Agenda Item 11

CAMBRIDGESHIRE COUNTY COUNCIL

AUDIT COMPLETION REPORT - DRAFT

Audit for the year ended 31 March 2018

26 July 2018

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WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Accounts Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Accounts Committee. At the completion stage of the audit it is essential that we engage with the Audit and Accounts Committee on the results of audit work on key risk areas. The key risk areas include significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Accounts Committee meeting on 30 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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 use of resources. This report has been prepared solely for the use of the Audit and Accounts Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the Appendices.

This report may contain matters which should properly be considered by the Council as a whole. We expect that the Audit and Accounts Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us now if this is not appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Accounts Committee in reviewing the results of the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	Our audit procedures remain in progress at the date of this report. Outstanding matters are shown on page 6.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 12 March 2017/2018.
Materiality	Our final materiality is £16.600 million for the Council and £16.600 million for the Group. Our materiality levels have not required reassessment since our audit planning referred to above.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
Group audit	Our group audit procedures are in progress.
Unadjusted audit differences	We are required to bring to your attention audit differences that we have identified, but you are not proposing to adjust. Subject to completion of the outstanding matters on page 6, these include: • £3.611 million relating to impact of brought forward unadjusted misstatements from 2016/17 • £473,000 relating to a month 12 depreciation charge calculated using revalued costs rather than pre-valuation costs for assets revalued at 31 March 2018 • £610,000 being the reduction in assets held for sale to fair value – cost to sell • £599,000 being the correction of journals to cancel sales invoices being posted to expenditure and creditors rather than income and debtors. • £3.143 million being the difference between the value of the Council's share of pension fund scheme assets per the actuary's report and our expectation for the Council's share. If corrected, these would decrease the deficit on the provision of services for the year by £3.474 million. Further details of the unadjusted audit differences are set out in Appendix I.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS	
Material and other corrected misstatements	Subject to completion of the outstanding matters on page 6, our audit identified a material misstatement relating to the restatement of prior period balances against service lines in the comprehensive income and expenditure statement. Subject to completion of the outstanding matters on page 6, there are six other audit differences identified by our audit work that were adjusted by management: • £9.778 million debited to the corporate services expenditure rather than the general fund • £5.859 million relating to payroll and VAT creditors incorrectly posted to debtors • £3.886 million of intangible assets incorrectly classified as property plant and equipment assets under construction • £8.782 million reclassification of unidentified receipts from debtors to creditors • £2.800 million reclassification of short term loan from long term to short term debtors • £2.437 million reclassification of creditor balance arising from historical issue relating to pension fund payments which do not represent a liability of the Council Management has amended the financial statements for these issues, which has decreased the deficit on provision of services by £3.324 million, from £100.055 million to £96.731 million.
Control environment	The Council has provided evidence to demonstrate that a review of the draft statement of accounts was undertaken by senior members of the closedown team prior to publication. The evidence provided demonstrates that the Council implemented a control that was designed to identify potential material misstatements in the draft financial statements before certification by the section 151 officer, publication by the Council and presentation for audit. However, the misstatements identified by our audit indicate that the control did not operate effectively. This is the third consecutive year where material misstatements have been identified in the Council's draft financial statements.
Other financial reporting issues	The Council has amended its accounting policies relating to the following matters: • derecognition of infrastructure assets which have been replaced; and • capitalisation of borrowing costs. Our work on infrastructure assets and the Council's treatment of borrowing costs is ongoing.

OVERVIEW

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable resource deployment	The Council exceeded its budget in 2017/18 for the second successive year by £4 million which was the forecast position from month 5. The Council needed to draw on reserves to manage the overspend and has had to top up the General Fund Balance at the start of the new financial year to the required minimum level. The medium term financial sustainability of the Council is a significant challenge with transformation and new ways of working needed in order to deliver the quantum of savings required. 2018/19 already has a forecast overspend outturn position of £1.8m with a number of other pressures and risks transparently reported and highlighted to Members which will need to be managed. The Business Plan continues to evolve and be updated as proposals such as the new structure for Children Services and the commercial strategy are approved and implemented. Management have demonstrated a clear understanding of the challenge the Council faces and the importance of having evidence based solutions and robust arrangements to support the delivery of the financial challenge. Our work in this area is currently on-going as we await the final sources of evidence before finalising our conclusion.
Informed decision making	Income generation is one of the core strands of the Council's Business Plan in order to mitigate against decreasing government funding. It has been acknowledge that lessons have been learnt from the experience of setting up This Land Ltd, where the pace of development and progress is behind what was originally anticipated resulting in budget pressures which will need to be mitigated through other mechanisms. The Commercial Strategy is due to be presented to Members late summer to set out the Council's direction in this area and has four key strands. Successful delivery of the programme will be critical to the financial sustainability of the Council in the medium and longer term. We have received an objection from a local elector and are in the process of considering whether this will impact on our conclusion, whilst also awaiting the final sources of evidence from management.

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018.
Other information	We propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.

OVERVIEW

AUDIT OPINION	
Use of resources	Our work on use of resources is still in progress. This includes consideration of the potential relevance of matters raised in an objection received from a local elector on 12 July 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND ACCOUNTS COMMITTEE	
Whole of Government Accounts (WGA)	Local authorities were required to submit the unaudited WGA Data Collection Tool (DCT) to HM Treasury and auditors by 14 June 2018. The Council did not meet this deadline and, at the time of writing, submission has yet to take place. We will complete our review of the DCT following submission by the Council and after we have completed our audit of the Council's financial statements.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.
Audit certificate	We will not be able to issue our audit closure certificate until: • the 2017/18 WGA DCT has been submitted and the audit of it is complete • our work in relation to the objection received from a local elector on 12 July 2018, in respect of the 2017/18 public rights period, is concluded • our work in relation to the open objection received from a local elector, in respect of the 2016/17 public rights period, is concluded.

OUTSTANDING MATTERS

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 meeting at which this report is considered:

1 Clearance of outstanding issues on the audit queries tracker currently with management and review of information provided in relation to:

- Valuation of land and buildings
- Leases
- Debtors and Creditors
- Income
- Usable and unusable reserves

2 Completion of residual audit procedures relating to the following:

- PFI arrangements
- Contingencies and commitments
- Cash flow statement
- Going concern
- Laws and regulations
- Group procedures

3 Completion of responsible individual, engagement quality control reviewer and manager reviews

4 Receipt of final draft of the Statement of Accounts and completion of audit procedures to confirm all agreed amendments have been made

5 Final review and approval by you of the Statement of Accounts

6 Technical clearance

7 Subsequent events review

8 Management letter of representation, as attached in Appendix VI to be approved and signed

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KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	**Management override of controls**	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Our work on journals and accounting estimates is substantially complete. We have not identified any unusual or inappropriate journals, nor have we identified any evidence of bias in accounting estimates. Our audit procedures have not identified any significant transactions which appear to be outside the normal course of business or otherwise unusual.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition [SR]	Under auditing standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital grants that require conditions to be met before they may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence and accuracy of fees and charges income recorded in the CIES. In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where our testing will be focussed.	We have: • Carried out audit procedures to gain an understanding of the Council's internal control environment for the significant income and expenditure streams, including how this operates to ensure that expenditure is recognised in the correct accounting period. • Tested an increased sample of grants subject to performance and / or conditions to confirm that the conditions of the grant have been met before the income is recognised in the CIES. • Tested an increased sample of fees and charges income to ensure it has been recorded in the correct period. • Tested an increased sample of expenditure to ensure it has been recorded in the correct period and accounted for in accordance with the CIPFA Code of Practice on Local Authority Accounting ('the CIPFA Code').	We have not identified any significant deficiencies in control relating to the Council's significant income and expenditure streams. Testing of a sample of grants subject to performance and/or conditions confirmed that they have been accounted for correctly. Audit procedures relating to the treatment of fees and charges income and expenditure have not identified any misstatements. Our income cut-off testing remains in progress. We will provide a verbal update to the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Property, plant and equipment valuations** [SR]	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 (as applicable dependent on the category of asset) at the balance sheet date. Management engages external valuers to undertake a rolling revaluation programme which ensures that all assets are revalued at least once every five years. Assets are valued as at 1 April of the financial year in question and certain assets, based on type and value, are subject to a desktop valuation as at 31 March. There is a risk over the valuation of land and buildings where valuations are based on assumptions where relatively small adjustments to those assumptions can have a material impact on the asset values.	We have: • Reviewed the instructions provided to the external valuer and reviewed the valuer's skills and expertise to determine whether we can rely on management's expert. • Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. • Reviewed the reasonableness of assumptions used in the valuation of land and buildings; and the Council's critical assessment of the external valuer's conclusions. • Reviewed the reasonableness of assumptions used in both rolling forward the 1 April valuation to the balance sheet date and assessing the value of assets not included in the revaluation exercise.	We are satisfied that the instructions provided by the Council to the external valuer, Wilks, Head & Eve (WHE), were appropriate and that WHE possesses appropriate skills and expertise. The valuation has been undertaken in accordance with the requirements of the Code. We identified that information provided by the Council to WHE relating to those assets subject to revaluation was not accurate in all respects, resulting in a non-trivial misstatement in asset value. Quantification of this error, which needs to take into account the separate impacts of different types of error in the information provided to WHE, is in progress. Once concluded this will be included in the schedule of adjusted misstatements at Appendix I and a recommendation made. We are satisfied that the revaluation movements have been accounted for correctly. The basis of valuation applied by WHE was appropriate. Our review of the reasonableness of valuation assumptions applied to land and buildings is on page 13.

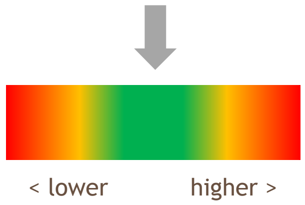
KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Property, plant and equipment valuations (continued) [SR]			The Council considered and challenged changes to the WHE's assumptions since the previous year's valuations and has demonstrated critical assessment of WHE's conclusions. Our audit review and challenge of WHE's assumptions resulted in some non-trivial errors as a result of a combination of errors made by both WHE and Council, including incorrect information provided to the valuer, valuation of property not owned by the Council and double counting of asset value. These errors have been corrected (reported in Appendix I). The Council obtained a market review from WHE regarding movements in asset values since its 1 April 2017 valuation exercise, but did not consider the impact of the reported market movements on its asset values. The Council had also not considered the potential movement in the value of assets valued at depreciated replacement cost which had not been subject to formal valuation during 2017/18 and 2016/17 and assets valued at existing use which had not been subject to formal valuation since 2013/14. During the audit the Council undertook an exercise to estimate the likely valuation movement of all assets not externally revalued by WHE at the balance sheet date. This identified that the value of these assets is materially understated (estimated by management to be £22m) and an adjustment is required. We have considered the reasonableness of the Council's estimate, by reference to independent external benchmark data, and concur with management's judgement that the asset values are materially understated.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Property, plant and equipment valuations (continued) [SR]			We estimate that the value of these assets falls outside the reasonable range of assets values derived from the benchmark data by £17.895m. The Council is currently consulting with WHE to determine what steps are required to establish a materially accurate value for these assets. We will provide a verbal update to the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
Land and buildings are valued by reference to existing use market values Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost by reference to building indices	The Council's valuation programme in 2017/18 comprised the following: • Revaluation of assets due to be valued as part of the five yearly cycle, as at 1 April 2017 • Revaluation of assets which have been subject to significant capital works or alterations in the previous year • Revaluation of all assets held at fair value • Valuation of specialist assets with a carrying value exceeding £5m • Market review covering the period between 1 April 2017 valuations and the balance sheet date. <u>Valuations completed during 2017/18</u> The valuation programme was completed by external valuation expert Wilks Head and Eve (WHE) as at 1 April 2017. Assets subject to significant capital works per the Council's capital programme during the previous accounting period were also revalued as at 1 April 2017. A desktop valuation review was completed by WHE as at 31 March 2018 for all assets valued at depreciated replacement cost with a netbook value in excess of £5m and all assets valued at fair value. A market review was also completed as at 31 March 2018 to assist the Council in determining whether assets not subject to revaluation at the balance sheet date were materially misstated. The Council accounted for net revaluation increases of £29.2m as a result of these valuation exercises. We tested a representative sample of land and buildings subject to revaluation, to ensure the information on which valuations were based was accurate and the valuation movements were correctly accounted for. We challenged the valuer and questioned the Council where individual movements appeared unusual, and we are satisfied that, overall, the Council's valuations fall within a reasonable range for those assets formally revalued by WHE. Misstatements identified during this process were not a due to estimation. We challenged the assumptions used by WHE for specialist assets valued on a depreciated replacement cost (DRC) basis and other land and buildings valued on an existing use (EUV) or fair value (FV) basis, which in some instances differed from those used in the prior period. We also challenged WHE on the reasons why individual assets moved in value outside of our expectation, for instance due to changes in valuation method, yields and estimated capital values. Discussions with WHE and the Council and benchmarking against assumptions used by valuers of comparable authorities enabled us to conclude that the assumptions used and reasons for individual assets moving in value outside of expectation were reasonable. Changes in assumptions used in the previous year valuations have not resulted in valuations which fall outside of our expected reasonable range. <u>Assets not valued as at the balance sheet date</u> The market review completed by WHE concluded that specialist assets valued on a depreciated replacement cost basis may have increased in value by 6% between the 1 April 2017 valuation and 31 March 2018. WHE's view was based on	

national build cost indices for asset types relevant to the Council, adjusted using a location factor determined by Royal Institution of Chartered Surveyors.

The market review concluded that assets valued at existing use and fair value may have increased in value up to 5%, depending on the sector in which the asset is used. WHE's estimated increase in EUV/FV assets is based on its monitoring of comparable values, investment yields and levels of rent on equivalent property.

The movements since 1 April 2017 reported by WHE were generally within our expectation range for the period, the one exception being the movement in assets measured at existing use value within the industrial sector. Based on the national MSCI capital index for the industrial sector we expected respective asset values to increase between 12-16%, whereas WHE estimated an increase of just 2-3%. WHE has explained that its estimation includes a location factor for the industrial sector in the Cambridgeshire area, which is behind the national picture. WHE also factored in that the portfolio is of more secondary/tertiary industrial asset stock, whereas the MSCI capital index most closely relates to prime assets. The difference between our expectation and WHE's estimate accounts for just £0.636m of an estimated £17.895m understatement in the value of assets not subject to indexation or revaluation at the balance sheet date.

The Council did not consider the impact of valuation movements on assets not subject to indexation or revaluation at the balance sheet date and did not apply any indexation uplift to those assets. We have challenged the Council's nil indexation approach and established that this was based on WHE's reported conclusion that there were no 'trigger' events and that reported movements since 1 April 2017 would not have a material impact on the portfolio. This identifies two deficiencies in the Council's procedures:

- Insufficient critical review of the valuer's conclusions meant the that market movements since 1 April 2017 were not considered in the context of what the Council considers to be material;
- No consideration was given to movements in the value of assets last indexed or revalued prior to 2017/18.

We have raised a recommendation regarding this matter.

The Council is currently consulting with WHE to determine how it is going to address the misstatement of assets not valued as at 31 March 2018. We will provide a verbal update to the Audit and Accounts Committee.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Related party transactions** [SR]	There is a risk that related party transaction disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction, resulting in material misstatement. This risk is heightened in 2017/18 due to both changes in councillors following local elections in May 2017 and the operation of This Land Group (formerly Cambridgeshire Housing Investment Company), a wholly owned subsidiary of the Council. Transactions with related parties can be material to the users of accounts for qualitative reasons even if they do not exceed the materiality threshold applied to the financial statements as a whole.	We have: • Documented the related party transactions identification procedures in place, including review of communication with councillors and senior officers regarding the requirement to declare their interests. • Discussed with management (and reviewed) councillor and senior management declarations to ensure there are no potential related party transactions which have not been disclosed.	We documented the procedures in place to identify related party transactions and identified that while the Council obtains declarations from members and senior officers, there is no assessment of whether or not declared transactions are material to the related party. Our review of councillor and senior management declarations identified that a number of individuals did not return declarations during the year. We have raised a recommendation regarding this matter in Appendix II. Our procedures identified one related party which had not been disclosed in the financial statements. Management have added the required information to the latest version of the financial statements.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	**Pension liability assumptions** [SR]	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. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.	We have: • Reviewed the consulting actuary report over the competency and experience of the actuary and reasonableness of assumptions used. • Reviewed the competence of the management expert (actuary). • Obtained assurance over the controls for providing complete and accurate data to the actuary. • Agreed the disclosures to the information provided by the pension fund actuary. • Followed up any points of concern raised by the consulting actuary.	The auditors of the pension fund identified that pension strain contributions had been double counted in the data submitted to the actuary. A revised report was issued by the actuary in July 2018 including values calculated using the correct normal employer contribution value. The revised actuary report also incorporated actual investment values as at 31 March 2018 (as opposed to estimated values based on investment balances as at 31 December 2017). We have reviewed the competence of the actuary and have not identified any concerns. Following receipt of the updated actuary report, the Council prepared a revised disclosure to reflect the changes made. We agreed the values in the revised disclosure to those in the updated report. Minor discrepancies were identified and corrected by management in the latest version of the financial statements. We have reviewed the assumptions made by the actuary against information provided by our consulting actuary. The outcome of this review is reported on page 16. We have identified a judgemental over-statement of the net pension liability of £3.143 million. This is due to the difference between the expected value of the Council's share of assets (derived from the share calculated by the actuary at the last triennial valuation) adjusted for contributions received and paid, and the actual value reported by the actuary. This is included in the schedule of unadjusted misstatements at Appendix I.

KEY AUDIT AND ACCOUNTING MATTERS

ESTIMATE

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

HOW RISK WAS ADDRESSED BY OUR AUDIT

The actuary has used the following assumptions to value the future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
Duration of liabilities	17.9 yrs	15-20 yrs	
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.7%	--	This assumption is scheme and employer specific.
Pension increase	2.4%	2.4%	Reasonable (derived from RPI above)
Discount rate	2.7%	2.6-2.7%	Top of expected range
Mortality - LGPS:			
- Male current	24.0 yrs	23.7-24.4	Within reasonable range
- Female current	26.3 yrs	26.2-26.9	Within reasonable range
- Male retired	22.4 yrs	21.5-22.8	Within reasonable range
- Female retired	24.4 yrs	24.1-25.1	Within reasonable range

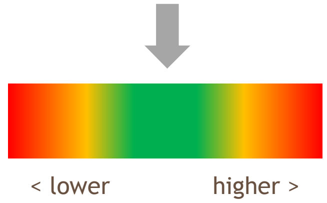
Overall impact of assumptions

PwC concluded that overall the methodologies used by Hymans Robertson to establish the assumptions used to calculate the pension liability are reasonable.

Conclusion

We are satisfied that the assumptions used by the Council are consistent with the ranges proposed by the actuary and that the ranges proposed by the actuary are consistent with market expectations.

IMPACT



KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Cash flow statement [SR]	Previous audits have identified material misstatements in the cash flow statement presented for audit. Preparation of the cash flow statement requires detailed analysis of the movement in a range of account balances. Incorrect analysis of these balances or failure to identify balances which impact on the values in the cash flow statement increases the risk that associated amounts are not accurately recognised.	We have: • Determined the steps taken by management to address the causes of the misstatements identified in previous years. • Reviewed the consistency of the statement with other areas of the financial statements and other underlying records where relevant. • Ensured each line of the cash flow statement complies with detailed guidance contained within the CIPFA Code.	Our preliminary analytical review of the draft financial statements identified potential material misstatements in the cash flow statement. We have received an updated cash flow statement and our review is ongoing at the date of this report. We will provide a verbal update to the Audit and Accounts Committee.
7	Senior officer remuneration [NR]	The prior year audit identified errors in the disclosure of senior officer remuneration, including inconsistencies with the applicable guidance, omission of remunerative benefits required for inclusion and inaccuracy of other remuneration values disclosed. Disclosures relating to senior officer remuneration are considered to be material by nature.	We have: • Agreed disclosures in the draft financial statements to the requirements of the CIPFA Code. • Agreed senior officer remuneration to underlying payroll records and evidence from other entities where officers are not on the Council's payroll.	We have no matters to report.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Changes in presentation of the Comprehensive Income and Expenditure Statement [NR]	The Council has made changes to the directorate structure and the services which fall within those directorates. Directorates created during 2017/18 include: • Place & Economy • People & Communities These changes will require a restatement of the 2016/17 Comprehensive Income & Expenditure Statement (CIES). There is a risk that these presentational changes are not correctly applied in the financial statements.	We have: • Reviewed the restatement prepared to ensure that it is in line with the internal management reporting used for decision making. • Checked that the mapping of transactions in the restated CIES is consistent with the mapping of 2017/18 transactions under the new directorate structure and that the restatement reconciles to the 2016/17 audited financial statements.	Our preliminary analytical review of the draft financial statements identified that income and expenditure comparatives for line items included in net cost of services had not been restated to reflect the introduction of new service headings and the associated reclassification of cost centres in 2017/18. Our calculations indicated that the absolute value of the restatements is material. The Council provided a revised CIES on 26 July 2018. Our review of the restated numbers is ongoing and we will provide a verbal update to the Audit and Accounts Committee.
9	Treatment of revenue expenditure funded from capital under statute (REFCUS) [NR]	The prior year audit identified that REFCUS transactions included non-enhancing capital expenditure on Council assets. REFCUS accounting also led to misstatements in the 2015/16 financial statements.	We tested a sample of REFCUS transactions to confirm that they had been correctly recognised and presented in the CIES.	We have no matters to report.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Intragroup transactions [NR]	In the prior year, income from local authority maintained schools for services provided by the Council (including cleaning and catering services and financial advisory services) was included within the Council's CIES, as was the related expenditure from the school's perspective. The Code requires intragroup income and expenditure with local authority maintained schools to be excluded from the financial statements. Failure to apply the requirements of the Code may result in misstatements relating to the existence of associated income and expenditure.	We confirmed that the Council's financial statements excluded income and expenditure transactions in respect of services provided by the Council to local authority maintained schools.	We have no matters to report.
City Deal accounting [NR]	In 2016/17 the Council's accounting treatment for its City Deal grant was adjusted to reflect the absence of any conditions associated with the grant, recognising the full grant as income and a current/non-current debtor for grant not yet received. As required by the Code, the grant should remain in the Capital Grants Unapplied Account until expenditure is incurred, at which point is should transfer to the Capital Adjustment Account. The treatment of the City Deal grant is complex, increasing the risk that in-year transactions are inaccurately recognised or are incorrectly presented in the financial statements.	We have: • Confirmed that there have been no changes to the terms and conditions associated with the City Deal grant. • Reviewed the accounting treatment applied to the grant, including reconciliation of amounts transferred to the Capital Adjustment Account to expenditure incurred on City Deal projects.	We have not identified any changes to the terms and conditions associated with the City Deal grant. There have been no changes to the accounting treatment applied to the grant, which is consistent with our expectations.

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Provisions and contingent liabilities associated with the guided busway **[NR]**	The Council is involved in ongoing litigation with a contractor regarding a dispute over the construction of the Guided Busway. In previous years the Council has disclosed in its contingent liabilities note that it is possible it will incur legal costs as a result. There is a risk that disclosures may not reflect the latest status of the ongoing litigation.	We have: • Ascertained the current status of the litigation • Reviewed the Council's disclosure of costs or liabilities related to the litigation and confirmed that they are in accordance with the CIPFA Code.	Our audit procedures relating to contingent liabilities are ongoing at the date of this report. We will provide a verbal update to the Audit and Accounts Committee.
This Land Group (formerly Cambridgeshire Housing Investment Company) **[NR]**	This Land Group has entered into material transactions during the year which may result in a requirement to prepare group accounts. The Council has not previously prepared group accounts. There is a risk that when determining whether or not it should consolidate This Land Group into its accounts, and subsequently preparing group accounts if required, the Council may not comply with the applicable accounting framework.	We have: • Reviewed the Council's rationale on whether or not to prepare group accounts. • Reviewed the Council's working papers to ensure that consolidation has been executed in accordance with the CIPFA Code.	We concur with the Council's judgement that group accounts are required. Our audit procedures relating to the consolidation exercise required to prepare the group accounts are ongoing at the date of this report. We will provide a verbal update to the Audit and Accounts Committee.
De-recognition of replaced infrastructure assets **[NR]**	The Council does not maintain a detailed asset register to support the infrastructure assets balance recognised in the financial statements. There is a risk that information relating to the Council's infrastructure assets is insufficiently detailed, resulting in balances associated with replaced infrastructure assets not being correctly derecognised.	We tested a sample of infrastructure additions to confirm that the correct accounting treatment was applied, including de-recognition of assets which have been replaced.	Our work on the de-recognition of replaced infrastructure assets remains ongoing. We will provide a verbal update to the Audit and Accounts Committee at which this report is presented.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
1	Capitalisation of highways expenditure	The Council capitalises highways expenditure as assets under construction on an accruals basis, with the point of capitalisation being the point when an interim/final invoice request from the contractor is approved (i.e. the works are concluded as sufficient for the Council to make payment). Our sample testing of assets under construction identified a project where capital expenditure had been incurred in 2016/17, with the officers approving the works in March 2017. The approval of the works was not processed on Insight (the system used by the Council to manage highways works) until 6 April 2017, despite the contractor having recorded its interim claim on Insight throughout the prior period, which resulted in the expenditure not being capitalised until 2017/18. We have raised a recommendation regarding this matter.
2	Capitalisation of vehicles, plant and equipment	The Council utilises the de-minimis permitted in the Code regarding capitalisation of vehicles, plant and equipment. The Code states that capitalisation of expenditure on PPE is not necessary where the amounts involved are not material (either individually or in aggregate) to the true and fair presentation of the financial position and to an understanding of the Statement of Accounts by a reader. In preparing its accounts the Council had not completed any assessment of whether its property, plant and equipment balance was materially misstated due to its policy to not capitalise vehicles, plant and equipment, resulting in further work during the audit. We concluded that, based on 2016/17 levels of expenditure on vehicles, plant and equipment, this policy has not resulted in a material understatement of PPE. The Council should assess, on an annual basis, whether its application of a policy to not capitalise vehicles, plant and equipment is consistent with the Code. We have raised a recommendation regarding this matter.
3	Removal of disposed assets from the asset register	Our testing identified that disposed assets are not being removed from the fixed asset register in a timely manner. Although such assets have a nil effect on the figures included within the accounts, it is good practice to remove such assets to ensure the asset register remains accurate. We have raised a recommendation regarding this matter.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
4	Grant recognition	Our testing identified a 2016/17 grant which had not been recognised in the 2016/17 year (Children's Social Care Innovation Programme). This grant was recorded in the grant register in 2016/17 and so could have been subject to audit review for appropriate recognition, but was not selected. The grant funding was not recognised until the associated expenditure was incurred in 2017/18. As there are no conditions attached to this grant, the income should have been recognised in the year in which the grant was received. We have raised a recommendation regarding this matter.
5	Payroll documentation	Our testing identified one employee who had transferred to Cambridgeshire County Council under TUPE arrangements in a previous year. The Council was unable to provide a copy of the employee's employment contract, and did not have any evidence to support the employee's grade/salary point or working hours. While we were able to obtain alternative evidence to demonstrate the existence of the employee and accuracy of their associated payroll costs, the absence of an employment contract may expose the Council to unnecessary risk in the event of a dispute. We have raised a recommendation regarding this matter.
6	Land registry records	Our testing identified one library asset which had not had the title transferred from Cambridge City Council. Cambridgeshire County Council holds a user's right and we have satisfied ourselves that the Council had the rights to the property by reference to the Local Government Act 1972 and the various regulations made under that Act that makes it responsible for library services. We have raised a recommendation regarding this matter.

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KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION
We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 27 March 2018.
2	Internal audit	We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage. We also placed reliance on the work performed by internal audit on the operating effectiveness of controls operating over payroll and non-payroll expenditure.

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	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We have reviewed the Narrative Report included in the published unaudited accounts and provided feedback to management regarding inconsistencies identified, requesting amendment. We received an updated draft of the narrative report on 26 July 2018. Our review is ongoing and we will provide a verbal update to the Audit and Accounts Committee.
2	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.	Our review of the annual governance statement is on-going. We will provide a verbal update to the Audit and Accounts Committee.

CONTROL ENVIRONMENT

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 the Audit and Accounts Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, 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.

We note that the Council’s internal audit function has issued a number of observations and recommendations on the Council’s control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Our audit has identified the following significant deficiencies, which are included in the action plan at Appendix II:

REVIEW OF UNAUDITED FINANCIAL STATEMENTS PRIOR TO PUBLICATION

Our preliminary analytical review performed on the draft of the accounts published on 31 May 2018 identified some areas of the financial statements where the values reported were not in line with our expectations, indicating potential material misstatement. We raised these matters with the Council on 5 June 2018 and they were not able to provide explanations without further investigation. The responses we received confirmed that there were material misstatements in the draft financial statements relating to the restatement of prior period comparatives in the Comprehensive Income and Expenditure Statement following the reclassification of service income and expenditure in 2017/18. This exercise also identified that the minimum revenue provision of £9.1 million had been incorrectly posted to the cost of services rather than reserves and that misstatements existed in the cash flow statement.

The Council has provided evidence to demonstrate that a review of the draft statement of accounts was undertaken by senior members of the closedown team prior to publication. The evidence provided demonstrates that the Council implemented a control that was designed to identify potential material misstatements in the draft financial statements before certification by the section 151 officer, publication by the Council and presentation for audit. However, the misstatements identified by our audit indicate that the control did not operate effectively. We communicated this deficiency to the Accounts and Audit Committee Chair in an ISA265 letter, a copy of which is included at Appendix IX. Subsequent to issuing the letter, the value of the misstatements reported have been refined by the Council.

This is the third consecutive year where material misstatements have been identified in the Council’s draft financial statement.

We also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
2	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 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 Authority 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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council did not meet this deadline and submission has yet to take place at the date of this report. We will complete our review of the WGA Data Collection Tool (DCT) following submission by the Council and after we have completed our audit of the Council's financial statements.

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USE OF RESOURCES

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) and report to you on an 'except for' basis. 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 2017/18 Audit Plan issued in March 2017/2018. 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.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk ■ Other issue

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable resource deployment [SR]	The Council's latest Business Plan 2018-2023 includes a balanced budget for 2018/19 but identifies that the Council needs to make savings of £82.7m over the next 5 years. Whilst the Council has a track record of achieving significant levels of savings, transformation is needed in order to continue to deliver this quantum of savings. Successful transformation underpins the Council's medium term financial strategy and will require robust financial management arrangements to be in place. We have therefore raised sustainable resource deployment as a significant risk. We reviewed the reasonableness of the assumptions used in the Medium Term Financial Strategy, including the budget re-alignment outcome, and considered the reasonableness of the assumptions applied in the forecasts in respect of cost pressures and government grant reductions. We reviewed the progress being made in respect of the Transformation Programme, including how the programme is being managed in the context of the new arrangements associated with devolution.	The Council exceeded its budget in 2017/18 by £4 million, which was the forecast position from month 5 (£510k deficit in 2016/17). The overspend primarily arose within the People and Communities Directorate as a result of increasing demand for these services. Savings of £27.1million were delivered compared to the original target of £33.4 million (81%) due in part to delays in recruitment. The Council needed to draw on reserves to manage the overspend and has had to top up the General Fund Balance at the start of the new financial year to the required minimum level of 3%, as these had reduced to 2.4% of budgeted gross non-school expenditure. The medium term financial sustainability of the Council is a significant challenge with transformation and new ways of working needed in order to deliver the quantum of savings required. We have reviewed the reasonableness of the assumptions applied by the Council in developing its Business Plan and have no matters to report. The budget re-alignment process has looked at demand and trends in activity to ensure that resources are deployed to appropriate areas. 2018/19 already has a forecast overspend outturn position of £1.8m as at May 2018, with a number of other pressures and risks transparently reported and highlighted to Members that will need to be managed. Mitigation actions have commenced and there are a range of additional options available to deploy if it becomes necessary, a number of other mitigations are being identified in order to manage the in-year position. The Business Plan continues to evolve and be updated as proposals such as the new structure for Children Services and the commercial strategy are approved and implemented. It is widely recognised that such change will take time to implement, embed and deliver and therefore the Council has prudently created an additional reserve to provide some financial resilience whilst it embarks on a period of significant change, and also to mitigate the risk attached to the more volatile budgets. Transformation monies have been drawn down in the year and the Council has seen a return on its investment from savings, due process has been followed and now there is a consistent and transparent arrangement for utilisation of the funds. Management have demonstrated a clear understanding of the challenge the Council faces and the importance of having evidence based solutions and robust arrangements to support the delivery of the financial challenge. Our work in this area is currently on-going as we await the final sources of evidence before finalising our conclusion.

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	**Informed decision making [SR]**	The Council's Business Plan includes a number of revenue generating activities. These include creating This Land Group (formerly the Cambridgeshire Housing and Investment Company) and the proposed use of £100m of capital receipts to purchase commercial assets. The Council is seeking innovative ways of generating funds to support service delivery and mitigate the reduction in government funding. The Council will need to ensure it has put in place the appropriate governance arrangements and corporate arrangements to comprehensively and effectively plan and successfully deliver the income generating activities. We have therefore raised a significant risk in relation to informed decision making. We reviewed the This Land Group business case and progress to date with schemes that are in the pipeline or have been approved. We also reviewed the governance and corporate arrangements in place to monitor the company. We discussed with management the planned proposals for the £100m spend on commercial assets and conduct a review of relevant detailed business cases.	Income generation is one of the core strands of the Council's Business Plan in order to mitigate against decreasing government funding. It has been acknowledge that lessons have been learnt from the This Land Ltd experiences to date and that the pace of development and progress is behind what was originally anticipated has resulted in budget pressures which will need to be mitigated through other mechanisms. The Council has recognised the importance and need for capacity and appropriate skills in order to manage such a significant programme but needs to ensure it is mindful of its overall risk appetite in such a competitive market. The Commercial Strategy is due to be presented to Members late summer to set out the Council's direction in this area. The strategy has four key strands; a cultural mind-set shift to a commercial focus, robust contract management and procurement, consideration of traded services and investment and acquisition. Capacity has been increased with appointment to the newly created role of Director of Business Improvement and Development whose remit is to provide focussed leadership the successful implementation of the Commercial Strategy. Successful delivery of the programme will be critical to the financial sustainability of the Council in the medium and longer term. We have received an objection from a local elector and are in the process of considering whether this will impact on our conclusion, whilst also awaiting the final sources of evidence from management.

APPENDICES

APPENDIX I: 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 Audit and Accounts 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, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Subject to the completion of outstanding matters on page 6, our audit has not identified any material misstatements.

There were six audit differences identified by our audit work that were adjusted by management:

- £9.778 million debited to the corporate services expenditure rather than the general fund
- £5.859 million relating to payroll and VAT creditors incorrectly posted to debtors
- £3.886 million of intangible assets incorrectly classified as property plant and equipment assets under construction
- £8.782 million reclassification of unidentified receipts from debtors to creditors
- £2.800 million reclassification of short term loan from long term to short term debtors
- £2.437 million reclassification of creditor balance arising from historical issue relating to pension fund payments which do not represent a liability of the Council

This decreased the deficit on provision of services by £9.778 million, from £100.055 million to £90.277 million.

UNADJUSTED AUDIT DIFFERENCES

Subject to the completion of outstanding matters on page 6, there are four unadjusted audit differences identified by our audit work which would decrease the deficit on provision of services by £3.474 million if corrected. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		STATEMEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on provision of services before adjustments	96,731				
DR Reserves				3,611	
CR Deficit on provision of services	(3,611)		(3,611)		
(1) Impact of brought forward unadjusted misstatements					
DR Accumulated depreciation				473	
CR Depreciation charge	(473)		(473)		
(2) Depreciation for March 2018 has been calculated using revalued costs as at 31 March 2018 rather than the pre-revaluation cost (factual)					
DR Surplus/deficit on revaluation of PPE	610	610			
CR Assets Held for Sale					(610)
(3) Being the reduction in value of assets held for sale to fair value – cost (which was lower than carrying value) (judgemental)					
DR Income	599	599			
CR Short term debtors					(708)
CR Expenditure	(599)		(599)		
DR Short term creditors				708	
(4) Being correction of journals to cancel sales invoices being posted to expenditure and creditors rather than income and debtors (judgemental)					

DR Net pension liability				3,143	
CR Pension reserve					(3,143)
(5) the difference between the expected value of the Council's share of assets (derived from the share calculated by the actuary at the last triennial valuation) adjusted for contributions received and paid, and the actual value reported by the actuary.					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(3,474)	1,209	4,683	(7,935)	(4,461)
Deficit on provision of services if adjustments accounted for	93,257				

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £000s
Balances before adjustments	(13,396)
Adjustments to CIES above	(3,474)
Adjustments via movement in reserves statement:	
DR Reversal of depreciation adjustment at (2) above	473
CR Reversal of revaluation adjustment at (3) above	(610)
BALANCES AFTER ADJUSTMENTS	(15,787)

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: Significant deficiency in internal control · Other deficiency in internal control · Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
PRE PUBLICATION REVIEW OF FINANCIAL STATEMENTS	Our preliminary analytical review performed on the draft of the accounts published on 31 May 2018 identified some areas of the financial statements where the values reported were not in line with our expectations indicating potential material misstatement. Further investigation confirmed that there were material misstatements in the draft financial statements relating to the restatement of prior period comparatives in the Comprehensive Income and Expenditure Statement following the reclassification of service income and expenditure in 2017/18.	Perform a year on year analytical review as part of the accounts preparation process to identify any movements in the primary statements. Investigate any such differences to ensure that they are not indicative of a material misstatement. Make any corrections required prior to publication of the unaudited accounts.			
REVIEW OF ASSETS NOT SUBJECT TO INDEXATION OR REVALUATION AT THE BALANCE SHEET DATE	The Code requires revaluations to be undertaken with sufficient regularity to be materially accurate. Our review of the valuation movement of assets not subject to indexation or review at the balance sheet date identified an estimated material misstatement. Investigation confirmed that the Council had not considered the valuer's estimated valuation movements between 1 April 2017 and 31 March 2018 in the context of its own portfolio and its own materiality. Further, it was identified that no consideration had been given to the	Review movements in the value of assets not included in the valuation programme, for instance by commissioning a report from its professional valuer. Where the movement in property values indicates material misstatement in assets not subject to revaluation as at the balance sheet date, apply indexation to these assets or increase the frequency of revaluation from 5-			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
	valuation movements of assets last indexed or revalued prior to 2017/18.	yearly by bringing forward revaluations.			
REVIEW OF ROLLING VALUATION PROGRAMME	The Council did not utilise the information provided in Wilks Head & Eve's market review to consider whether assets not revalued at the balance sheet date are materially misstated. By not considering the valuation movement of assets no revalued at the balance sheet date the Council risks reporting materially misstated PPE.	Utilise the market movements advised in the valuer's market review to assess whether assets not revalued at the balance sheet date are materially misstated. If advice suggests that assets not revalued at the balance sheet date are materially misstated the Council should apply an indexation to the respective asset categories.			
NON-CAPITALISATION OF VPE	The Council had not completed any assessment of whether its property, plant and equipment balance was materially misstated due to its policy to not capitalise vehicles, plant and equipment.	Assess whether its application of a policy to not capitalise VPE is consistent with the requirements of the Code on an annual basis.			
CAPITALISATION OF HIGHWAYS EXPENDITURE	We identified approved capital works (highways) have not been capitalised in the correct period due to a time lag between approval for invoicing and processing of approval on Insight. Highways expenditure may be capitalised in an incorrect period.	If capitalisation of accrued highways expenditure is triggered by approval within Insight, to ensure expenditure is capitalised as assets under construction in the correct accounting period the Council should ensure timely approval within Insight following inspection. Otherwise, the Council should implement procedures to ensure works approved before year-end but not yet processed on Insight are accrued and capitalised in the correct period.			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
CONTRACTS OF EMPLOYMENT	Our testing identified one employee who had TUPE'd over to the Council. The Council did not have a copy of the employee's employment contract, and did not have any evidence to support the employee's grade/salary point or working hours. If there was ever a dispute over this employees pay the Council would have no contract/documentation to support how much they should be paid.	Ensure that valid employment contracts are held for all employees, including those who TUPE over from another firm, to ensure that they have evidence of the salary point, grade and benefits the employees are entitled to.			
GRANT RECOGNITION	During testing we identified a 2016/17 grant which had not been recognised in the 2016/17 year (Children's Social Care Innovation Programme) as the income was received late in the year and the Council did not recognise the income until the grant funding was spent in 2017/18. As there are no conditions attached to this grant, per the Code, this grant should have been recognised as income in the year in which the grant was awarded to them.	Consider each grant for recognition purposes, ensuring that if the grant is going to be recognised in the year then all of the conditions have been fully satisfied (as per Code guidance), and if conditions are not met that the income is recorded as grant income received in advance.			
RELATED PARTY TRANSACTIONS	While the Council obtains declarations from members and senior officers regarding potential related party relationships, there is no assessment of whether or not associated transactions are material to the related party.	Assess the materiality of any related party transactions identified in the context of the related party’s circumstances. Where such transactions are determined to be material to the related party, these should be disclosed in accordance with the Code.			
SWIFT ITGC DEFICIENCIES	The Council do not perform any periodic reviews over the access rights of users in the swift system.	Implement a periodic review of user access rights for both systems. Document the review to			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
	This could mean that users who may change role or responsibilities may have access rights which they no longer require. It may also mean that, if leavers are not correctly notified to the Swift team then they could remain on the system without being removed and continue to have access to Swift after leaving the council, which a periodic review would identify as this would highlight where users have not been active for a long period of time.	ensure an audit trail of changes made is retained.			
SWIFT LEAVER FORMS	In our testing of Swift leavers, we were unable to obtain the authorised leaver form for one employee. Therefore we were unable to confirm how long the user had access to the Swift system after they had left the Council. This could mean the user had Swift access for a prolonged period of time after they left the council/changed roles within the authority, and had access to areas of the system they were no longer authorised for.	Ensure leaver forms are completed for all employees and stored for future reference.			
Swift Access Change Requests	During our testing of Swift starters we identified an individual who had been granted new permissions during the year. We were unable to obtain documentary evidence of the requests and authorisation.	Ensure documentation of the request for changes and authorisation are maintained, to ensure all access rights have been appropriately granted.			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
	This means there is a lack of control in place to ensure changes in Swift access rights are properly documented and approved. This could mean that an individual is granted access to parts of the system they are not authorised for.				
SWIFT - SYSTEM PASSWORD PARAMETERS	During ITGC testing it was identified that the Swift system cannot handle password expiry or password masking. Identified in prior year but no change in current year so MLP retained on file for 2017/18 During ITGC testing it was identified that the Swift system cannot handle password expiry or password masking. This increases the risk of unauthorised users gaining access to the Swift system as the password security on the application is weak.	Increase password security to include password expiry and masking.			
PROMPT REMOVAL OF DISPOSED ASSETS FROM REGISTER	During our fixed asset testing, it was identified that disposed of assets were not being removed from the fixed asset register in a timely manner. Despite having a nil effect on the figures included within the accounts, the inclusion of diposed asset in the register meant additional time was required in selecting our physical verification sample (as samples of disposed assets were selected). Additionally, time was spent on verifying assets that later turned out to have been disposed of and title deeds were purchased for assets no	Ensure assets that have been disposed are removed from the fixed asset register in a timely manner.			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
	longer owner by the Council, incurring additional costs to the audit				

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
Swift - System Password Parameters [D]	The Swift application does not offer password expiry or masking functionality. This increases the risk of unauthorised users gaining access to the Swift system.	Review and enhance password security controls in Swift.	Swift is being replaced in early 2018 with Mosaic. No system updates to Swift are being authorised to enable a stable migration to Mosaic.	Digital Systems Manager May 2018	This recommendation has not been implemented at the date of this report. We have reported this matter again in the 2017/18 action plan.
Swift and Insight - review of user access [D]	The Council does not perform any periodic reviews over the access rights of users in the Swift or Insight systems. This may result in users who change roles retaining access inappropriate to their new responsibilities. Leavers may not be identified and removed from the system in a timely fashion.	Implement a periodic review of user access rights for both systems. Document the review to ensure an audit trail of changes made is retained.	Swift is being decommissioned so there is no plan to introduce this process. Insight - periodic reviews of users do take place as the Highways service evolves. However these are not documented. A method of recording changes will be investigated.	Digital Systems Manager May 2018 Digital Systems Manager December 2017	This recommendation has not been implemented at the date of this report. We have reported this matter again in the 2017/18 action plan.
Capital Commitments [D]	The register on which capital commitments are recorded does not record dates contracts are signed, which are required to prepare an accurate capital	Revise the contract register so that it records the date the contract was signed, rather than the date on which works start.	The Council will investigate the possibility of changing the information collected and reported regarding the contracts register so that it includes signed dates.	Procurement and Closedown teams December 2017	Our audit procedures have not identified similar issues in 2017/18.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
	commitments disclosure in the accounts. We also identified that incorrect values were recorded against some contracts. Inaccurate recording on the contract register has resulted in audit adjustments to the financial statements note during the current and prior year audits.	Remind contract managers of the importance of updating the contract register when there are changes to contract values. Undertake sample checks of contract values to supporting contract documentation during the year to confirm that this is happening.	The Council will also communicate with service managers and the procurement team about the importance of ensuring contract information is updated on the register if the final contract information changes.		
Schools payroll - salary bandings greater than £50k and termination benefits [D]	The Council did not receive the information required to complete the salary bandings and termination benefit disclosures from the schools' payroll provider prior to production of the financial statements.	Liaise with the schools payroll provider and agree a formal timetable for the provision of information required to complete remuneration disclosures in the financial statements.	The Council will liaise with EPM, the main schools payroll provider, to agree data requirements and timescales for the provision of information required to complete remuneration disclosures in the financial statements.	Group Accountant (Closedown) December 2017	The Council has obtained actual values from the payroll provider to support production of the associated disclosures in the 2017/18 financial statements. Our audit procedures did not identify similar issues in 2017/18.
Schools payroll - supporting documentation [D]	Schools were unable to provide information to support changes to hours worked and salary bandings.	Remind all schools of the importance of retaining documentation relating to changes in hours and salaries of individuals which they employ.	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 October 2017 to remind them of the requirement to retain documents for audit purposes.	Schools Corporate Accountant October 2017	Our audit procedures have not identified similar issues in 2017/18.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
Swift/Ledger Reconciliation [D]	The Swift system was not updated in a timely fashion upon care providers converting to the AFM system. For two transactions in our sample we identified delays of 4 and 5 months. Expenditure relating to provision of care by providers that converted to AFM in the final quarter of 2016/17was not recorded in the 2016/17 ledger, therefore understating 2016/17 expenditure and overstating 2017/18 expenditure.	Update Swift promptly when care providers convert to AFM. Perform quarterly comparisons between Swift and AFM to ensure these updates are taking place. Undertake a reconciliation between Swift and the general ledger on a quarterly basis to identify any differences between the two systems.	Swift is the Adult Social Care system which holds the Adult Social Care data. AFM is the interface finance module which looks into Swift and translates regular files across to the payables and receivables system. The difficulties with producing a reconciliation between Swift and the GL are that not all the transactions go via AFM into the GL, there are some that go via iProcurement. AFM produces around 95% of the transactions that go into the GL from Swift but there are still some orders that are raised through iProcurement. That said the large volume conversion work onto AFM in Learning Disability services is now complete, reducing the likelihood of this issue occurring. Also, AFM is an interface rather than a host system and there are reasons why the figures in AFM will not always match the figures in the host system. For example, if a client contribution in Swift is showing as greater than the cost of the care provision, then when it is loaded into AFM, AFM will act intelligently to reduce the bill down to the actual cost of care. So AFM will never be 100% the same as Swift in these cases. Continued attention will be given to transaction checking in services and a detailed accruals process takes place to reduce the frequency of errors arising. GL tie-back functions are part of the development for the successor Mosaic system.	Head of Finance March 2018	Our audit procedures have not identified similar issues in 2017/18.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
s106 Receipt in Advance - no supporting documentation [D]	A £1m section 106 contribution was received in March 2005 from Cambridge City Council, which relates to the South Cambs Area Transport Plan. No agreement can be found for this and the Council has cited the age of the agreement as the reason. The Council is unable to provide evidence that the agreement exists or support the value of the Capital Grant Receipts in Advance balance.	Retain contracts for audit inspection. Review contracts for which there are balances in Capital Grant Receipts in Advance to determine whether conditions attached to the contracts have been satisfied.	All S106 agreements are now retained. The Council is looking to implement a new S106 database, which will allow for easier recording and monitoring of conditions.	Funding and Innovation Programme Manager March 2018	Our audit procedures have not identified similar issues in 2017/18.
Prior period adjustments [O]	In the first draft of the accounts, the Council have recognised a prior period adjustment for an amount which is not material. Whilst the Code does not prohibit the correction of immaterial prior period errors, such a correction is unnecessary and reduces the readability of the financial statements for users as well as requiring additional work from the close down team.	Consider proposed prior period adjustments against the requirements of the Code to determine whether or not such an adjustment is necessary. Where the amounts involved are immaterial, the error should be adjusted in the current year.	The 31st March 2017 position is correct so whilst it does not comply with the requirements of the Code to include the Prior Period Adjustment note, the Council's treatment is actually more accurate. This will be taken into consideration as part of the production of the 2017/18 Statement of Accounts. However, it is unlikely that any significant time will be saved for the Closedown team as the workings behind disclosure notes will still need to be carried out, either for reconciliation purposes or in order to ascertain whether the figures are immaterial; it would just be a case	Group Accountant (Closedown) By May 2018 for the draft accounts	Our audit procedures have not identified similar issues in 2017/18.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
			of not including certain tables in the Statement of Accounts document itself.		
Payables transactions [O]	Our review of the value of payables journals posted throughout 2016/17 identified a significant spike in month 12. Part of the reason provided for this spike was a year-end push to receipt orders on the accounts payable ledger, thus recognising the expenditure without a requirement to raise an accrual and simplifying the closedown process. Leaving the drive to match goods eceived against orders in the accounts payable ledger until the year end may result in less accurate quarterly reporting at directorate level. It may also delay the payment process and put the council at risk of defaulting on its credit terms.	Introduce a periodic process to match all GRNs to open orders on its accounts payable ledger. As a minimum, this should be done quarterly as part of the Council's internal reporting processes.	The Scheme of Financial Management requires the Council's budget holders to ensure that goods/works/services are certified as received at the point of receipt of those goods/works/services. Service Finance will emphasise to budget holders the importance of timely receipting of purchase orders and the need to review open orders reports as part regular budget procedures. Quarterly reporting at directorate level is driven by full-year forecasting rather than an account of goods receipting for the year-to-date, so the Council is of the view that quarterly reporting is not adversely impacted by this issue.	Service Finance Ongoing	Our audit procedures did not identify similar issues in 2017/18.
Immaterial disclosures in draft financial statements [O]	The draft financial statements include a number of disclosures relating to immaterial balances which we have highlighted to management. Management have opted to retain some of these	Identify and remove immaterial disclosures when preparing the draft financial statements.	This will be taken into consideration as part of the production of the 2017/18 Statement of Accounts. However, it is unlikely that any significant time will be saved for the Closedown team as the workings behind disclosure notes will still need to be carried out, either for reconciliation purposes or in order to ascertain whether the	Group Accountant (Closedown) By May 2018 for the draft accounts	The 2017/18 unaudited published accounts included notes supporting immaterial balances. We received an updated draft of the 2017/18 accounts on 26 July 2018.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
	disclosures in the final version of the financial statements. Including immaterial disclosures in the financial statements reduces the usefulness of the financial statements to users. Such disclosures may also require unnecessary work on the part of the close down team, which will need to be eliminated to ensure the faster close timetable for the production of the 2017/18 financial statements is met.		figures are immaterial; it would just be a case of not including certain tables in the Statement of Accounts document itself.		Our review is ongoing and we will provide a verbal update to the Audit and Accounts Committee.
Assessment of Valuer's conclusions when forming valuation estimate [O]	The Council has not considered the effect of all changes in the assumptions used when developing its valuation estimate. The Council has also not monitored the outcome of the 2015/16 estimate with consideration of the different assumptions used in 2016/17. The impact of the change in assumption could be considered, for instance, through sensitivity analysis.	Assesses the effect of estimation uncertainty on the valuation of land and buildings. Critically assess the impact of the assumptions used by the valuer, particularly when they differ from what has previously been used, to help determine the accuracy of the current or prior estimate.	In order to undertake sensitivity analysis across the whole portfolio, it is necessary to be able to extract the underlying assumptions en masse for all individual assets. Due to the way valuation information has previously been held, it has not been possible to do this on such a detailed level for all assumptions and all assets. The Property team will look to address this going forward in terms of how valuation information is held, in conjunction with the Council's external valuer. However, having changed the external valuer in 2016/17, the Council is using the same valuer for 2017/18 and therefore does not expect the underlying assumptions to change.	Asset manager (Urban) By May 2018 for the draft accounts	We have identified a similar issue in 2017/18, detail of which is included in this report from page 11.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER AND TIMING	FOLLOW-UP COMMENTS
Narrative Report [O]	The Narrative Report could be further improved by including additional information on the reasons for movements in key balances included in the financial statements, rather than reporting the movement only. The 'Future Challenges and Medium Term Outlook Section' should include additional information regarding the Council's future strategic direction, the likely impact of future changes in government policy and how demographic changes are expected to affect service delivery.	Critically review the content of the Narrative Report and ensure information included provides a suitably detailed guide explaining the most significant matters affecting the financial statements.	The Council will review the content of the Narrative report and refer to further key aspects of the Council's Business Plan to provide information on the Council's future strategic direction and the likely impact of future changes in government policy and demography.	Group Accountant (Closedown)/ Head of Finance CCC By May 2018 for the draft accounts	We have reviewed the Narrative Report included in the published unaudited accounts and provided feedback to management, some of which highlights similar issues to the previous years. We received an updated draft of the narrative report on 26 July 2018. Our review is ongoing and we will provide a verbal update to the Audit and Accounts Committee.

APPENDIX III: MATERIALITY

MATERIALITY - COUNCIL

	FINAL (£)	PLANNING (£)
Materiality	16,600,000	16,300,000
Clearly trivial threshold	332,000	326,000

Planning materiality of £16,300,000 was based on 1.75% of gross expenditure (excluding losses on disposal of assets) as per the 2016/17 audited statement of accounts.

MATERIALITY - GROUP

	FINAL (£)	PLANNING (£)
Materiality	16,600,000	16,600,000
Clearly trivial threshold	332,000	332,000

Planning materiality of £16,300,000 was based on 1.75% of gross expenditure, (excluding losses on disposal of assets).

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Accounts Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

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APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	TBC	94,061	94,061	Additional costs will be incurred auditing the consolidation of the This Land Group into the financial statements. The draft statement of accounts published on 31 May 2018 were not compliant with the CIPFA Code (as described in the Key Audit and Accounting Matters section of this report). We have incurred additional cost as a result of the delays and extra work arising. We will discuss and agree any additional fee with management.
	TBC	94,061	94,061	
Skills Funding Agency subcontracting grant certification	TBC	TBC	3,650	The Education and Skills Funding Agency (ESFA) has published the requirements for certification of this grant for 2017/18. We have been asked to quote for the work.
NON-AUDIT ASSURANCE SERVICES	TBC	TBC	3,650	
TOTAL ASSURANCE SERVICES	TBC	TBC	97,711	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

[XX] July 2018

Dear Sirs

Financial statements of Cambridgeshire County Council and the Group for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 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 Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 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).

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.

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APPENDIX V: DRAFT LETTER OF REPRESENTATION

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 generally accepted accounting principles 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 made the results available to you

We have disclosed to you all instances of fraud or suspected fraud that we have knowledge of, involving management or employees.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by 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.

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.

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (RPI): 3.4%
- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 2.7%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.7%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

b) Valuation of land and buildings

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

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.

c) Valuation of heritage assets

We are satisfied that the carrying amounts of heritage assets has been reviewed with sufficient regularity that they remain current and that for any heritage assets donated or acquired at less than fair value a valuation has been obtained where possible.

We confirm that the above representations are made on the basis of enquiries of 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 and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Chris Malyon

Deputy Chief Executive

Date:

Councillor M Shellens

Chair of the Audit and Accounts Committee

Signed on behalf of the Audit and Accounts Committee

Date:

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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 welcomes feedback from external bodies and is committed to implementing all 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 companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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.

More details can be found in our Transparency Report at www.bdo.co.uk

APPENDIX IX: LETTER TO THOSE CHARGED WITH GOVERNANCE REGARDING SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

18 July 2018

Dear Councillor Shellens,

Significant deficiency in internal control

Auditing standards require that we communicate to those charged with governance any significant deficiencies in internal control identified during the audit, in writing, as soon as is practicably possible.

The purpose of our audit is for us to express an opinion on the financial statements. The scope of our audit includes consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported here are limited to those deficiencies that we have identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance.

Our preliminary analytical review performed on the draft of the accounts published on 31 May 2018 identified some areas of the financial statements where the values reported were not in line with our expectations indicating potential material misstatement. We raised these matters with the Council on 5 June 2018 and they were not able to provide explanations without further investigation. The responses we have now received confirm that there are material misstatements in the draft financial statements relating to the restatement of prior period comparatives in the Comprehensive Income and Expenditure Statement following the reclassification of service income and expenditure in 2017/18. Our calculation of the misstatement is shown in the table below:

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Income		Expenditure	
Service line	**2016/17 Comparative adjustment (£)**	**Service line**	**2016/17 Comparative adjustment (£)**
C&I	10,068,383	C&I	12,601,843
LGSS Ops	1,129,493	LGSS Ops	3,105,276
P&C	(8,735,594)	P&C	(13,135,795)
P&E	(2,462,282)	P&E	(2,571,325)
Absolute value of adjustment	**22,395,751**	**Absolute value of adjustment**	**31,414,239**
Net impact on cost of services	-	Net impact on cost of services	-

Whilst there is no net impact on the cost of services, there are material disclosure misstatements in the Comprehensive Income and Expenditure Statement in the draft financial statements certified by the section 151 officer, published by the Council and presented for audit. This is contrary to the Local Authority Accounting Code of Practice requirement to provide true and fair presentation within the financial statements. This is the third consecutive year where material misstatements have been identified in the Council's draft financial statements.

Our preliminary analytical review procedure also identified a non-material error (£9.1m) relating to the posting of the minimum revenue provision.

The Council has provided evidence to demonstrate that a review of the draft statement of accounts was undertaken by senior members of the closedown team prior to publication. The evidence provided demonstrates that an internal control, designed to identify potential material misstatements, has been implemented by the Council. However, the subsequent identification of material misstatements within the draft financial statements, through our preliminary analytical review of them, indicates that this internal control did not operate effectively. We consider this a significant deficiency in internal control.

Our Final Report to the Audit and Accounts Committee in July 2018 will incorporate our recommendation in relation to this significant deficiency in internal control, alongside our findings from the rest of the audit. If you or your colleagues on the Audit and Accounts Committee have any questions about the content of this letter, please do not hesitate to contact me or Barry Pryke on 01473 320793 / Barry.Pryke@bdo.co.uk.

Yours sincerely

Lisa Clampin

Partner

For and on behalf of BDO LLP

cc

Chris Malyon, Deputy Chief Executive and Chief Finance Officer

Tom Kelly, Deputy Chief Finance Officer

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FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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