AGENDA ITEM 4

CAMBRIDGESHIRE COUNTY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017

14 September 2017

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	Subsequent to our Planning Report to you, dated 3 March 2017, and following receipt of the draft financial statements, we revisited our risk assessment. This resulted in the risk of material misstatement associated with the pension liability assumptions being increased from normal to significant.
Materiality	Our final materiality is £16.5 million. This has been updated from our Planning Report to reflect final amounts in the financial statements.
Changes to audit approach	There were no other significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Subject to the resolution of matters set out in the outstanding matters section below, we have not identified any material misstatements. However, the outstanding matters include further consideration of the accounting treatment of the grant received in relation to the City Deal arrangement and of heritage assets recognised on the Council's balance sheet. The value of the balances associated with both is material to the Council's financial statements and conclusion of these matters may result in the identification of a material misstatement.
Adjusted misstatements	Our audit identified three immaterial misstatements in respect of intercompany transactions, incorrect recognition of revenue expenditure funded from capital under statute (REFCUS) and incorrect calculation of depreciation associated with infrastructure assets. Management has amended each of these misstatements in the final financial statements. This has increased the deficit on the provision of services by £550,000. A number of other presentational changes have been made to the financial statements as a result of the audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Unadjusted audit differences	Subject to the resolution of matters set out in the outstanding matters section below, we have not identified any unadjusted audit differences during this year's audit. Two unadjusted audit differences reported in 2015/16 have been brought forward because the decision not to adjust in last year's financial statements means that this year's financial statements are misstated. Both related to misstatement of expenditure accruals, the net impact of which was an understatement of expenditure in 2015/16 of £710,000 and a consequent overstatement of expenditure in this year's financial statements of the same amount. We have recorded one further unadjusted audit difference of relating to the understatement of the pension fund liability. This decreases net assets by £8.488m We also identified a number of unadjusted disclosures, primarily relating to the retention of notes relating to immaterial amounts recognised in the financial statements.
Control environment	Our audit did not identify any significant deficiencies in internal controls.

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable finances	The medium term financial position remains a significant challenge to the Council to deliver, which is acknowledged and appropriately recognised in the Council's risk register. The Business Plan is based on reasonable assumptions formed using the latest information the Council has available and is updated regularly. Managing spend in demand led services is critical to delivery of the Business Plan as well as to transforming services. The 2018/19 budget is expected to be balanced with a range of proposals being developed to deliver the required level of savings.

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 financial statements for the year ended 31 March 2017.
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.
Use of resources	We anticipate issuing an unmodified opinion on the use of resources for the year ended 31 March 2017.

SUMMARY

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND ACCOUNTS COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT) after we have completed our audit of the financial statements.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV. We confirm our independence.
Audit certificate	We will issue our audit certificate after we have completed our work on the financial statements, use of resources and whole of government accounts. We have received an objection from a local elector relating to matters concerning payments made to, and the governance exercised in respect of, contracts and procurement processes. Our work is still in progress and we will be unable to issue the certificate on the audit until the objection is closed.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

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

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. As the purpose of the audit is for us to express an opinion on the 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.

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

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

AUDIT QUALITY

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

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

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

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources.

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 completion of the necessary associated audit procedures after receipt of the awaited information, including:

- Receipt of evidence to support a sample of adult social care income and expenditure transactions
- Receipt of evidence to support one capital commitment disclosed in the financial statements
- Receipt of evidence to support a sample of debtors and creditors selected for testing
- Receipt of evidence to support a sample of capital grants recognised in the comprehensive income and expenditure statement
- Review of evidence to support existence of additions to assets under construction
- Agreement of adjustments to be made to the cash flow statement

2 Completion of testing of IT general controls

3 Agreement of accounting treatment to be applied to City Deal grant income and heritage assets

4 Completion of ongoing review of the audit file, clearance of review points and clearance of technical review of financial statements

5 Subsequent events review

6 Receipt and review of final version of financial statements to confirm all agreed audit adjustments have been made and final approval of the financial statements

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

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our Planning Report dated 3 March 2017. Following receipt of the draft accounts, we revisited our risk assessment. This resulted in the risk of material misstatement associated with the pension liability assumptions being increased from normal to significant.

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

Key: [S] - Significant risk [N] - Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls [S]	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.	Our response to this risk included: • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • reviewing accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • obtaining 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 audit work in relation to journals has not identified any significant issues. We have not found any indication of management bias in accounting estimates. No unusual or transactions outside of the normal course of business were identified.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Revenue recognition** **[S]**	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) of revenue and capital grants that are subject to performance and / or conditions before these 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 of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.	We tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES. We tested an increased sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	We identified that £8.194m of intracompany income generated by providing services to schools had been incorrectly recognised in the CIES. Further details are provided on page 15. Our review of the treatment of the grant income associated with the City Deal arrangement has identified that grant award of £100m should have been recognised in full in 2015/16 when the grant was awarded. The City Deal arrangement involves a number of entities and work to determine where control of the grant income lies is in progress. This matter is considered further on page 15. Subject to receipt and audit of the outstanding information identified on page 6 relating to adult social care income and capital grants, we have no further matters to report.

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 [S]	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value 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. The Council has engaged a new external valuer for 2016/17. There is a risk over the valuation of land and buildings where valuations are based on assumptions which are different from those applied in the prior year.	We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert. We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We confirmed that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost. We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that the valuation has been undertaken in accordance with the requirements of the Code. We are satisfied that the information provided to the valuer by the Council relating to those assets subject to revaluation is appropriate and that the revaluation movements have been accounted for correctly. Our review of the reasonableness of valuation assumptions applied to other land and buildings is noted on page 15.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Pension liability assumptions** **[S]**	The net pension liability comprises the Council's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We agreed the disclosures to the information provided by the pension fund actuary. We reviewed the reasonableness of the assumptions used by the pension fund actuary. We have used the PwC consulting actuary report commissioned by the NAO on behalf of all local authority auditors for the review of the methodology of the actuary and reasonableness of their assumptions. We agreed the disclosures to the report received from the actuary.	We have no matters to report. Our review of the reasonableness of the assumptions used to calculate the pension liability is included in the table on page 16.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Changes in presentation of the financial statements [N]	CIPFA's Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes: • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. These changes will require a restatement of the 2015/16 CIES. There is a risk that these presentational changes are not correctly applied in the financial statements.	We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all the required presentational changes have been correctly reflected within the financial statements. We reviewed the Council's methodology for allocating income and expenditure transactions to new CIES headings to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We reviewed the Council's restatement of the prior year CIES and confirmed that restated items reconcile to the audited 2015/16 financial statements.	We have no matters to report.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Treatment of revenue expenditure funded from capital under statute (REFCUS) [N]	In the prior year, our audit identified that the value of REFCUS transactions were being netted off against net cost of services income and expenditure in the CIES. The introduction of the new layout of the CIES and the resulting changes in the presentation of income and expenditure increase the risk that REFCUS transactions may be incorrectly accounted for in the current year.	We tested a sample of REFCUS transactions to confirm that they were correctly recognised and presented in the CIES.	Our testing of a representative sample of REFCUS transactions recognised in the draft financial statements identified transactions relating to expenditure on assets owned by the Council. These transactions do not meet the definition of REFCUS. Further work was undertaken by the Council to identify all transactions affected by this error. We tested a sample of these transactions to confirm that they had been incorrectly classified as REFCUS. REFCUS transactions with a value of £9.053m were reclassified as impairments in the draft financial statements. Management agreed to correct this error in the final version of the financial statements.
7	Senior officers' remuneration [N]	There has been a reorganisation of senior staff within the year increasing the risk that the associated disclosures included in the financial statements are presented incorrectly.	We reviewed the senior officer remuneration disclosures against the CIPFA Disclosure Checklist to confirm all required elements have been included. We confirmed that salary amounts disclosed are correct by agreeing to amounts disclosed to reports from the payroll system.	We identified that employer pension contribution amounts disclosed for four of the eight senior officers included in the disclosure were overstated. Management agreed to correct this error in the final version of the financial statements.

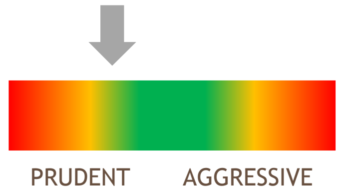
	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	**Related party transactions** [N]	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. 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.	We documented the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions. We discussed with management and reviewed member and Senior Officer declarations to ensure there are no potential related party transactions which have not been disclosed.	Subject to clearance of points raised from quality control review relating to the disclosure of related party transactions, we have no matters to report.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	Grant received in relation to City Deal [N]	The Council classified £17.8m of its City Deal grant funding as capital grant receipts in advance in 2015/16. Upon review of grant conditions, in response to recommendations made last year, the Council has concluded that there were no unsatisfied conditions in respect of this grant as at 31 March 2016 and has recognised the £17.8m in the CIES in 2016/17. We consider there to be a risk in respect of the completeness, existence and accuracy of the amounts recognised in respect of City Deal funding.	We obtained and reviewed the grant letter from the Treasury and the grant agreement document to establish whether or not there are any conditions or restrictions associated with the City Deal grant funding. We reviewed the Council's treatment of the City Deal grant funding to confirm that it is consistent with the requirements of the Code.	We concluded that the grant income awarded to the Council in relation to the City Deal in 2015/16 (£100m, to be paid in 5 annual instalments of £20m) did not have any conditions attached regarding its use. The Code requires that grants should be recognised immediately as income unless any conditions have not been met. In the absence of such conditions, the grant should have been recognised in full in the year the grant was awarded. In response to queries raised as a result of our review, the Council is investigating the arrangements for the administration of the City Deal agreement to determine where control of the grant income lies and how this impacts on the recognition of the grant in the Council's financial statements. The following accounting standards (as interpreted by the Code where applicable), are relevant to these considerations: • IAS 18 – Revenue • IAS 20 – Accounting for government grants and disclosure of government assistance • IPSAS 23 – Revenue from non-exchange transactions (Taxes and Transfers) • IFRS 11 – Joint arrangements Should it be concluded that the Council has no control over how the grant is used when the relevant requirements of the above accounting standards (as interpreted by the Code) are applied, the amounts recognised should be written out of the accounts with no amounts held in the capital grants unapplied reserve. We will provide a verbal update to the Audit and Accounts Committee at which this report is considered.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Land and buildings valuations

ESTIMATE	FINDINGS	AUDIT CONCLUSION
Land and buildings are valued by reference to existing use market values Some specialist buildings are valued at depreciated replacement cost (DRC) by reference to building indices	The Council's valuation programme in 2016/17 comprised the following: • Revaluation of assets due to be valued as part of the five yearly cycle • Revaluation of assets which have been subject to significant capital works or alterations in year • Revaluation of all assets held at fair value The above valuation programme was completed by external valuation expert Wilkes Head and Eve (WH&E) as at 1 April 2016. A desktop valuation review was completed by WH&E as at 31 March 2017 for all assets valued at depreciated replacement cost with a netbook value in excess of £5m and any other assets subject to significant capital works per the Council's capital programme. A market review was also completed as at 31 March 2017 to assist the Council in determining whether assets not subject to revaluation were materially misstated. The Council has accounted for net revaluation increases of £21.9m as a result of these valuation exercises. We have tested a representative sample of land and buildings subject to revaluation, and challenged the valuer where individual movements appear unusual, and we are satisfied that overall the Council's valuations fall within a reasonable range. We also undertake a review of assets where there has been no movement in value to confirm that this is consistent with our expectations. This work is in progress. We reviewed the assumptions used by the valuer for specialist assets valued on a depreciated replacement cost (DRC) basis and other land and buildings valued on an existing use (EUV) basis, which in some instances differed from those used in the prior period. Discussion with the valuers, who were engaged for the first time in 2016/17, has enabled us to conclude that the assumptions used are reasonable. Changes in assumptions used have not resulted in valuations which fall outside of our expected reasonable range. The market review completed by the valuer concluded that only specialist assets valued on a depreciated replacement cost basis may have materially moved in value between the 1 April 2016 valuation and 31 March 2017. The valuer's estimated increase in DRC assets of 6% is based on national build costs for asset types relevant to the Council, adjusted using a location factor determined by Royal Institution of Chartered Surveyors. This compares to a maximum of 5.14% based on unadjusted national build costs. Applying the 6% increase to DRC assets not valued as at 31 March 2017 indicates a maximum valuation increase of £8.3m, which is immaterial. We agree with the valuer's judgement that EUV assets will not have moved by a material amount since the 1 April 2016	

FINDINGS (continued)

valuation. Our estimation based on Investment Property Databank (IPD) indices in the eastern region suggests a maximum possible valuation increase of £6.5m, which is immaterial. The Council has not made any adjustments to reflect the potential increases in asset values described in the valuers market report. This results in a more prudent valuation.

As noted above, the Council engaged a new external valuer in 2016/17. The new valuer employed different valuation methodologies which in turn resulted in different assumptions being used. The Council should consider the effect of changes in the assumptions used when developing its valuation estimate and should monitor the outcome of the prior year valuation estimate in the context of the different assumptions used in 2016/17. The impact of changes in assumption could be considered, for instance, through sensitivity analysis. The Council has not been able to provide evidence of such a review being undertaken in respect of all assumptions. This shows a deficiency in control when determining the current year valuation estimate and in assessing the reasonableness of the estimate determined in the prior period given the information now available. Changes in assumptions applied between years can have a material impact on the valuation estimate. The control deficiency identified is likely to impede the Council’s ability to assess the reasonableness of its professional valuer’s conclusions and the accuracy of its estimates for the current and prior year valuations. We have raised a recommendation regarding this matter.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

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

FINDINGS

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

	Actual used	Actuary Assumption/ range	PwC assessment of actuary range to market expectations
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.7%	2.7%	Reasonable
Pension increase	2.4%	2.4%	Reasonable
Discount rate yield curve	2.6%	2.5-2.7%	Reasonable
Mortality - LGPS:			
- Male current	24 years	23.7-24.4	Reasonable
- Female current	26.3 years	26.2-26.9	Reasonable
- Male retired	22.4 years	21.5-22.8	Reasonable
- Female retired	24.4 years	24.1-25.1	Reasonable

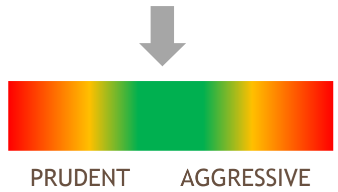
Overall impact of assumptions

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.

AUDIT CONCLUSION



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
10	Prior period adjustment	In the first draft of the accounts, the Council recognised a prior period adjustment relating to the incorrect recognition of a provision for NDR appeals within the short term creditors balance. The value of the adjustment is £2.603m, which is immaterial. The Code, in accordance with IAS 8, requires that only material errors are corrected in the prior period financial statements. Whilst it does not prohibit the correction of immaterial prior period errors, such a correction is unnecessary and adds unnecessary complexity to the financial statements for users as well as requiring additional accounts preparation work by the Council's close down team.
11	s106 Receipt in Advance - no supporting documentation	A £1.000 million 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 lack of supporting documentation means that we are unable to confirm the value of the associated balance recognised in Capital Grant Receipts in Advance. The value of the unsupported balance is £864,275. We are also unable to confirm whether or not the amount should have been released to the CIES (because there were no conditions specified or those conditions have now been met) or returned to the grantor (because the Council has failed to comply with the conditions).. We have extrapolated this unsupported balance across the untested population of s106 receipts in advance to give a projected misstatement of £2.923 million. We are therefore satisfied that this matter does not have a material impact on the financial statements individually or in aggregate with the unadjusted audit differences identified at Appendix I.
12	Schools payroll – salary bandings greater than £50k and termination benefits	Our testing of the salary bandings and termination benefit disclosure identified that the schools' payroll provider had not provided the Council with information regarding actual values for salaries and termination benefits prior to publication of the draft financial statements. Amounts disclosed in these notes were therefore based on estimated values rather than actual values. Management obtained actual values during the course of the audit and have updated the disclosures in the financial statements.
13	Schools' Payroll – supporting documentation	We were unable to obtain supporting documentation relating to amendment forms for changes to hours and salary bandings for school employees directly from the employing schools. In order to support the amounts selected for testing, it was necessary for management to request the information directly from the schools payroll provider. We have now received and reviewed this information and concluded that it is sufficient for our purposes.

	AUDIT AREA	AUDIT FINDINGS
14	Completeness of adult social care expenditure	We selected a sample of transactions from Swift (the Council's adult social care system) and performed audit procedures on that sample to obtain assurance over the completeness of adult social care transactions posted in the general ledger. In two instances the expenditure (with a combined value of £1,636) had not been reflected in the 2016/17 general ledger despite relating to this period. In both instances the care providers with which the expenditure was incurred had been added to the Adults Finance Module (the system which facilitates automatic payments to care providers based on data held in Swift) in the final quarter of 2016/17 but had not been added to Swift until the first quarter of 2017/18. As a result no accruals were raised for the 2016/17 expenditure and the expenditure for 2016/17 care was recognised in the 2017/18 ledger. We have identified the sub population potentially affected by this error, which has a value of £2.797m. We have tested an additional sample of transactions from this sub population and have not identified any further errors. Therefore, we are satisfied that this is has not led to a material misstatement.
15	Intracompany income generated from services provided to Schools.	Income from schools for services provided by the Council (including cleaning and catering services and financial advisory services) has been included within the Council's CIES, as has been the related expenditure from the school's perspective. Per module 9, para C5 of the Code Guidance, intragroup income and expenditure with the schools should be excluded from the financial statements. Income and expenditure included in the deficit on the provision of services are both overstated by £8.194m. Management has agreed to amend the accounts for this error.
16	Value of pension fund assets	The actuary has applied an asset value of £2,838.0m when calculating the net pension liability. The actual value of fund assets recognised in the Pension Fund financial statements is £2,814.0m. We have calculated the projected impact of this difference on the net liability recognised in the Council's balance sheet based on the Council's estimated share of the pension fund assets as at 31 March 2017 (35.67%, £1,012.5m). This results in a judgemental understatement of the net pension liability recognised in the Council's balance sheet of £8.488m. We have recorded this as an unadjusted error at Appendix 1.

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
17	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 23 June 2017. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	The draft financial statements were provided to us for audit two weeks later than planned, on 23 June 2017. They were substantially but not fully complete. The unaudited draft financial statements were published on the Council's website on 30 June 2017. We have experienced significant delays in obtaining evidence to support our sample testing of some areas of the financial statements. These are reflected in part 1 of the outstanding matters on page 6. The deadline for publication of the unaudited 2017/18 draft financial statements has been brought forward to 31 May 2018, with audited accounts to be published by 31 July 2018. The Council must ensure that it has robust processes in place to produce good quality, complete and Code compliant financial statements in accordance with the revised timetable. The close down team must also engage with other areas of the Council to ensure that they are able to support the audit process by providing robust audit evidence promptly. We understand from management that the Council have begun this process.
18	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report.
19	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our review of the Narrative Report to the financial statements identified that further context should be included regarding the performance indicators disclosed and Management agreed to add additional information. We also made a number of suggestions to improve the usefulness of the Narrative Report to readers of the accounts. We have made a recommendation regarding this matter.

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 you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal 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 2016/17. 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.

SIGNIFICANT DEFICIENCIES

The Oracle accounting system does not prevent staff from posting and authorising their own journals and there is no independent authorisation process in place. This has been identified as a significant deficiency in internal control in the previous two years. There are compensating controls in place that are reasonably designed to prevent and detect incorrect postings, including segregation of duties. Our testing of journals has not identified any lapses in segregation of duties.

OTHER DEFICIENCIES

We 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
19	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the 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 7 July 2017. The Council agreed an extension of this deadline with HM Treasury to 28 July 2017 and submitted a draft DCT on 27 July 2017. Due to a problem with the DCT which required resolution by HM Treasury, the DCT was not locked until 25 August 2017, at which point it was submitted to HM Treasury and BDO. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.

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). 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 2016/17 Planning Report issued in March 2017. 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.

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

Key: ■ [S] - Significant risk

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances [S]	The updated Medium Term Financial Strategy, to 2021/22, forecasts that the Council will need to make £101m of savings over the next five years, driven by inflationary, demographic and service pressures alongside reductions in central government funding. In response to this, the Council has embarked upon a Transformation Programme to change the way that it delivers its services. This is still in its early stages but its success will underpin the Council's ability to maintain financial sustainability in the medium term. We reviewed the reasonableness of the assumptions used in the Medium Term Financial Strategy 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.	In 2016/17 there was a £510k (0.1%) overspend against the revenue budget and an underspend of £5.3m against the capital programme. Children, Families and Adults had the largest revenue overspend in the year of £5m, offset by underspends in assets and investments and financing. The underspend in the capital programme is attributed to the timing of spending. General reserves have reduced to 2.8% of budgeted 2017/18 gross non-school expenditure which is below the 3% minimum recommended. It is anticipated this will be addressed during the 2018/19 business planning process. Total usable reserves reported in the draft financial statements have reduced from £112,587,000 to £97,778,000. Positive progress has been made in the year to improve the business planning process with a more rigorous approach being applied and greater scrutiny. It continues to evolve and it is recognised that time is needed for the new ways of working to filter down through the teams and embed the new culture. Internal Audit completed a detailed review of the Business Planning process providing "moderate assurance" over the arrangements and we recommend that proposals are implemented. The review recognised the rapid transformation of the Business Planning process and that it continues to evolve, however delivery of savings was challenging and the new ways of working needed to filter down through the teams. There is a savings tracker in place that is reported to the General Purposes Committee to ensure there is scrutiny and oversight of the Council's direction of travel with plans and proposals. In the current financial year (2017/18) the Council reported as at the end of May a forecast year end overspend of £2.1m against the budget which is expected to increase to £4m, predominantly due to overspends in Children, Families and Adults. The Tracker shows that as at the end of May 2017 there is a £2.5m shortfall against the plan and overall savings target of £30.8m. There are 16 savings plans rated red totalling £4.3m (although less than that amount will be at risk) however the Council has identified more savings schemes than needed to deliver the budget to mitigate against delays in implementation or non-delivery. The £4m pressure remains and plans are being developed to manage the financial

position.

The Transformation Fund was created during 2016/17 to develop ‘invest to save’ schemes to transform Council services. During its first months in 2016/17 there were 5 schemes approved and only 2 drawn down totalling £312k. The fund therefore had limited use during the year and it is too early to demonstrate any significant impact on the Council’s financial position. We will continue to monitor spend and outcomes during the forthcoming year and note that in 2017/18 schemes reported amount to approx. £6m with 4 schemes not having incurred any expenditure in quarter 1 while 3 schemes are rated “Red” and 4 schemes rated amber reflecting re-phasing of savings and some non-delivery.

The medium term financial position remains a significant challenge to the Council to deliver which is acknowledged and recognised within the Council’s risk register. The Business Plan has been based on reasonable assumptions using the latest information the Council has available and is updated regularly. Managing spend in demand led services is critical to delivery of the Business Plan as well as to transforming services. The 2018/19 budget is expected to be balanced with a range of proposals being developed to deliver the required level of savings.

The new Combined Authority (CA) has taken on some of the Council’s responsibilities, particularly in relation to Transport. As a result additional funding has been made available for the region that will bring benefits to it. The Council is represented on the CA Board, but the Board has yet to publish its vision and detailed financial plans and therefore it is too early to assess the impact the CA has on the Council and its responsibilities and finances. We will continue to monitor the progress and activity of the CA.

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 completion of the outstanding matters on page 6, our audit has not identified any material misstatements which have been adjusted by management.

Management made non-material adjustments relating to the following;

- Intragroup income and expenditure in respect of schools catering overstated by £8.194m
- Reclassification of expenditure of £9.054m incorrectly recognised as REFCUS to impairments
- Depreciation charged in respect of infrastructure assets understated by £550,000

These amendments, together with the other non-material amendments that management has processed in the revised financial statements, have increased the deficit on the provision of services by £550,000.

A number of non-material disclosure adjustments have been made as described elsewhere within this report.

UNADJUSTED AUDIT DIFFERENCES

Subject to completion of the outstanding matters on page 6, there is one unadjusted audit difference identified by our audit work relating to the impact of brought forward unadjusted misstatements identified following completion of the prior year audit which would if corrected would decrease the deficit on the provision of services by £710,000 and one unadjusted audit difference of £8.488m relating to the understatement of the pension liability. 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 where able even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE / FUND ACCOUNT		STATEMENT OF FINANCIAL POSITION / NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on the provision of services before adjustments	94,593				
DR Net assets				710	
CR Deficit on provision of services	(710)		(710)		
(1) Net impact of brought forward unadjusted misstatements in respect of expenditure accruals					
DR Pension Reserve				8,488	
CR Pensions Asset (net pension liability)					(8,488)
(2) Judgemental misstatement arising from the difference between the fund asset values used by the actuary and those recognised in the financial statements of the Pension Fund.					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(710)		(710	9,198	(8,488)
Deficit on provision of services if adjustments accounted for	93,883				

APPENDIX I: AUDIT DIFFERENCES

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- The draft financial statements included a number of superfluous disclosures relating to immaterial balances which we highlighted to management. These included notes relating to the following:
    - Investment properties
    - Assets held for sale
    - Accumulated absences account
    - Prior period adjustments
- The tables in the 'Private finance initiatives and similar contracts' note incorrectly disclose repayments of capital relating to PFI schemes under the 'CIES' heading.
- The table included in the 'Refinancing and Maturity Risk' section of the 'Nature and extent of risks arising from financial instruments' note should be prepared on a nominal cash basis. The Council has excluded accrued interest.

UNADJUSTED OTHER MATTERS

A £1.000 million 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. Extrapolation of this unsupported balance across the untested population of s106 receipts in advance to give a projected misstatement of £2.923 million.

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ [SD] Significant deficiency in internal control ■ [D] Other deficiency in internal control ■ [O] Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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.	Awaiting response		
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.	Awaiting response		

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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 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.	Revise the contract register so that it records the date the contract was signed, rather than the date on which works start. 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 investigate the possibility of changing the information collected and reported regarding the contracts register so that it includes signed dates. 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.	Procurement and Closedown teams	December 2017
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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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
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.	Awaiting response		

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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	By March2018

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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 of not including certain tables in the Statement of Accounts document itself.	Group Accountant (Closedown)	By May 2018 for the draft accounts

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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 received 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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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 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.	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 figures are immaterial; it would just be a case of not including certain tables in the Statement of Accounts document itself.	Group Accountant (Closedown)	By May 2018 for the draft accounts

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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 valuers. However, having changed the external valuers in 2016/17, the Council is using the same valuers for 2017/18 and therefore does not expect the underlying assumptions to change.	Asset manager (Urban)	By May 2018 for the draft accounts

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
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

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	16,500,000	16,300,000
Clearly trivial threshold	330,000	326,000

Planning materiality of £16,300,000 was based on 1.75% of prior year gross expenditure per the audited 2015/16 financial statements.

We revised our materiality following receipt of the draft 2016/17 financial statements, which disclosed gross expenditure higher than the prior year value used to calculate our planning materiality.

APPENDIX IV: INDEPENDENCE

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
Senior team members	Number of years involved
Lisa Clampin - Audit engagement lead	2
Barry Pryke - Audit manager	2

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	94,061	94,061	94,061	As per PSAA scale fee
TOTAL AUDIT FEES	**94,061**	**94,061**	**94,061**	
Skills Funding Agency subcontracting grant certification	3,650	3,650	3,650	
Local Transport Major Projects grant certification	-	-	4,131	
NON-AUDIT ASSURANCE SERVICES	**3,650**	**3,650**	**7,925**	
TOTAL ASSURANCE SERVICES	**97,711**	**97,711**	**101,986**	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

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

[XX] September 2017

Dear Sirs

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

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2017 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

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

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

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

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

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

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

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

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.

APPENDIX VI: DRAFT REPRESENTATION LETTER

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of 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: 2.6%
- LGPS commutation take up option: 50%

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

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.

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

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

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 in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Chris Malyon

Deputy Chief Executive and Chief Finance Officer

xx September 2017

Councillor Michael Shellens

Chairman of the Audit and Accounts Committee

Signed on behalf of the Audit and Accounts Committee

xx September 2017

FOR MORE INFORMATION:

Lisa Clampin
Engagement lead

T: +44 (0)1473 320 716
E: lisa.clampin@bdo.co.uk

Barry Pryke
Manager

T: +44 (0)1473 320 793
E: barry.pryke@bdo.co.uk

www.bdo.co.uk