





Audit and Accounts Committee Cambridgeshire County Council 18 September 2023

Dear Audit and Accounts Committee Members

2021/22 Audit Results Report - Progress Update

We are pleased to attach our Audit Results Report - Progress Update, summarising the current status of our audit for the forthcoming meeting of the Audit & Accounts Committee.

This report updates Members on progress since our provisional Audit Results Report, which we presented to the Audit & Accounts Committee on the 9 February 2023.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Accounts Committee meeting on the 28 September 2023, with a view to concluding the audit and issuing our Audit Report subsequent to the November meeting of this Committee.

Yours faithfully

MARK HOBGSON

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





Scope update

In our Provisional Audit Plan dated the 8 September 2022, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

• Changes in materiality: In our Initial Audit Plan, we communicated that our audit procedures would be performed using a materiality of £19.7 million. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have maintained our overall materiality assessment to £19.7 million. This results in performance materiality being maintained, at 50% of overall materiality, of £9.85 million, and the threshold for reporting misstatements at £0.985 million.

Note: for the Group audit, this materiality has been calculated on the Group's prior year gross expenditure as £20.2 million (rounded).

Status of the audit

We have progressed well with our audit of the Cambridgeshire County Council financial statements for the year ended 31 March 2022 and have performed the majority of the procedures outlined in our Initial Audit Plan.

We highlight below in red, the movement in status of our work from the position we reported in February 2023.

response from their valuation specialist, to be able to respond to queries

raised by the audit team. This is now complete.

 Borrowing - We are waiting on two outstanding confirmations from the London Borough of Tower Hamlets and Barclays. We have now received these confirmations and have concluded on the Council's borrowing. 	• Short Term Debtors - final sample items outstanding from the Council including in respect of credit balances. Subject to Manager Review. We have one minor audit query with Management to resolve.	
 Cash & Bank - We are waiting on two outstanding confirmations from Barclays and Insight. We also await the Council's reconciliation of Schools Cash balances for testing. This remains to be completed. 	Covid 19 Grant Income - Awaiting Council to demonstrate that conditions for three grants have been met. This is now complete.	
 Long Term Debtors - we are waiting on the Council's assessment of the valuation and recoverability of the Long Term Debtor in This Land Group. This remains to be completed. 	• Employee costs - Final analytical review procedures to be performed by audit team. This is now complete.	
 Property, Plant & Equipment - Other Procedures (including Gain on Disposal) Awaiting Council's consideration for Vehicles, Plant and Equipment balances, and understanding of the value of one asset disposal. We have concluded on the one asset disposal and have the Vehicle, Plant and Equipment balance to complete. 	Other Expenditure including Social Care expenditure - Awaiting Council response to sample queries. This is now complete.	
Property, Plant & Equipment - Valuation Testing - The Council is awaiting a	• Other Income - Subject to Manager review. This is now complete.	



Status of the audit - Movement since Provisional Audit Results Report (Dated 3 February 2023)

 Property, Plant & Equipment - Valuation Testing - The Council is awaiting a response from their valuation specialist, to be able to respond to queries raised by the audit team. This is now complete. 	Other Income - Subject to Manager review. This is now complete.
 Property, Plant & Equipment - Additions Testing - Subject to Manager review. This is now complete. 	 Taxation and Non-Specific Grant Income - Awaiting Council responses to sample of grant income transactions. This is now complete.
 Property, Plant & Equipment - Infrastructure Assets - Council to provide assessment of depreciation approach for these assets and updated final disclosures under the new requirements of the Statutory Instrument and Code adaptation for the reporting of this class of assets. This is now complete. 	 Other Disclosures (Officers Remuneration & External Audit Fee) - Awaiting Council responses to queries. This is now complete.
 Short Term Creditors - We are waiting on re-run reports from the Council, and then this is subject to Manager Review. We have received the re-run report and have one minor audit query with Management to resolve. 	 Capital Financing Requirement & Minimum Revenue Provision - Subject to Manager review. This is now complete.
 Group Accounts - Awaiting Council consideration of additional disclosure requirements including in respect of Officer Remuneration. This is now complete. 	 Going Concern - Awaiting Council response on queries raised in respect of cash flow forecasting. We have completed our initial procedures and just have an update to complete as part of our audit closing procedures.
 Related Parties - Awaiting Council consideration for Member's interests. This is now complete. 	



Current Status of the audit

We have progressed well with our audit of the Cambridgeshire County Council financial statements for the year ended 31 March 2022 and have performed the majority of the procedures outlined in our Initial Audit Plan.

The outstanding areas of audit work at the date of this report are:

- Completion of cash procedures through receipt of cash confirmation from Barclays and resolution of gueries on the schools cash balances;
- Completion of work on Long Term Debtors through support for cash flow projections and business plans to support recoverability of This Land debtor;
- Completion of work on Property, Plant and Equipment linked to the Council's accounting policy for Vehicles, Plant and Equipment assets;
- ► Completion of work on Debtors and Creditors, with testing on three items requiring final support or quantification of the level of error; and
- Completion of work on Journals with remaining queries to resolve in respect of manual and system journal types.

Closing Procedures:

- Review of the final version of the financial statements including an updated Going Concern disclosure and assessment;
- Completion of subsequent events review;
- Receipt of the signed management representation letter; and
- ► Final Manager and Engagement Partner reviews.

Subject to satisfactory completion of the outstanding items above, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3.

However until work is complete, further amendments may arise. We expect to issue the audit certificate after we issue the audit opinion, once the requirements in respect of the WGA submission are known and any procedures completed.



Areas of audit focus

In our Initial Audit Plan we identified a number of key areas of focus for our audit of the financial statements 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 (Updates from February 2023 set out in red)
Fraud risk	Management Override: Misstatements due to fraud or error	We have not yet fully completed our work in this area.
Fraud Risk	Management Override: Inappropriate Capitalisation of revenue expenditure	We have completed our work in this area and have one matter to report. The Council have recognised $£1.0$ million of REFCUS expenditure, which relates to $2022/23$. Given the nature of this error we do not deem this to be indicative of fraud.
Fraud Risk	Accounting adjustments made in the 'Movement in Reserves Statement'	We have completed our work in this area and have no matters to report.
Significant Risk	Infrastructure Assets	We have completed our work in this area and have two adjustments to report. On review of the useful life used to depreciate Infrastructure Assets, we have deemed that these are being depreciated over a shorter useful life (40 years) than the Council's assessment (50 years). The depreciation charge is therefore overstated, and the carrying value of these assets is understated, by $\pounds 5.4$ million. The Council will also comply with the DLUHC statutory instrument to present Infrastructure Assets on a Net Book Value basis. As a result, we intend to lift our previous Limitation of Scope qualification on this area.
Significant risk	Valuation of Land and Buildings and Investment Properties	 We have completed our work in this area and have the following matters to report: The Fixed Asset Register did not agree to the final valuation schedule provided by Bruton Knowles. The total impact of this is that Property, Plant and Equipment is understated by £2.4 million. Our review of the valuation of Brunswick House has identified that an incorrect income assumption has been used. However, the Council had not processed this valuation in the asset register. The net impact of these adjustments is £0.1 million. Our review of the valuation of the 'Fourfield CP School' has identified that an incorrect build date and useful life assumption has been used in the valuation. As a result, the balance sheet value of this asset is understated by £1.6 million. Our specialist has assessed that land values used across the revalued asset portfolio, primarily in the Central Cambridge location, are high and outside of our expected range. As a result, we deem that Property, Plant and Equipment is overstated by £4.2 million. Balance Sheet - Property, Plant and Equipment - Our specialist has assessed that the assumptions used in the valuation of farm assets are overly conservative. As a result, we deem that Property, Plant and Equipment is understated by £5.0 million.



Area of audit focus (continued)

Type of risk	Description	Findings and conclusion (Updates from February 2023 set out in red)
Significant Risk	Recoverability of Long-Term Debtor with This Land Group	We have not yet fully completed our work in this area.
Inherent Risk	Valuation of Solar Farm Assets	We have completed our work in this area and have found the value of the operational Solar Farm asset (Triangle Solar Park) to be overstated by £4.3 million.
Inherent Risk	Accounting for Covid-19 related grant funding	We have completed our work in this area and have no matters to report.
Inherent Risk	Accounting for City Deal	We have completed our work in this area and have no matters to report.
Inherent Risk	Pensions Valuations and Other disclosures	We have completed our work in this area and have identified two audit differences to report. As a result of movements in asset valuation, supported by a revised IAS 19 report, we initially identified that the Net Pension Liability is overstated by £4.1 million. Subsequently, the actuary has completed the 2022 Triennial Review, and therefore the Council have obtained a further IAS19 report. This identified that the Net Pension Liability was understated by £9.6 million.
Inherent Risk	Group Accounts	We have not completed our work in this area. We have identified a number of audit differences to the Group Accounts as a result of the audit of This Land Limited's financial statements.
Inherent Risk	Accounting for schools that convert to 'Academy' status	We have completed our work in this area and have no matters to report.
Inherent Risk	Private Finance Initiative	We have completed our work in this area. We have identified an inconsistency in one disclosure note to the underlying models which has been adjusted for in the revised financial statements.
Area of Focus	Going Concern	We have completed our initial procedures and just have an update to complete as part of our audit closing procedures.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues;
- You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Accounts Committee or Management at this time.



Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability

 How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance
 How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness

 How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

We have commenced our 2018/19, 2019/20, 2020/21 and 2021/22 Value for Money work and are making good progress but we have not yet concluded on that work. We anticipate that we will be in a position to report by the November Committee.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have identified that a number of the matters disclosed under the 'significant governance issues' section (Section 3.2) do not reflect significant governance issues and therefore should be included separately within this Statement, if referred to at all.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance and requirements to auditors. We will complete this work in line with the instructions issued by the NAO when it is appropriate to do so. We will not therefore be able to issue our Audit Certificate alongside our Audit Opinion.

Objections

We have received one objection to the 2021/22 Statement of Accounts from a member of the public.

We have assessed this objection, alongside those in respect of the 2018/19, 2019/20 and 2020/21 financial statements.

We have been able to conclude that the objection raised does not have an impact on our ability to issue our opinion on the Statement of Accounts - given our audit procedures have covered the area of accounts raised within the objection. We have issued our Statement of Reason's to the objector on the 3 February 2023.



Audit differences - updates from February 2023 position set out in red

Uncorrected differences

At the date of this report, we have identified three audit differences which are yet to be adjusted by Management within revised financial statements.

- 1. Balance Sheet Property, Plant and Equipment Our internal specialist review of the valuation of the Solar Farm asset (Triangle Solar Park) estimated the Solar Farm asset to have a valuation in the range of £5.0 to £5.5 million. As a result, the balance sheet value of the asset is deemed to be overstated by £4.348 million.
- 2. Balance Sheet Investment Properties Our review of the valuation of Brunswick House has identified that an incorrect income assumption has been used. As a result, the balance sheet value of the asset is overstated by £4.6 million. However, the Council had not processed this valuation in the asset register, and therefore the asset register was initially understated by £4.7 million. The net impact of these adjustments is £0.1 million, hence the Council have elected not to adjust.
- 3. Balance Sheet Investment Properties Our specialist review of the valuation of Investment Properties has identified two properties which fall below our specialist's valuation range. As a result, the balance sheet value of these two assets is deemed to be understated by £3.4 million.
- 4. Balance Sheet Property, Plant and Equipment Our review of the valuation of Fourfield CP School has identified that an incorrect build date and useful life assumption has been used in the valuation. As a result, the balance sheet value of this asset is understated by £1.6 million.
- 5. Balance Sheet and Comprehensive Income & Expenditure Statement Revenue Expenditure Funded from Capital Under Statute (REFCUS) Costs have been accrued in respect of REFCUS contributions to the A14 development project, however delays to the project have meant that any costs were not incurred until 2022/23. REFCUS and short term creditors are overstated by £1.000 million.
- 6. Balance Sheet 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 overstated by £1.418 million. We understand that this difference arose due to the Insurance Broker's report being received after the Statement of Accounts were drafted for publication. Management have chosen not to adjust for this difference.
- 7. Balance Sheet Creditors We have identified that a previously recognised error in respect of HMRC creditors is yet to be corrected. We understand that this remains a work in progress by management to quantify the final balance. We have raised an uncorrected difference where creditors are understated by £2.4 million.
- 8. Balance Sheet Property, Plant and Equipment Our specialist has assessed that land values used across the revalued asset portfolio, primarily in the Central Cambridge location, are high and outside of our expected range. As a result, we deem that Property, Plant and Equipment is overstated by £4.2 million.
- 9. Balance Sheet Property, Plant and Equipment Our specialist has assessed that the assumptions used in the valuation of farm assets are overly conservative. As a result, we deem that Property, Plant and Equipment is understated by £5.0 million.

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



Audit differences (continued) - updates from February 2023 position set out in red

Corrected differences

At the date of this report, we have identified two audit differences which are to be adjusted for by management within the revised financial statements.

- 1. Balance Sheet Net Pension Liability The Council received a revised IAS19 Actuary report which changed the value of the pension plan assets. This had the result of reducing the net pension liability by £4.1 million. The adjustment was made due to new information being provided by the Actuary after the draft statement of accounts had been prepared.
- 2. Balance Sheet Net Pension Liability Updated information became available during the audit following the completion of the Pension Fund Triennial Valuation. The difference is a result of an update to assumptions underpinning the triennial valuation and their consequential impact on the Pension Liability at 31 March 2022. The Net Pension Fund Liability was understated by £9.6 million. Note: this corrected difference is in addition to the corrected difference set out above (total increase in liability £5.5 million.
- 3. Group Accounts The audit of This Land Limited identified overstatements of Income and Expenditure due to incorrect Income recognition. These adjustments were not reflected in the results of This Land Limited at the time of the initial group consolidation, but are to be reflected in the revised financial statements. This impacts the Group accounts only, and has the impact of reducing Gross Expenditure by £2.572 million, Gross Income by £3.239 million, and increasing Financing and Investment Income by £0.815 million. It also increases the Inventory balance in the Group accounts by £0.148 million.
- 4. Comprehensive Income and Expenditure Statement REFCUS The Council have recognised £1.0 million of REFCUS expenditure in 2021/22, however this expenditure was not incurred until 2022/23. REFCUS and Creditors are therefore both overstated by £1.0 million.
- 5. Balance Sheet Property, Plant and Equipment The Council have incorrectly classified a leased out rental unit as an Operational Land & Buildings asset, when this should be classified as an Investment Property. Property, Plant and Equipment is therefore overstated, and Investment Property is understated by £2.4 million.
- 6. Balance Sheet Property, Plant and Equipment The Fixed Asset Register did not agree to the final valuation schedule provided by Bruton Knowles. As a result, Property, Plant and Equipment is understated by £4.1 million. A further two assets were later identified as not reflected in this adjustment, where the balance was overstated by £1.6 million. The net impact of this is that Property, Plant and Equipment is understated by £2.5 million.
- 7. Comprehensive Income and Expenditure Statement Audit Fees The Council have under accrued for audit fees in respect of previous audit years. As a result, expenditure and creditors are equally understated by £0.2 million.
- 8. Balance Sheet Infrastructure Assets On review of the useful life used to depreciate Infrastructure Assets, we have deemed that these are being depreciated over a shorter useful life (40 years) than the Council's assessment (50 years). The depreciation charge is therefore overstated (CIES), and the carrying value of these assets is understated, by £5.4 million. There will be a nil net impact once reversed through the Movement in Reserves Statement. The Council will also comply with the DLUHC statutory instrument to present Infrastructure Assets on a Net Book Value basis.



Audit differences (continued)

Disclosure Differences

A limited number of disclosure amendments have also been identified in the draft financial statements which Management has chosen to adjust. This includes adjustments to Note 15 - Officers Remuneration (Exit Packages).

Control observations

During the audit, we did not identify any significant deficiencies in internal control. We have taken a wholly substantive approach to the audit.

However, we would like to draw your attention to the following issues identified through our audit (new items since February 2023 highlighted in red):

- The Council are yet to resolve the findings of our Internal Specialist review of the Minimum Revenue Provision conducted in 2018/19 as a result of capacity constraints.
- The Council are yet to engage a suitable External valuer for the valuation of the Solar Farm Asset. We deem this highly significant given the construction of a second Solar Farm asset (North Angle Solar Park) and recommend that a suitably qualified valuer be appointed by the time this asset becomes operational.
- The Council do not review all historic information on Related Party disclosures and instead perform a year-end exercise with Members. Whilst responses to this exercise have been received, this poses a risk that previously disclosed interests may be missed. Our work on Related Party disclosures remains in progress, linked this issue which requires additional consideration.
- The Council's Accounts Payable and Accounts Receivable systems are unable to provide a breakdown of the individual transactions that make up the balance on various Debtors and Creditors accounts, and instead are only able to provide the year-on-year movement.
- We have experienced significant delays in respect of responses to our queries on the valuation of Property, Plant and Equipment. The draft accounts were also published whilst further valuation information was being confirmed with the valuation specialist as a result of delays in this process.
- The Council did not complete the CIPFA Disclosure Checklist at the time of accounts production.
- The Council do not hold a detailed Asset Register for Infrastructure Assets, or Vehicles, Plant and Equipment.