Statement – Finance and Investment Income & Expenditure - £3.42 million
- Credit: Balance Sheet – Investment Properties - £3.42 million

12. Property, Plant and Equipment Valuations

a. During the financial year 2019/20 the Council revalued three of its Park and Ride assets. The methodology employed to value these assets was incorrectly based on a larger land area than the Council owned, as it assumed car parking spaces represented additional land outside of the Park and Ride sites. This overstated the value of the Park and Ride assets.

- Debit: Comprehensive Income and Expenditure Statement - £4.11 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £4.11 million

b. During the financial year 2019/20 the Council revalued the Shire Hall building and adjacent car park separately. The valuation of the Shire Hall building used a comparable market rate that would include car parking and as such the value of the building was overstated.

- Debit: Comprehensive Income and Expenditure Statement - £1.97 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £1.97 million

c. The valuation of Sackville House was based on an incorrect floor area leading to overstatement of the assets value.

- Debit: Comprehensive Income and Expenditure Statement - £0.64 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £0.64 million

Continued on next page.

Summary of adjusted differences (continued)

12. Property, Plant and Equipment Valuations (continued)

d. During the financial year 2019/20 the Council revalued its Farm Management Plan 24 asset which included a solar farm asset located on the site. The valuation methodology applied to the solar farm asset did not follow standard valuation practice as it was valued using a simplistic high-level future income approach. Whilst this is a discounted cash flow methodology, this type of asset is complex to value and requires detailed forecast information on power pricing, renewable obligation certificate revenues, discount rates and inflation. This overstated the value of the solar farm asset.

- Debit: Comprehensive Income and Expenditure Statement - £4.51 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £4.51 million

e. It was identified that the valuation methodology employed to value the Council's Farm Management Plan assets was overly conservative as a result of using a combination of pessimistic assumptions. This understated the value of the Council's Farm Management Plan assets.

- Debit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £13.04 million
- Credit: Comprehensive Income and Expenditure Statement - £13.04 million

f. Work undertaken on the valuation of assets (other than School assets) valued under a Depreciated Replacement Cost methodology identified that land values used were larger than that evidenced in available market data. In addition we identified a number of instances where incorrect land areas and useful lives had been used in the valuation of those assets. This overstated the value of this category of assets.

- Debit: Comprehensive Income and Expenditure Statement - £6.10 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £6.10 million

g. During the financial year, the Council revalued all individual school assets over £4 million using the depreciated replacement cost methodology and those required by its 5 year rolling valuation program. We identified a number of issues with these valuations leading to an overall overstatement of these assets:

i – The valuation methodology employed to value the schools assets did not follow RICS (Royal Institute of Chartered Surveyors) guidance as it did not split the valuation between developed and undeveloped land. The valuations assumed all land was 'developed land' which carries a higher cost rate and therefore these assets were overstated.

- Debit: Comprehensive Income and Expenditure Statement - £162.32 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £162.32 million

ii – The valuation of the Pathfinder Primary School and Cambourne School were found to be incorrect as the Modern Equivalent Asset (MEA) approach was not appropriately utilised. The valuations were based on actual pupil numbers rather than on future expected pupil numbers as required by the depreciated replacement cost methodology leading to understatement of these assets.

- Debit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £15.24 million
- Credit: Comprehensive Income and Expenditure Statement - £15.24 million

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Summary of adjusted differences (continued)

12. Property, Plant and Equipment Valuations (continued)

iii – The valuation of the Hardwick School site and Cambourne School site were overstated as the pupil numbers used in the valuation of each was the total number of pupils for the two sites combined rather than being the pupil numbers for each individual site.

- Debit: Comprehensive Income and Expenditure Statement - £7.85 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £7.85 million

iv – Nine nursery sites were incorrectly valued using the 'Depreciated Replacement Cost' methodology. However, these sites are not specialised in nature as each site has a tenancy at will and are part of an active market. As such these assets should have been valued using Existing Use Valuation methodology. This overstated the value of these assets.

- Debit: Comprehensive Income and Expenditure Statement - £5.97 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £5.97 million

v – We identified one asset, St Helens Primary School, which had not been revalued in line with the Council's policy of revaluing all assets above £4 million. The Council subsequently obtained a valuation for this asset which showed that its carrying value was overstated at the Balance Sheet date.

- Debit: Comprehensive Income and Expenditure Statement - £3.20 million
- Credit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £3.20 million

vi – We identified across the remainder of the school asset portfolio (not set out specifically in previous points) a number of instances where incorrect pupil numbers, useful lives and Building Cost Information Services rates had been used. This lead to understatement of the impacted assets.

- Debit: Balance Sheet – Property, Plant and Equipment – Land and Buildings - £2.44 million
- Credit: Comprehensive Income and Expenditure Statement - £2.44 million

13. Revenue Grant - classification

Seven Revenue grants held within 'Short-term Creditors' were found to have no conditions attached and as such upon receipt the full amount of grant income should have been recorded as 'Revenue' in the Comprehensive Income and Expenditure Statement.

- Debit: Balance Sheet – Short-term creditors receipts in advance - £3.63 million
- Credit: Balance Sheet – Comprehensive Income and Expenditure Statement - £3.63 million

14. Other Adjustments

We also identified through our initial review of the draft financial statements a number of disclosure adjustments which have been corrected by management, the most significant of which is in relation to the Going Concern Note.

Audit Differences

Summary of Unadjusted differences

We highlight the following misstatements greater than £0.98 million which have not been corrected by management that were identified during the course of our audit:

1. **Understatement of Accruals**

One accounting accrual in relation to the compulsory purchase order of land as part of the Huntingdon West - Town centre link project was not included in the year end 'Short-term Creditors' balance.

- Debit: Balance Sheet – Property, Plant and Equipment (Assets Under Construction) - £2.50 million
- Credit: Balance Sheet – Short-term Creditors - £2.50 million

2. **Adult Social Care - Payment in Advance - Over statement**

The payment in advance for Adult Social Care within 'Short-term Debtors' had been overstated due to the calculation methodology incorrectly including elements of the 2019/20 expenditure.

- Debit: Comprehensive Income Statement – Cost of Services - £1.19 million
- Credit: Balance Sheet – Short-term Debtors - £1.19 million

3. **Understatement of Provisions**

The Insurance provision within the Statement of Accounts was understated, as the evidence to support the 2019/20 estimate was not received until after the draft Statement of Accounts had been prepared and presented for audit.

- Debit: Comprehensive Income Statement – Cost of Services - £2.64 million
- Debit: Earmarked Reserves - £0.28 million
- Credit: Balance Sheet – Short-term Provisions - £2.92 million

4. **Prior year unadjusted differences in relation to Capital Grant Income – Turnaround effect**

As reported in our 2018/19 Audit Results Report, audit differences in relation to Capital Grant Income were not amended for by the Council, these audit differences have not been amended for within the 2019/20 Statement of Accounts. The 'Turnaround affect' is the impact of uncorrected misstatements that we reported in our 2018/19 Audit Results Report on the current period financial statements.

- Debit: Comprehensive Income and Expenditure Statement – Net Cost of Services - £1.44 million
- Credit: Balance Sheet – Reserves - £1.44 million

We request that these unadjusted differences be corrected or a rationale as to why they are not corrected be considered and approved by the Accounts and Audit Committee and provided within the Letter of Representation.

Appendix A- Updated Request for a Management Representation Letter

Request for a Management Representation Letter

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Building a better working world

INVESTOR IN PEOPLE

Chris Malyon
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CB3 0AP

18 March 2021

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Chris,

Cambridgeshire County Council & Group – 2019/20 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 Cambridgeshire County Council and Group ("the Group and Council") for the year ended 31 March 2020.

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 2020 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 2019/20.

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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 2019/20.

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 2019/20 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 financial statements are appropriately described in the 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 2019/20, 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 your system of internal controls.

5. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

   That you have not corrected these differences identified and brought to your attention by us because (please specify the reasons for not correcting the misstatements).

Appendix A– Updated Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

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.
3. That you have disclosed to us the results of your assessment of the risk that the 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 Group and 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 and 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 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: 23 March 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 financial statements.
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 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 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 financial statements (please specify the Note) all guarantees that you have given to third parties.

E. Subsequent Events

1. That other than the disclosure described in Note 5 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. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

Appendix A– Updated Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

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2. In respect of accounting estimates recognised or disclosed in the financial statements:

- 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.

G. Expenditure Funding Analysis

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

H. Going Concern

1. That the Group and Council has prepared the financial statements on a going concern basis and that Note X (insert note reference) 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 Department of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.

I. Ownership of Assets

1. That except for assets capitalised under finance 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).

J. Reserves

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

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K. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the values of the Group and Council's land and buildings and have adequately considered the qualifications of the experts 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.
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 2019/20.
3. You confirm that the significant assumptions used in making the valuation of assets 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 and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
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.
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.

L. 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 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 consolidated and 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 2019/20.

Appendix A– Updated Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

4. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.

5. You confirm that the disclosures made in the consolidated and Group and Council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Group and Council financial statements due to subsequent events.

M. 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 2019-2020".

2. You confirm that the content contained within the other information is consistent with the financial statements.

N. 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 consolidated financial statements are immaterial on a quantitative and qualitative basis.

O. Use of the Work of a Specialist – Pension Liabilities

1. 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 consolidated 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.

P. Valuation of Pension Liabilities

1. 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 2019/20.

2. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.

3. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

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 Accounts & Audit 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