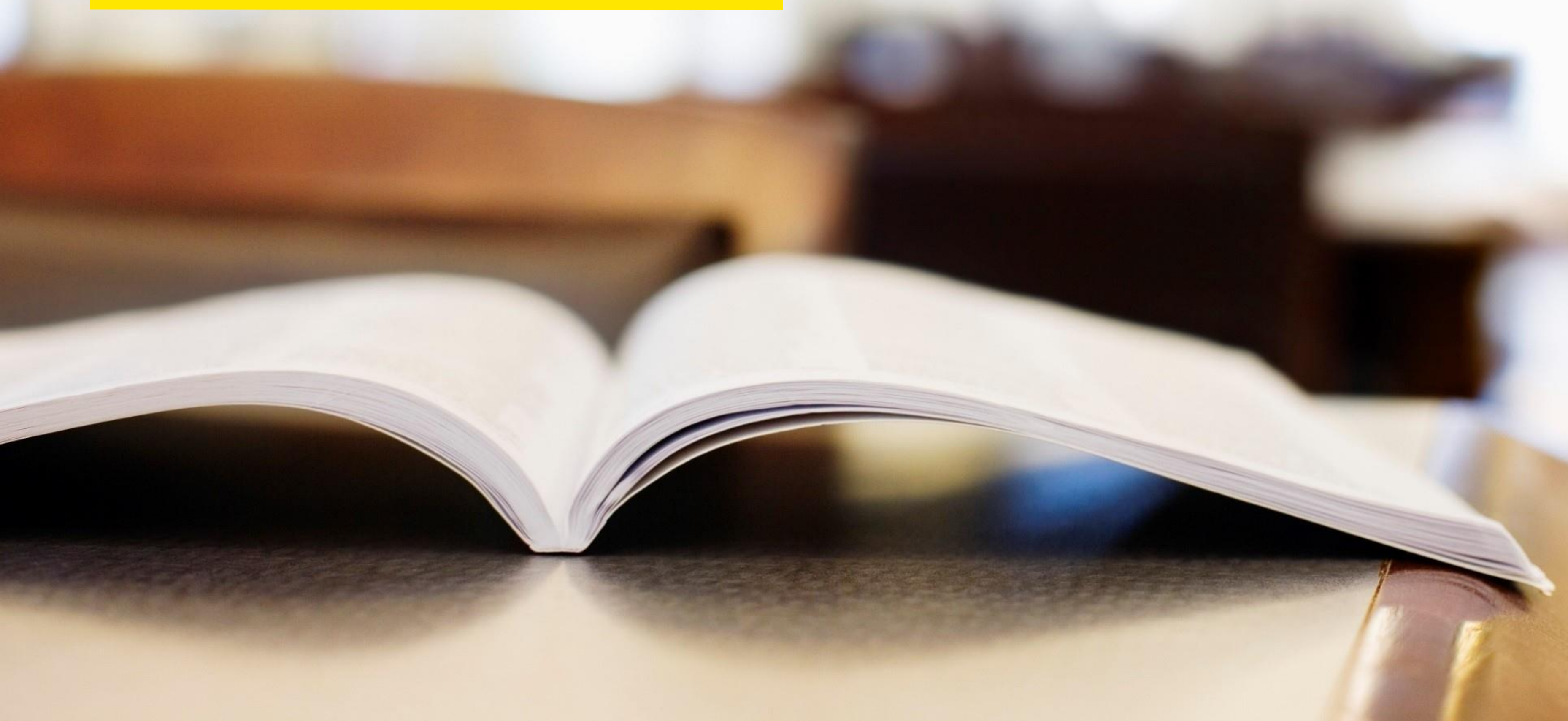
Cambridgeshire County Council
Audit Results Report-Addendum

Year ended 31 March 2021

23 May 2022



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Building a better working world

Audit and Accounts Committee
Cambridgeshire County Council

23 May 2022

Dear Audit and Accounts Committee Members:

2020/21 Audit Results Report

We are pleased to attach our Audit Results Report – Addendum which provides an update on our Provisional Audit Results Report presented to the Audit and Accounts Committee on the 25 February 2022 and the position following the conclusion of the outstanding audit procedures stated within that report.

We have now completed our audit of Cambridgeshire County Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report.

The final conclusion procedures are:

- Outcome of two internal consultations in the relation to City Deal Grant funding and Infrastructure Assets;
- Review of the final version of the financial statements;
- Completion of subsequent events review to the date of the audit report;
- Receipt of the signed management representation letter and financial statements; and
- Whole of Government Accounts procedures

The satisfactory completion of the final conclusion procedures set out above, and depending on the Council's view on Infrastructure Asset approach, will dictate the type of audit report we issue on the Council's financial statements.

Yours faithfully

MARK HODGSON

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit and Accounts Committee and management of Cambridgeshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Accounts Committee, and management of Cambridgeshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Accounts Committee and management of Cambridgeshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Areas of audit focus

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

Type of risk	Description	Findings and conclusion
Fraud risk	Management Override: Misstatements due to fraud or error	**No change from 25 February 2022 Provisional Audit Results Report:** We completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls.
Fraud Risk	Management Override: Inappropriate Capitalisation of revenue expenditure	**No change from 25 February 2022 Provisional Audit Results Report:** We have completed our work in this area and have no matters to report.
Fraud Risk	Accounting adjustments made in the 'Movement in Reserves Statement'	**Update from 25 February 2022 Provisional Audit Results Report:** We have completed our work in this area and have no matters to report. This is included in Section 02.
Significant Risk	Accounting for Covid-19 related grant funding and Government Grants	**Update from 25 February 2022 Provisional Audit Results Report:** We have completed our work on the City Deal Grant and we have matters to report. This is included in Section 02.
Significant Risk	Valuation of Property, Plant and Equipment	**Update from 25 February 2022 Provisional Audit Results Report:** We have completed our work in this area and have matters to report. This is included in Section 02.
New Significant Risk	Infrastructure derecognition	**Update from 25 February 2022 Provisional Audit Results Report:** An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. We have insufficient evidence to support an unqualified audit opinion in respect of Infrastructure Assets. This situation would currently lead us to modify our audit report. The Council may wish to wait for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result, as this may change the reporting requirements and hence the need for additional appropriate audit evidence.

Executive Summary

Areas of audit focus - continued

Type of risk	Description	Findings and conclusion
Inherent Risk	Accounting for schools that convert to 'Academy' status	**No change from 25 February 2022 Provisional Audit Results Report:** We have completed our work in this area and have no matters to report.
Inherent Risk	Pensions Valuations and disclosures	**No change from 25 February 2022 Provisional Audit Results Report:** We completed our work in this area and have no matters to report.
Inherent Risk	Private Finance Initiative	**No change from 25 February 2022 Provisional Audit Results Report:** We completed our work in this area and have no matters to report.
Inherent Risk	Group Consolidation	**Update from 25 February 2022 Provisional Audit Results Report:** We have completed our work in this area and have matters to report. This is included in Section 02.

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

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

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

02 Areas of Audit Focus

Areas of Audit Focus

Significant risks – continued

Misstatements due to fraud or error – accounting adjustments made in the 'Movement in Reserves Statement'

What is the risk?

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

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

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

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

We identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We focused on the Council's accounting adjustments made in the 'Movement in Reserves Statement' that could result in the misstatement of Cost of Services reported in the Comprehensive Income and Expenditure Statement. To address this risk we:

- Reconciled entries for consistency to other audited accounts within the financial statements, for example our work on property, plant and equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- Reviewed the REFCUS entries in the movement in reserves statement and testing of entries to ensure they meet the accounting definition of REFCUS expenditure;
- Reviewed the Council's policy and application of the 'Minimum Revenue Provision'; and
- Used our data analytics tool to identify and test journal entries adjustments made in the movement in reserves statement.

What are our conclusions?

- No issues were identified with the Council's REFCUS entries and sample testing of REFCUS did not identify any issues.
- Our data analytics work did not identify any inappropriate journal adjustments made in the movement in reserve statement.

UPDATE FROM 25 FEBRUARY 2022 PROVISIONAL AUDIT RESULTS REPORT

- We have completed our testing of the entries in the Movement in Reserves Statement and the Council's application of the Minimum Revenue Provision policy and have not identified any matters to bring to your attention.

Areas of Audit Focus

Significant risk – continued

Accounting for Grants and Covid-19 related Government grants – City Deal

What is the risk?

<u>City Deal Grant</u>

In 2020/21 Greater Cambridge Partnership were awarded the next tranche of funding for the City Deal. This amounts to £200 million over 5 years. Cambridgeshire County Council, as lead authority, has recognised the full £200 million up front.

The risk is that the grant has been accounted for inappropriately.

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

We have identified a specific risk that impacts the Grant Income within Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement and Receivables on the Balance Sheet. In order to address this risk we have performed the following audit procedures:

- Reviewing Management's rationale for the accounting treatment applied, including the external reports they have had commissioned in regards to the recoverability of the receivable and the accounting treatment they have applied;
- Considering the approach adopted against the CIPFA Code of Practice; and
- Consulting internally with our Financial Reporting Group and other EY Technical Experts.

What are our conclusions?

UPDATE FROM 25 FEBRUARY 2022 PROVISIONAL AUDIT RESULTS REPORT

After significant consideration of the Council's rationale for the accounting treatment of the City Deal funding within the draft financial statements and review of the supporting working papers, together with internal consultation with our Financial Reporting Group about the basis of the grant funding and the primacy of IAS 20 – Accounting for Government Grants, over the CIPFA Code of Practice, we have concluded that the grant should be accounted for as 5 individual grants, received on an annual basis, over the 5 year life of the City Deal funding agreement.

The key judgements behind this conclusion were:

- We concur with Management's conclusion that in substance the Council does have control of the City Deal grant and should recognise the grant funding.
- There was not sufficient certainty within the grant funding notification agreement, or enforceability of the agreement, to allow recognition of the full £200 million of the agreement in Year 1 and the associated asset (Central Government Debtor) within the 2020/21 financial statements.
- That when broken down, the City Deal agreement was in fact 5 annual grants of £40 million, determined on an annual basis by Government within the overall 5 year funding agreement settlement, and therefore should be recognised in that manner. The initial grant funding notification was more confirmation of a future funding stream across a 5 year period by Government – akin to a Bank Loan facility that has the potential to be drawn against.
- Whilst, an aggressive accounting policy had been adopted for the initial accounting treatment, there was no indication of fraudulent mis-reporting or bias by Management.

Significant risk – continued

Accounting for Grants and Covid-19 related Government grants – City Deal (Continued)

What are our conclusions?

UPDATE FROM 25 FEBRUARY 2022 PROVISIONAL AUDIT RESULTS REPORT

Management have agreed to this change in accounting treatment and have updated the financial statements to reflect this along with note 5 Critical Judgements made in applying accounting policies.

Section 3 sets out the adjustments made to the financial statements.

We are currently considering and consulting on the requirement for a prior year adjustment under IAS 8 for the previous City Deal, taking into account both quantitative and qualitative materiality.

Significant risk – continued

Valuation of Property, Plant & Equipment and Investment Properties

What is the risk?

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

As the Council's asset base is material, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. Our audit procedures in 2019/20 identified a number of material audit differences in regards to the work of the external valuer. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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

We have identified a specific risk of misstatement that could affect the Balance Sheet. We consider the risk applies to the valuation of Property, Plant and Equipment assets in the Balance Sheet. To address this risk we:

- Considered the work performed by the Council's valuer, including the adequacy of scoping the work, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within the appropriate time frame and any changes communicated to the valuer;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries had been correctly processed in the financial statements.

What are our conclusions?

- We did not identify any issues with the Council's valuer, their scoping of work, professional capabilities or results of their valuation procedures.
- Our testing of assets not subject to valuation in 2020/21 did not identify any material differences.
- Our testing confirmed that assets had been valued within the appropriate timeframe and those valued in the year had been performed correctly.
- No issues were identified with the useful economic lives of assets or the accounting entries disclosed in the financial statements and supporting notes.
- We have identified a net £2.169 million difference between the valuer's report and the Statement of Accounts across a limited number of assets. We understand that this was due to the timing of when certain asset valuations were received by the Council. The Council's accounts are overstated by this amount. Management have chosen not to adjust for this difference.

(Continued over page)

Significant risk - continued

Valuation of Property, Plant & Equipment and Investment Properties

(Continued)

What are our conclusions?

UPDATE FROM 25 FEBRUARY 2022 PROVISIONAL AUDIT RESULTS REPORT

- We have completed our sample testing of key asset information used in the valuations, specifically that used in calculating the obsolescence factor in assets valued under Depreciated Replacement Cost (DRC).

  We have identified that the Council does not have a policy in place for estimated useful lives in relation to assets valued under DRC which feed the obsolescence factor used in the calculation of these asset values.

  Recommendation: The Council should prepare and adopt a policy for the useful life of DRC assets to enable obsolescence factors to be considered in the valuation of that class of assets.

- We identified one asset, Shire Hall Car Park, that had been revalued separately. However, as in the previous year, the valuation of the Shire Hall building used a comparable market rate that would include car parking within the valuation and as such the value of the car park was double counted and the Shire Hall building valuation was overstated. Management have agreed to adjust the valuation of the asset. See section 3 for more details.

- We did not identify any further matters to bring to your attention.

Significant risks – continued

Derecognition of Infrastructure assets upon subsequent expenditure / replacement

New Risk

What is the risk?

An issue has been identified in recent months via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part / component has been replaced or decommissioned. This matter is currently under consideration by CIPFA.

Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised.

If parts/components have not been derecognised when replaced or decommissioned:

- For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the Property, Plant and Equipment note to the Balance Sheet. This will be a matching error, so will not impact on the Net Book Value (NBV) reported in the Balance Sheet.
- For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e., the asset is not fully depreciated and has a positive Net Book Value at year end, the error will also impact the Balance Sheet, where asset values will be overstated.

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

We have identified a significant risk of misstatement that could affect the Balance Sheet. We consider the risk applies to the completeness and existence of infrastructure assets within the Council's Balance Sheet. To address this risk we:

- Reviewed Management's approach to derecognising infrastructure assets against the CIPFA Code of Practice requirements;
- Reviewed the asset register for the level of detail held to enable the correct accounting treatment;
- Tested the in-year derecognition to ensure there is a process in place for identifying replacement assets, and derecognising the previously recognised asset; and
- Undertook existence testing of Infrastructure Assets at the Balance Sheet date.

What are our conclusions?

In 2017/18 the Council made a Prior Year Adjustment, under IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to ensure the accounting for the derecognition of Infrastructure Assets was in line with the CIPFA Code of Practice. This Prior Year Adjustment corrected the accounting treatment back to the 2014/15 financial year (31 March 2015). The Council did not go back further, to 2010/11 when International Financial Reporting Standard (IFRS) was introduced, as it did not have sufficiently robust accounting records to do so.

Our testing confirmed that the level of detail held within the asset register was sufficient, that in-year derecognition was in line with Council's approach and that there were no issues identified from the existence testing procedures performed.

(Continued on next page)

Significant risks – continued

Derecognition of Infrastructure assets upon subsequent expenditure / replacement

New Risk (Continued)

What are our conclusions?

Based on this fact pattern we do not have sufficient appropriate evidence that the opening Infrastructure Asset balance is materially correct (Gross Book Value and Accumulated Depreciation) under the reporting requirements of the CIPFA Code of Practice, as there is insufficient evidence to conclude that the Code requirements were properly adhered to for the period between 2010/11 to 2013/14.

This would lead us to issue a 'limitation of scope' modified audit report. The limitation of scope would be in relation to the opening Infrastructure Asset balance at the 1 April 2020, for the reasons set out above.

However, CIPFA are currently consulting on a Code of Practice adaptation in respect of Infrastructure Asset accounting, given the nature and impact of the current Code reporting requirements. It is expected that any Code adaptation would not become extant until late June 2022, but would be retrospectively applicable to the 2020/21 financial year.

The Council may therefore wish to wait for the outcome of the CIPFA Code consultation and any adaptations to said Code, as this may address the issue leading to the 'limitation of scope' modified audit report.

Other Areas of Audit Focus – continued

Group Consolidation

What is the risk?

The Council has previously incorporated 'This Land Limited', a company, with the Council as the sole owner. Activity is at a level considered material, which requires the Council to prepare group accounts.

We identify this as an inherent risk as this can be a complex area of accounting requiring 'This Land Limited' to be consolidated with the Council's accounts to create the Group Accounts.

There have been a number of issues with the consolidation in the previous period, and we understand that 'This Land Limited' is moving to a coterminous year end for 2020/21, so we need to ensure that the consolidation reflects this.

We are reliant on assurances from the auditor of 'This Land Limited' (RSM).

What did we do and What judgements are we focused on?

We have identified a specific risk in regards to the group accounts. To address this risk:

- We have reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Cambridgeshire County Council Group;
- Scoped the audit requirements for 'This Land Limited' based on their significance to the group accounts. Liaised with the external auditor of 'This Land Limited' (RSM) and issued group instructions that detailed the required audit procedures in order to provide us with assurance for the opinion we will issue on the group accounts; and
- Ensured the appropriate consolidation procedures were applied when preparing the Council's group accounts and appropriate disclosures were made within the group accounts.

What are our conclusions?

We identified that the Council did not have an accounting policy in regards to inventory within the single entity or group accounts. Management have agreed to add this along with a note in the group accounts due to the value of inventory held in the group accounts.

We identified that the group accounts needed to be updated after the audit of the subsidiary accounts this was down to the timing of the information provided at the time of preparing the draft accounts. See section 3 of the accounts for more details.

We have no other matters to bring to your attention.

Areas of Audit Focus

Going concern

UPDATE FROM 25 FEBRUARY 2022 PROVISIONAL AUDIT RESULTS REPORT

Management have disclosed that the financial statements are prepared on a going concern basis. We have obtained and audited management's going concern assessment and the going concern disclosure Note 4 in the statement of accounts. This has been informed by management's actual reserves position as at the 31 March 2021, and their forecast reserves position during the going concern period. It has also considered the Council and subsidiary company (This Land)'s cash flow forecast.

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

Our procedures around Going Concern included:

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

We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern.
Management have used the basis of their assessment to include a disclosure note (Note 4) within the statement of accounts. As part of our audit procedures we requested that management include additional disclosure in relation to the liquidity of the Council, the period the going concern assessment covers, a statement with regard to the minimum reserve levels and an overall conclusion.

The Council will need to update its disclosure to cover the 12 month period from the date of authorisation of the financial Statements. We will then need an updated Management Assessment and perform concluding procedures over that assessment and updated disclosure. The timing of this will be dependent on the resolution of the Infrastructure Asset issue set out on page 14 of this report.

03 Audit Differences

Audit Differences

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

Summary of adjusted differences

We highlight misstatements greater than £0.934 million which have been corrected by management that were identified during the course of our audit.

Update from 25 February 2022 Provisional Audit Results Report:

1) City Deal Grant Funding

Removal of £160 million of Income and amounts receivable (debtor) from the financial statements, to reflect that the funding is 5 one year grants of £40 million.

Dr Comprehensive Income & Expenditure Statement (CIES) – Taxation and non specific grant income - £160 million
Cr Balance Sheet – Long term debtors - £120 million
Cr Balance Sheet – Short term debtors - £40 million

Cr Movement In Reserves Statement – Other adjustments Capital Grants recognised in year but not applied - £160 million
Dr Useable Reserves – Capital Grants and Contributions Unapplied - £160 million

This also impacts Note 9 - Expenditure and Income analysed by nature, Note 12 - Taxation and non specific grant income and Note 33 - Grant Income.

The Council have also updated Note 3 - Critical Judgements in Applying Accounting Policies to set out their assumptions and judgements in applying the revised City Deal accounting treatment.

2) Property, Plant & Equipment valuation

During the financial year 2020/21 the Council revalued the Shire Hall building and adjacent car park separately. The valuation of the Shire Hall building used a comparable market rate that would include car parking and as such the value of the building was overstated. This issue also occurred in 2019/20, where we reported a similar audit difference in respect of this asset:
Dr Comprehensive Income and Expenditure Statement - £1.97 million
Cr Balance Sheet – Property, Plant and Equipment – Land and Buildings - £1.97 million

Audit Differences

Summary of adjusted differences continued:

3) Group Accounts

Adjustments to the Group Balance Sheet, Group Comprehensive Income & Expenditure Statement and Group Cashflow as a result of the subsidiary audit where an understatement of Inventory and an overstatement in Reserves:

<u>Group Balance Sheet impact</u>
Dr Balance Sheet - Inventory - £3.8 million
Cr Balance Sheet - Short Term Debtors - £0.18 million
Cr Balance Sheet - Short Term Creditors - £0.16 million
Cr Balance Sheet - Useable Reserves - £3.5 million

<u>Group Comprehensive Income and Expenditure Statement impact</u>
Cr Comprehensive Income and Expenditure Statement impact - Financing and Investment Income £3.6 million
Dr Comprehensive Income and Expenditure Statement impact - Cost of services – Commercial - £3.6 million

<u>Group Cashflow impact</u>

Operating cashflows
Dr Net Cost of Services - £3.6 million
Cr Impairment and downward revaluation - £6.7 million
Dr Inventory movement - £17.3 million

Investing cashflows
Cr Other receipts from investing activities - £7.4 million

4) A provision for Adult Social Care had been incorrectly coded to provisions instead of offsetting debit balances in Creditors (Short Term Payable). This had the impact of overstating provisions and understating creditors:

Dr Provisions - £1.5 million
Cr Short Term Payables - £1.5 million

Audit Differences

Summary of adjusted differences continued:

5) Debtors (Receivables) and Creditors (Payables) were both overstated due to Teacher's Pension Debtor not being reduced by income received from the relevant schools payroll providers:
Dr Short term Payables - £2.8 million
Cr Short term Receivables - £2.8 million

6) Debtors (Receivables) and Creditors (Payables) have both been overstated as a result of a payment to School Nurseries in respect of the summer term which was classified as a Payment in Advance, but was not actually paid until 2021/22. Therefore, this was incorrectly included in the Balance Sheet.
Dr Short term Payables - £6.2 million
Cr Short term Receivables - £6.2 million

A number of other disclosure differences have been identified and raised to Management. All misstatements are to be adjusted. We do not deem any to be so significant as to merit reporting to you.

Summary of Unadjusted differences

We have identified two further unadjusted misstatements.

1) A debit balance has accumulated over a three year period on the Teacher's Pensions codes within Debtors (Receivables) , since the implementation of ERP Gold. This is due to a longstanding system miscoding issue with the Teacher's Pensions Contributions from school payroll providers. The Council have been unable to reconcile these entries due to the volume. The Council believe this balance is made up of amounts owed to them by schools, amounts owed by the Teacher's Pension Scheme due to overpayments made, and timing differences. However, Management have been unable to complete the reconciliation and have it available for audit. We have therefore recorded an unadjusted audit difference, leading to an overstatement of the two specific financial statement line items, as set out below:

Dr Comprehensive Income & Expenditure Statement – People and Communities - £1.17 million
Cr Short Term Receivables - £1.17 million

2) We have identified within Creditors (Payables) a debit balance of £2.4 million relating to a historic HMRC account code that was migrated when ERP Gold was introduced in 2018/19. It should have been cleared by a HMRC creditor code but this didn't happen and the debit balance has remained. A reconciliation of the migrated balances is required and the Council are unable to this and provide this for audit at this point.

Cr Short Term Payables - £2.4 million
Dr Comprehensive Income and Expenditure Statement - £2.4 million

We request that this uncorrected misstatements be corrected, or a rationale as to why it is not corrected, be considered and approved by the Audit and Accounts Committee and provided within the Letter of Representation.

04 Appendices

Audit Differences – reported within our Audit Results Report dated - 25 February 2022

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

Summary of adjusted differences

We highlight misstatements greater than £0.935 million which have been corrected by management that were identified during the audit.

- Net Pension Liability – a revised IAS19 actuary report was received that changed the value of the pension plan assets. This had the result of reducing the net pension liability by £7.5 million. The adjustment was made due to new information being provided by the actuary after the draft statement of accounts had been prepared.
- Grant income credited to net cost of services – we identified one grant of £1.18 million that had been incorrectly recorded gross in the accounts.
- Short term provisions – we identified one provision in relation to unpaid social care balances of £1.53 million which had been incorrectly classified and should have been set against debit balances within accounts payable.

Disclosure Differences

- Disclosure error in respect of Note 15 Officer's Remuneration and Exit Packages – number of other departures reduced from 47 to 39, total number of exit packages reduced from 84 to 76 and total cost of exit packages increased from £0.819 million to £0.943 million.
- Disclosure error in respect of Note 36 Private Finance Initiatives and similar contracts – Building schools for the Future amounts were doubled counted in the band 16-20 years element of the projected future payments table. Cost of services to be reduced by £1.281 million and capital replacement to be reduced by £0.495 million.

A number of other disclosure differences have been identified and raised to Management. All misstatements are to be adjusted. We do not deem any to be so significant as to merit reporting to you.

Summary of Unadjusted differences

At the date of this report, we have identified two audit differences which are yet to be adjusted.

1. Property, Plant and Equipment – we identified a difference between the valuers report and the value of Land and Buildings for a limited number of assets disclosed in the Statement of Accounts. The Balance Sheet is overstated by £2.169 million (net amount). We understand that the Council's External Valuer provide updated valuations after the draft Statement of Accounts had been prepared. Management have chosen not to adjust for this difference.
2. Provisions – we identified a difference between the Insurance Broker's report and the value of the insurance provision in the statement of accounts. The Provisions balance in the balance sheet is understated by £0.967 million. We understand that this difference arose due to the Insurance Broker's report being received after the statement of accounts were drafter. Management have chosen not to adjust for this difference.

We request that this uncorrected misstatements be corrected, or a rationale as to why it is not corrected, be considered and approved by the Audit and Accounts Committee and provided within the Letter of Representation.

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