Cambridgeshire County Council

Audit Results Report

Year ended 31 March 2022

21 November 2023

Building a better working world

Audit and Accounts Committee
Cambridgeshire County Council

21 November 2023

Dear Audit and Accounts Committee Members

2021/22 Audit Results Report

We are pleased to attach our Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit & Accounts Committee. This report follows our provisional Audit Results Report dated 3 February 2023 and our Audit Results Report - Progress Update Report dated 18 September 2023.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Cambridgeshire County Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit & Accounts Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Accounts Committee meeting on the 1 December 2023.

MARK HODGSON

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

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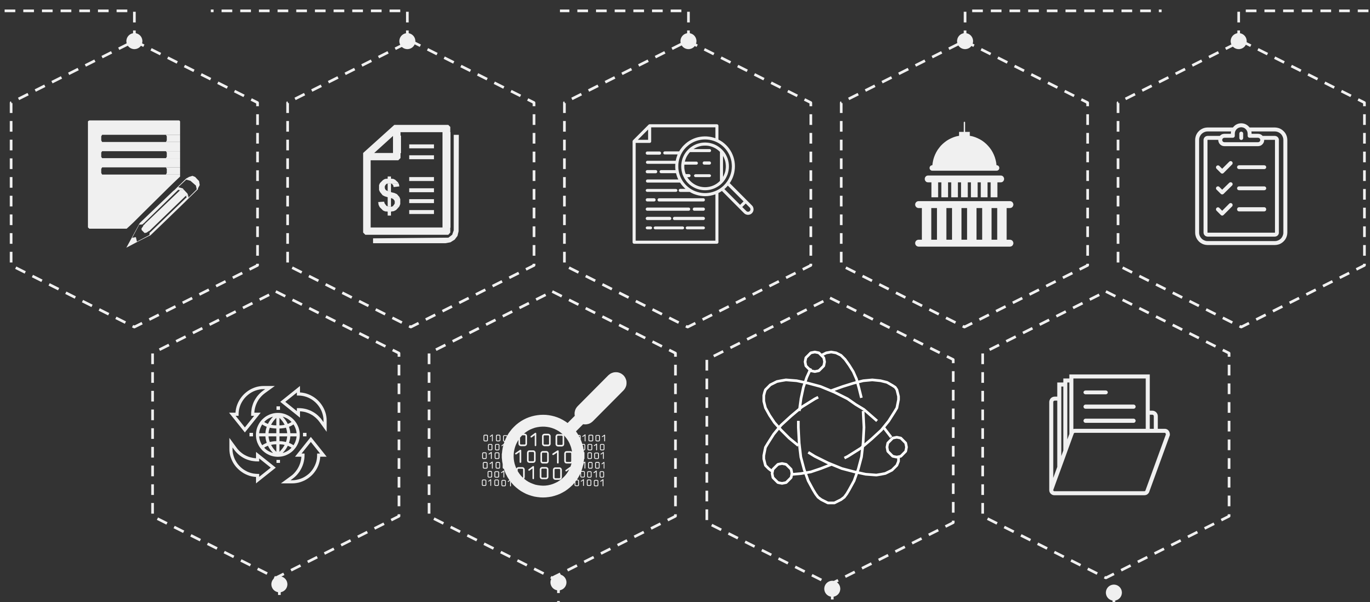

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement 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

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.

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 queries 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, with testing of the VAT debtor position 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. Given the significance of the outstanding matters, and the elapsed time to resolve them to date, these may have the potential to lead to a modification of our final opinion, if they cannot be resolved in a timely manner.

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.

Executive Summary

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

Following delays to previous Value for Money Conclusion's, we have commenced our Value for Money work in respect of 2018/19 through to 2021/22, which is a significant undertaking given the multiple periods required to be covered and the elapsed length of time since the year of review.

We are making good progress across all years, but we are not yet in a position to conclude on this work.

We will update a future Audit and Accounts Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.

Executive Summary

Audit differences

Uncorrected differences

At the date of this report, we have identified the following audit differences which are yet to be adjusted by Management within revised financial statements. We acknowledge that Management may choose to correct for a number of these at the conclusion of the audit, but until notified of the correction they remain classified as uncorrected.

1. **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.

2. **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.

3. **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.

4. **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.

5. **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.

6. **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.

7. **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.

8. **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 differences 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.

Executive Summary

Audit differences (continued)

Corrected differences

At the date of this report, we have identified the following 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 – Property, Plant and Equipment** – The Council's depreciation for Infrastructure Assets has been calculated with a 40 year useful life, compared to an assessment of the useful life of these assets as 50 years. The net book value of these assets is therefore understated by £5.4 million.

9. **Balance Sheet – Cash and Cash Equivalents** – In producing the school's cash reconciliation, a duplicate journal was posted in processing the schools creditor accruals. As a result, Cash and Cash Equivalents and Short Term Creditors are both overstated by £2.0 million.

Executive Summary

Audit differences (continued)

Corrected differences (continued)

10. **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.

Disclosure Differences

Several 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). See Section 4 for more information.

Executive Summary

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
Fraud risk	Management Override: Misstatements due to fraud or error	We have not yet fully completed our work in this area and will provide a verbal update on 1 December 2023.
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 £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 £2.5 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 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. • 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.

Executive Summary

Area of audit focus (continued)

Type of risk	Description	Findings and conclusion
Significant Risk	Recoverability of Long-Term Debtor with This Land Group	We have not yet fully completed our work in this area and will provide a verbal update on 1 December 2023.
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 not yet fully completed our work in this area due to the requirement to assess going concern through to a period 12 months post balance sheet date. We will provide a verbal update on 1 December 2023.

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.

Executive Summary

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 nature of the matters raised within the objection do not have an impact on our ability to issue our opinion on the Statement of Accounts. We have performed appropriate audit procedures across the area of financial statements raised within the objection and have gained sufficient appropriate assurance over those areas.

We have issued a 'Statement of Reasons' to the objector on the 3 March 2023, covering all their objections in respect of those financial years set out above.

We concluded that we did not need to exercise any of our auditor powers in relation to the matters raised and we deem those objections to be concluded.

Executive Summary

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:

- 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.

- 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 financial statements 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.

Further details on these observations can be found at section 7 of this report.

Independence

Please refer to Section 8 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Fraud risk - misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

What did we do?

We have completed our standard procedures to address the fraud risk, which included:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To address the residual risk of management override we perform specific procedures which include:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- Assessing key accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

As reported in our Initial Audit Plan, our work to identify fraud risks during the planning stages identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. The identified areas were:

- the incorrect capitalisation of revenue expenditure
- accounting adjustments made in the 'Movement in Reserves Statement'

The results of our work on these specific risks are set out on the following two pages.

We are yet to complete our work in this area, as some minor areas of our procedures remain to be concluded. We will provide a verbal update at the committee meeting on 1 December 2023.

Significant risks

Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

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 and the balance sheet.

We have focused on the Council's judgement that an item is capital expenditure in nature. To address this risk we:

- Obtained an analysis of capital additions in the year and reconciled this to the FAR
- Sample tested additions to property, plant and equipment to ensure that they had been correctly classified as capital transactions and included at the correct value;
- Sample tested REFCUS to ensure the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state; and
- Applied our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our conclusions?

We have completed our work in this area and have one matter to report. Our sample testing of REFCUS identified one transaction which had been incorrectly accrued for in respect of the A14 Project contributions, of £1.000 million. This has not been deemed to be fraudulent mis-reporting as this does not align with our fraud risk and there would be no incentive for the Council to record this transaction in year. This is included in this report as an adjusted difference.

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 misstate 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?

We have completed our work in this area and have no matters to report.

Significant risk - continued

Infrastructure Assets

What is the risk?

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. This matter remains under consideration by CIPFA and the Council hold Infrastructure Assets, with a Net Book Value of £953 million at 31 March 2022.

This issue was the basis for a 'Limitation of Scope' modification to our auditor opinion for the 2020/21 financial year. We have raised a significant risk in this area, as either the 'Limitation of Scope' will continue, or the accounting treatment will need to be reviewed and applied that takes into account any updated guidance from CIPFA, if the Council has sufficient appropriate evidence to support that the principles of any updated accounting guidance.

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

In order to address this risk we undertook the following audit procedures:

- Discussed the matter with the Council as guidance on accounting for Infrastructure Assets is issued by CIPFA;
- Understood the Infrastructure Assets balance and the individual assets comprising this balance; and
- Understood the Council's process for writing out gross cost and accumulated depreciation on the Infrastructure Assets balance to determine whether this is materially correct at the Balance Sheet date.

What are our conclusions?

CIPFA have issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets. In addition, DLUHC have issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). Alongside this code adaptation, the Statutory Instrument allows for the Infrastructure Assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Council will also comply with the DLUHC statutory instrument to present Infrastructure Assets on a Net Book Value basis, and as a result we intend to lift our previous Limitation of Scope qualification on this area.

We also identified that the useful life used to depreciate Infrastructure Assets is shorter (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 £5.4 million. The Council will be adjusting for this misstatement.

Significant risk – continued

Valuation of Property, Plant & Equipment and Investment Properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end Land & Buildings balances recorded in the Balance Sheet.

As a result of our work last year we did not identify any material issues with the work of the Council's external valuer.

From planning discussions with management, we have identified that the Council expect to provide revised valuations to us in advance of the audit, following the identification of issues within the valuations held in the draft financial statements.

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 2021/22 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;
- Engaged EY Real Estates to review a review a sample of the valuations, assumptions and conclusions reached by the external valuers; and
- Tested accounting entries had been correctly processed in the financial statements.

What are our conclusions?

- Our testing of assets not subject to valuation in 2021/22 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.
- Our detailed testing of valuations, and the accounting for these valuations, did identify a number of differences, as follows:
  - 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 £2.5 million. Management intend to correct for this difference.
  - 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.

Significant risk – continued

Valuation of Property, Plant & Equipment and Investment Properties (continued)

What are our conclusions (continued)?

- 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.
- 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.
- 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.

Significant risk – continued

Recoverability of Long-Term Debtor with This Land Group

What is the risk?

This Land Limited was incorporated in June 2016. The principal activity of the Company is to act as a holding company and a commercial entity whilst the Group oversee the acquisition and development of land and property for subsequent sale. This Land Limited and the This Land Group are a wholly owned subsidiary of the Council. As at 31 March 2022 the Council holds a Long-term Debtor of £113.9 million in the Balance Sheet in relation to the loans issued to This Land Ltd. The loans are repayable between 2026 and 2029.

The current volatility in the housing market could have an impact on the Council's ability to recover the loan in full from This Land Ltd on the repayment dates. Given the material size of the loan we have considered the recoverability of the loan as a significant risk. We would expect the Council to perform a detailed valuation, in line with IFRS 9 – Financial Instruments, of the loan. Considering the recoverability of the loan and whether any expected credit losses should be recognised.

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 Long Term Debtor assets in the Balance Sheet. To address this risk we:

- Reviewed the Avison Young 'Shareholder Review of This Land' report commissioned by the Council and assessed the progress of any recommendations made in the report;
- Reviewed the Council's consideration of the valuation and recoverability of the loan to ensure this is reasonable and performed in line with the Code of Practice and the relevant accounting standard (IFRS 9 – Financial Instruments); and
- Engaged with EY Specialist Corporate Finance team to ensure that any judgements or estimates that support the valuation and recoverability have been accounted for in line with the Code of Practice and the relevant accounting standard.

What are our conclusions?

We are yet to complete our work in this area. We will provide a verbal update at the committee meeting on 1 December 2023.

Other Areas of Audit Focus – Inherent Risk

Valuation of Solar Farm Assets

What is the risk?

The Council owns one operational Solar Farm (Triangle Farm) and has one classified as an Asset Under Construction (North Angle). The value of the Solar Farms represent significant balances in the Council's financial statements. Given the complex nature of valuing a Solar Farm, our 2019/20 audit raised recommendations around engaging with a specialist valuer to provide support for the valuation estimate.

The current volatility in the energy market will have an impact on the power price forecasting, which would be a key judgements used in the valuation of the solar farms. The impact of this judgement will potentially be material. As the Council have not had the Solar Farm asset revalued since the 2019/20 financial year, further consideration is required as to why this asset is deemed to be held at a materially correct value.

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

In order to address this risk we undertook the following audit procedures:

- Reviewed management's assessment as to why the Solar Farm assets are considered to be held at a materially correct value;
- Considered the appropriateness of the valuation and classification of the new Solar Farm asset; and
- Employed our internal valuation specialist to consider any changes since their review in 2019/20 of the solar farm valuation at the Balance Sheet date

What are our conclusions?

Our Internal Specialist review of the valuation of the operational Solar Farm asset has 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. This is a judgmental difference based on estimation techniques, and as such the Council are currently considering whether to adjust for this audit difference. See Section 4 for more information – Unadjusted Audit Differences.

Other Areas of Audit Focus - Inherent Risk

Accounting for Covid-19 related Government grants

What is the risk?

In response to the COVID-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these.

Given the volume of these grants, including new grants for 2021/22, with new conditions for the Council to understand the accounting impact of, there is an inherent risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.

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

We have identified a specific risk that impacts the grant income within the net cost of services and taxation and non specific grant income in the comprehensive income and expenditure statement. In order to address this risk we undertook the following audit procedures:

- Sample tested Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature;
- Sample tested Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body; and
- Reviewed the instructions and conditions of each grant that we were testing to corroborate the Council's assessment of whether they were acting as an Agent or Principal in disbursing the grants.

What are our conclusions?

We have completed our work in respect of Accounting for Covid-19 related Government Grants and have no matters to report.

Other Areas of Audit Focus – Inherent Risk

Accounting for City Deal Funding

What is the risk?

In 2020/21 Greater Cambridge Partnership were awarded the next tranche of funding for the City Deal. This amounts to £200 million over five years. The Council amended the accounting treatment for this grant within the audited 2020/21 accounts following our audit procedures and discussions.

Given the accounting treatment has remained the same in 2021/22, we have lowered this risk to an inherent risk in 2021/22, given the material nature and complexity of the funding, to ensure that this approach remains appropriate to the conditions and requirements of the grant.

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 are performing the following audit procedures:

- Ensured the consistency of accounting treatment with current year was consistent with the accounting treatment in 2020/21; and
- Considered whether there have been any changes to the conditions and/or substance of the funding that would impact that accounting treatment.

What are our conclusions?

We have completed our work in respect of Accounting for City Deal Funding and have no matters to report.

Other Areas of Audit Focus – Inherent Risk

Pension Liability Valuation & other pension disclosures

What is the risk?

The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body and the Fire Fighters Pension Scheme. The Council's Pension Scheme is a material and sensitive item and the Code requires that the liability be disclosed on the Council's Balance Sheet. Accounting for this scheme involves significant estimation and judgement.

At 31 March 2022 the Net Pension Liability totalled £547 million. The information disclosed is based on the IAS 19 reports issued to the Council by the actuary to the administering body.

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 the Pension Liability in the Balance Sheet and supporting disclosure notes. To address this risk we:

- Liaised with the auditor of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Cambridgeshire County Council;
- Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they used by relying on the work of PwC – Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors, and considering the corresponding reviews performed by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

What are our conclusions?

- We have reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have undertaken the work required without identifying any issues.
- We have agreed the Council's IAS 19 disclosures to the Actuaries' report to ensure these are fairly stated in the accounts.
- We were informed by the Pension Fund auditor that Investment Valuations within the Pension Fund were understated. On receipt of an updated IAS 19 report from the Actuary, we determined that the Council's Pension Fund Liability was overstated by £4.1 million. Management have decided to adjust for this audit difference. See Section 4 for more information – Adjusted Audit Differences.
- A national issue emerged in relation to the potential impact of the latest Pension Fund Triennial Valuation on the Pension Liability at the 31 March 2022. Management obtained a further updated IAS 19 Report, which took into account the assumptions used within the Triennial Valuation process. We reviewed the underlying assumptions used within the Triennial Valuation report for reasonableness, and were able to gain assurance that assumptions used remained within our range expectations. The assumptions used within the Triennial valuation approach had the impact of increasing the Council's net Pension Liability by £9.6 million. Management have made this adjustment within the revised financial statements.

Other Areas of Audit Focus - Inherent Risk

Group Accounts

What is the risk?

The County Council is the sole and ultimate owner of all parts of the subsidiary 'This Land Ltd' Group. This is consolidated into the group accounts of the Council. We have raised this as an area of inherent risk, to ensure the consolidation process is robust and because we need to gain a number of assurances from the component auditor (RSM LLP) of This Land Ltd.

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:

- Liaised with the auditors of the group entities to obtain assurances over the information supplied in the consolidation pack to Cambridgeshire County Council;
- Reviewed the consolidation adjustments made by the Council; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to the Group Accounts.

What are our conclusions?

We have completed our work in respect of the Group Accounts.

As a result we have raised an adjustment in respect of the findings of the audit of This Land Group. These adjustments were not reflected in the results of This Land Limited at the time of the initial consolidation, but are to be reflected in the financial statements. This 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. This also increases the Inventory balance in the Group Accounts by £0.148 million.

Other Areas of Audit Focus - Inherent Risk

Accounting for Academy School Transfers

What is the risk?

Schools continue to convert to academy status, albeit at a lower rate, given previous conversions. However, this continues to have implications for the treatment of the schools' balances in the financial statements, with the most significant relating to Property, Plant and Equipment, which are invariably material given the nature of the asset class.

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

We focused on the Council's recognition of schools transferring to academy status during the period and the removal of associated transactions, balances and assets. To address this risk we:

- Reviewed the arrangements for agreeing with the school assets, liabilities and balances for transfers; and
- Reviewed how the transfers have been accounted for, including reconciling the schools that have converted to academies during the year to the various systems including those that have been disposed of in the Fixed Asset Register during the year and Department for Education records.

What are our conclusions?

- Our review of the arrangements for agreeing School Assets, Liabilities and balances for transfers did not identify any omissions; and
- Our testing confirmed that transfers had been accounted for correctly. The reconciliation of schools that have converted to academies during the year agreed to the relevant accounting systems including the Fixed Asset Register and Department for Education records.

Other Areas of Audit Focus - continued

Private Finance Initiative - PFI

What is the risk?

The Council operate three material PFI's which are long term private funded schemes.

The Income, Expenditure and Balance Sheet accounting entries in the statement of accounts are based on complex PFI operating and finance models for each scheme. The models also provide the required disclosures of future projected payments

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

We have identified a specific risk that could affect the balance sheet. We consider the risk to apply to the PFI liabilities disclosed within the statement of accounts. To address this risk:

- We have performed testing to ensure that in year payments included in the PFI models are accurate and correctly accounted;
- We have confirmed consistency of the PFI models to the financial statements; and
- Compared the PFI models to those we reviewed during 2020/21. Where changes have been identified we may be required to engage EY specialists to perform a review of the models.

What are our conclusions?

Our testing confirmed the models have been accurately and correctly accounted for.

We identified one inconsistency within the disclosures in 'Note 36 - Private Finance Initiatives' and the underlying accounting models, which the Council had reflected in the comparative figures. However, given the amounts are not material this should be reflected as an in-year adjustment. This has no impact on the core statements. Differences.

We have reviewed the models and have not identified any matters which require reporting to you.

Areas of Audit Focus

Going concern

<u>Going Concern</u>

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis. The going concern period should cover 12 months post the opinion signing date, so is to cover up to 31 March 2024, and consider the latest information available to the Council.

Our approach has focused on:
- Assessing the adequacy of disclosures required in 2021/22;
- Discussing with management the going concern assessment and challenging management's underlying assumptions; and
- Considering the impact on our audit report, including completing any internal consultation requirements.

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 produce the disclosures included within the draft financial statements.

Our work on Going Concern will need to be updated, to consider a period 12 months post the final signing date of our opinion. We will provide an update to the Audit and Accounts Committee with our findings once the work is finalised.

03 Audit Report

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Our proposed opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGESHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements of Cambridgeshire County Council (the 'Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 41 to the Authority financial statements, and
- the related notes 1 to 9 to the Group financial statements

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial position of Cambridgeshire County Council and the Group as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Audit Report

Our proposed opinion on the financial statements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Authority's and Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the 'Statement of Accounts and Annual Governance Statement 2021-22', other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the 'Statement of Accounts and Annual Governance Statement 2021-22'.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)

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Our proposed opinion on the financial statements

- we make an application for judicial review under Section 31 of the Local Audit and
- Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the 'Statement of Responsibilities, Certificate and Approval of Accounts' set out on page 37, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.
The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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Our proposed opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- Local Government Act 1972,
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and Health & Safety.

We understood how Cambridgeshire County Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of Management, the Head of Internal Audit, those charged with governance and the Monitoring Officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance.

We corroborated this through our reading of the Group and Authority's committee minutes, Group and Authority policies and procedures and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise.

Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure, inappropriate accounting adjustments made in the 'Movement in Reserves Statement' and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of inappropriate accounting adjustment made in the 'Movement in Reserves Statement' we tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), capital grants, depreciation, impairments and revaluation losses, capital expenditure funded by revenue, and minimum revenue provision to ensure that transactions were appropriate and the 'Movement in Reserves Statement' was fairly stated.

Audit Report

Our proposed opinion on the financial statements

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested the appropriateness of the journal and that it was accounted for appropriately. We assessed accounting estimates for evidence of management bias; and evaluated the business rationale for significant unusual transactions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements.
In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Authority's value for money arrangements for the year ended 31 March 2022, as the Authority has not yet received its conclusion in relation to the arrangements in place for the year ended 31 March 2019, 31 March 2020 or 31 March 2021 due to previous delays with the value for money conclusion in respect of the year ended 31 March 2018.

We are satisfied that this work does not have a material effect on the financial statements. We will report the outcome of our work on the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception. Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Cambridgeshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 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 £0.985 million which have been corrected by management that were identified during the audit.

- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **Balance Sheet – Property, Plant and Equipment –** The Council's depreciation for Infrastructure Assets has been calculated with a 40 year useful life, compared to an assessment of the useful life of these assets as 50 years. The net book value of these assets is therefore understated by £5.4 million.
- **Balance Sheet – Cash and Cash Equivalents –** In producing the school's cash reconciliation, a duplicate journal was posted in processing the schools creditor accruals. As a result, Cash and Cash Equivalents and Short Term Creditors are both overstated by £2.0 million.
- **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.

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). These relate to minor changes to individual packages based on a small number of errors and omissions in the draft accounts, which amends the total payments made from £0.575 million to £0.611 million.

Audit Differences

Summary of Unadjusted differences

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

- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **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 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.

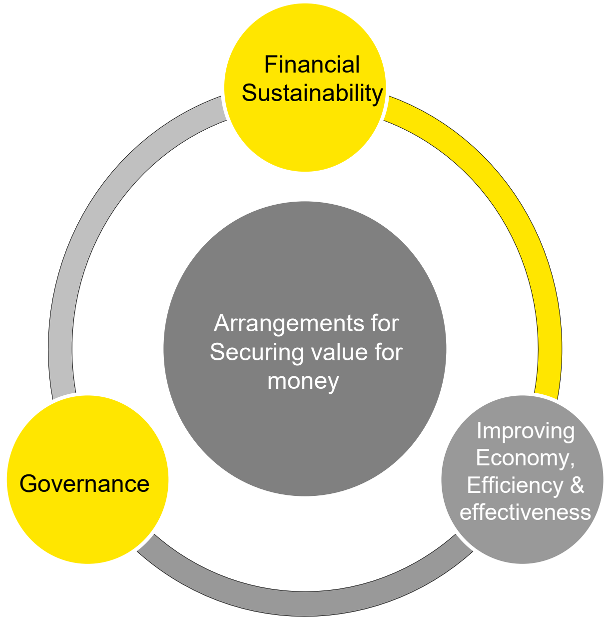
05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.



Risk assessment

We have communicated initial considerations as part of our formal risk assessment within our Initial Audit Plan dated 08 September 2022. We are yet to conclude on this risk assessment.

Status of our VFM work

We have yet to complete our detailed VFM planning. The predecessor audit has only recently concluded on their 2017/18 Value for Money Conclusion.

Whilst we have commenced our 2018/19, 2019/20 and 2020/21 Value for Money work we have not yet concluded on that work. We have not commenced our VFM risk assessment for 2021/22 at the time of this Provisional Audit Results Report. We will update a future Audit and Accounts Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement
We must give an opinion on the consistency of the financial and non-financial information in the Narrative Report with the audited financial statements. We are completing our consistency review of financial information in the Narrative Report and published with the financial statements to that included with the audited financial statements. We will provide an update at the committee on 9 February 2023. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. We have identified that a number of the matters disclosed under the 'significant governance issues' (Section 3.2) do not reflect significant governance issues and therefore should be included separately within this Statement. We have not identified any other matters to report.

Whole of Government Accounts
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. As the Authority falls below the £2 billion threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule. We are able to submit the require Assurance Statement to the NAO confirming this. We therefore have no matters to report to you.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We have received one objection to the 2021/22 accounts from a member of the public. We issued our Statement of Reasons in respect of this objection on 3 March 2023. We concluded that we did not need to exercise our auditor powers in respect of any of the matters raised within the 2021/22 objection.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identified any issues and have not had course to use this duty to the date of this report.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have reported in respect of going concern and related parties earlier in this report. We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Cambridgeshire County Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Cambridgeshire County Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

However, we would like to draw your attention to the following identified through our audit:

Minimum Revenue Provision

We reported in our 2018/19 Audit Results Report – Addendum update, that work undertaken by our internal specialist over the Minimum Revenue Provision concluded that amounts charged in the 2018/19 Statement of Accounts were materially correct but the review identified a number of areas of improvement. We recommended within that report that the Council address these areas in the 2019/20 Statement of Accounts. Whilst the Council have addressed a number of these recommendations, a number of our recommendations remain unaddressed in the 2021/22 Statement of Accounts.

Recommendation: We recommend that the Council implements the findings from our 2018/19 specialist review of the Council's Minimum Revenue Provision so that non-trivial cumulative audit differences do not occur in future audit periods.

Solar Farm Valuations

We reported in our 2019/20 Audit Results Report – Addendum update that the valuation methodology applied to the solar farm asset did not follow standard valuation practice as it was valued using a simplistic high-level future income approach. Whilst this is a discounted cash flow methodology, this type of asset is complex to value and requires detailed forecast information on power pricing, renewable obligation certificate revenues, discount rates and inflation. We discussed with management the need to engage a suitable valuation specialist to value this asset. This had not been undertaken in preparation of the 2021/22 Statement of Accounts.

Recommendation: We recommend that the Council engages an external valuer, with appropriate qualifications and experience, to value their Solar Farm assets so that non-trivial valuation differences are not identified in future periods.

Assessment of Control Environment

Financial controls

Related Party Disclosures

The Council do not review all historic information on related party disclosures and instead perform a year-end data collection exercise with Members. Whilst responses to this exercise have all been received, there is a risk that previously disclosed interests may be missed from the disclosure and consideration. Our work on related party disclosures remains in progress, linked to this additional consideration.

Recommendation: We recommend that the Council consolidates online member interest declarations and maintains these in one register. The Council should then perform an assessment of whether each relationship constitutes a potential related party in line with the Code of Practice and potential disclosure in the Statement of Accounts.

Accounts Payable and Accounts Receivable

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.

Recommendation: We recommend that the Council reviews and cleanses the Accounts Payable and Accounts Receivable balances such that cumulative opening balances are not rolled forward into the following period. The balances that are rolled forward into the following period should be done so at an invoice and supplier level.

Delays in respect of property valuations

We have experienced significant delays in respect of responses to our queries on the valuation of Property, Plant and Equipment. The draft financial statements were also published, whilst further valuation information was being confirmed with the valuation specialist, as a result of delays in this process.

Recommendation: We recommend that the Council ensures all Property, Plant and Equipment valuations are concluded in a timely manner so that they can be included in the future draft statement of accounts before their authorisation. We also recommend that any external valuer is engaged to respond to audit queries in a timely manner.

CIPFA Disclosure Checklist

The Council did not complete the CIPFA Disclosure Checklist at the time of draft financial statements production. This provides a useful tool for the Council to check consistency with the CIPFA Code of Practice requirements, and is also a starting point for audit procedures in respect of the compliance with the Code of Practice.

Recommendation: We recommend that the Council completes a full CIPFA Disclosure Checklist in advance of authorising future draft statement of accounts to demonstrate that the accounts are compliant with the CIPFA Code of Practice for that period.

Assessment of Control Environment

Financial controls

Fixed Asset Register

The Council do not hold a detailed Asset Register for Infrastructure Assets, or Vehicles, Plant and Equipment.

Recommendation: We recommend that the Council implements a detailed asset register for Infrastructure Assets and Vehicles Plant and Equipment to ensure these assets can be clearly evidenced and adjustments for impairment or other changes to the assets can be easily recorded.

08 Independence

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Audit and Accounts Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work.

Other communications

EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

EY UK 2023 Transparency Report | EY UK

Independence

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Description	Final Fee 2021/22 £'s	Scale Fee 2021/22 £'s	Final Fee 2020/21 £'s
Initial Scale Fee – Code work	72,427	72,427	72,427
2020/21 – Determined Scale Fee Variation	-	-	58,743 (Note 1)
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 2)	53,915 Note 2		
2021/22 Additional Procedures required in response to the additional risks identified in this Audit Plan and other areas of additional work (see Note 2)	Note 2		
2021/22 Objection consideration work	Note 3		
Revised Fee	**TBC**	**72,427**	**131,170**

All fees exclude VAT

Note 1 – PSAA Ltd determined the Fee Variation on 4 January 2023.
Note 2 – For 2021/22, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2020/21, which includes procedures performed to address the risk profile of the Council and additional work to address increase in Regulatory standards, as we set out in our Audit Results Report. This fee will be uplifted to reflect the current year fee rates published by PSAA Ltd.

In addition, for 2021/22, we have had to perform additional audit procedures to respond to the financial reporting and associated audit risks pertaining to the enhanced considerations and procedures required in respect of estimates under ISA 540, as well as new risks outlined within our Audit Plan and Audit Results Report. The additional fee for 2021/22 will be discussed with management once the audit is complete and will then be subject to determination by PSAA Ltd. This will include additional fees in respect of the misstatements identified and the control findings raised.

Note 3 – We have been required to undertake additional work, outside of the Scale Fee, in relation to the objection raised by a Member of the Public, including seeking appropriate external legal advice. We have notified both Management and PSAA Ltd of this matter and approach.

We will report the respective final fees formally, once they have been determined by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

09 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

Balance sheet category	Current Year Audit Approach	Prior Year Audit Approach	Explanation for change
‣ Property, Plant and Equipment ‣ Investment Property ‣ Intangible Assets ‣ Long term & short term investments ‣ Cash and cash equivalents ‣ Short and long term borrowings ‣ PFI liability (short and long term) ‣ Heritage Assets ‣ Liability related to Defined Benefit Pension Scheme ‣ Useable and unusable reserves ‣ Long and Short term debtors ‣ Short term creditors ‣ Other Long Term Liabilities - deferred liabilities ‣ Long and short term provisions ‣ Capital Grants Receipts in Advance	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
‣ Inventories ‣ Assets held for sale	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

Appendix B

Summary of communications

Date	Nature	Summary
3 August 2022	Meeting	The Audit Senior Manager and Audit Manager met with the Chief Financial Officer to discuss the audit strategy and likely audit risk.
29 September 2022	Report	The Audit Partner meet with the Audit and Accounts Committee and senior members of the management team to present the Audit Plan. Our report included confirmation of independence.
Various	Meetings	Regular calls held by the Audit Manager with the Finance Team to discuss any emerging issues throughout the audit process, and specifically during the Execution phase throughout October to February.
Various dates in November 2022 and January 2023	Meeting	The Audit Partner and Audit Manager held a call with the Chief Financial Officer and his Deputy to discuss the audit progress and findings to date.
24 November 2022 and 9 February 2023	Meeting	The Audit Partner met with the Audit and Accounts Committee and senior members of the management team and provided an update on the progress and status of the audit.
3 February 2023	Report	The Audit Partner had correspondence about initial audit findings with the Chief Financial Officer.
9 February 2023	Meeting/Report	The Audit Partner and Audit Manager met with the Audit and Accounts Committee and senior members of the management team to discuss the Provisional Audit Results Report (ISA260).
11 September 2023	Meeting	The Audit Partner and Audit Manager held a call with the finance team to provide an update on progress and status of the audit.
13 November 2023	Meeting	The Audit Manager held a call with the finance team to investigate the position of outstanding audit requests.
1 December 2023	Meeting	The Audit Manager met with the Audit and Accounts Committee and senior members of the management team and provided an update on the progress and status of the audit.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit and Accounts Committee

There are certain communications that we must provide to the Audit and Accounts Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – 8 September 2022 presented to the Audit and Accounts Committee on 29 September 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – 8 September 2022 presented to the Audit and Accounts Committee on 29 September 2022
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023

Appendix C – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Major Local Audits	For the audits of financial statements of major local audits our written communications to the Audit and Accounts Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit and Accounts Committee ▸ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Audit Plan – 8 September 2022 presented to the Audit and Accounts Committee on 29 September 2022 Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023

Appendix C – continued

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	We are concluding our work on this area and will update the Accounts & Audit committee once this work is completed.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023
Subsequent events	▸ Enquiry of the Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023
Fraud	▸ Enquiries of the Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Council any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit and Accounts Committee responsibility.	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023

Appendix C – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Council	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Plan – 8 September 2022 presented to the Audit and Accounts Committee on 29 September 2022 Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023

Appendix C – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	We have received all confirmations.
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Accounts Committee may be aware of	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023

Appendix C – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023 VFM Commentary / Auditor's Annual Report – To be determined.
Fee Reporting	▸ Breakdown of fee information when the Audit Plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Plan – 8 September 2022 presented to the Audit and Accounts Committee on 29 September 2022 Audit Results Report - presented to the Audit and Accounts Committee on 9 February 2023 and 1 December 2023 Auditor's Annual Report – To be determined.

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Cash and Borrowings	Outstanding queries related to schools cash balances.	Management
Long Term Debtors	Management to provide assessment of the valuation of the This Land Long Term Debtor	Management
PPE – Other Procedures	Management to provide consideration of the VPE balance and the valuation of the disposal of one asset	Management
Short Term Debtors – existence and credit items	Management to provide conclusion on the VAT debtor balance.	Management
Going Concern	Queries with management in regards to cash flow forecasting	Management
Whole of government accounts procedures	NAO instructions to be received, reviewed and procedures performed and submission made.	EY and management
Receipt of management representation letter	Management to prepare and provide us with their representation letter for the 2021/22 audit	Management
Subsequent events procedures	Extension of some audit procedures like review of minutes and testing for unrecorded liabilities and provisions up to the date of our auditor's report	EY and management
Checks to the final amended set of accounts	EY to receive final set of accounts with all audit adjustments, and review it for consistency with our schedule of misstatements	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion. A draft of the current opinion is included in Section 3.

Appendix E – Request for a Management Representation Letter

Request for a Management Representation Letter

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INVESTOR IN PEOPLE

Tom Kelly
Chief Finance Officer
Cambridgeshire County Council
New Shire Hall
Emery Crescent
Enterprise Campus
Alconbury Weald
Huntingdon PE28 4YE

2 February 2023

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Tom,

Cambridgeshire County Group and Council – 2021/22 financial year
Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Group and Council.

I would expect the letter of representation to include the following matters.

General statement

That the letter of representations is provided in connection with our audit of the financial statements of Cambridgeshire County Group and Council ("the Group and Council") for the year ended 31 March 2022.

That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 (as amended in 2020 for Covid-19) and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

2. That you acknowledge as members of management of the Group and Council, your responsibility for the fair presentation of the Group and Council's financial statements. You believe the Group and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and are free of material misstatements, including omissions. You have approved the Group and Council financial statements.

3. That the significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, you believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. You have disclosed to us any significant changes in your processes, controls, policies and procedures that you have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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

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

   Or

   That there are no unadjusted audit differences.

6. That you have disclosed to us any significant changes in our processes, controls, policies and procedures that you have made to address the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on your system of internal controls. That you do not believe that there are any significant changes.

Appendix E – Request for a Management Representation Letter

Request for a Management Representation Letter

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3

B. Non-compliance with law and regulations, including fraud

1. That you acknowledge that you are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that you are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. That you acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. That you have disclosed to us the results of our assessment of the risk that the Group and Council financial statements may be materially misstated as a result of fraud.
4. You have no knowledge of any identified or suspected non-compliance with laws and regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers") including non-compliance matters:
   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. You have provided us with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
- Additional information that we have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.

2. That all material transactions, events and conditions have been recorded in the accounting records and are reflected in the Group and Council financial statements, including those related to the COVID-19 pandemic and to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

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3. That you have made available to us all minutes of the meetings of the Group and Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 9 February 2023.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Council financial statements.
5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
6. That you have disclosed to us, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the Group and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. That from the date of your last management representation letter to us, through the date of this letter, you have disclosed to us any unauthorized access to your information technology systems that either occurred or to the best of your knowledge is reasonably likely to have occurred based on your investigation, including of reports submitted to you by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to your information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the Group and Council financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Group and Council financial statements (please specify the Notes) all guarantees that you have given to third parties.

E. Subsequent Events

1. That other than the disclosure described in Note 6 (Events after the balance sheet date) to the Group and Council's financial statements, there have been no events, including events related to the COVID-19 pandemic, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Appendix E – Request for a Management Representation Letter

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F. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts and Annual Governance Statement 2021-22.

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

G. Accounting Estimates

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

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

- That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
- That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Expenditure Funding Analysis

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

I. Going Concern

1. That the Group and Council has prepared the financial statements on a going concern basis and that Note 2 to the financial statements discloses all of the matters of which you are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, your future financial plans and the veracity of the associated future funding allocations from the Department for Levelling Up, Housing and Communities, the sufficiency of cash flows to support those financial plans.

J. Ownership of Assets

1. That except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

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K. Reserves

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

L. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the valuation of the Group and Council's Property, Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included within the Group and Council's financial statements and the underlying accounting records. That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

3. You confirm that the significant assumptions used in making the valuation of Property, Plant and Equipment appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.

4. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on Property, Plant and Equipment valuations and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 pandemic.

6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.

7. You confirm that for assets carried at historic cost, that no impairment is required.

M. Retirement benefits

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the pension scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

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3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

5. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the Pension Scheme Liability and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 Pandemic.

N. Group audits

1. There are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

3. You confirm that entities excluded from the Group financial statements are immaterial on a quantitative and qualitative basis.

4. That you have appropriately considered the recoverability of the working capital loans provided to This Land Ltd and any impairment of the carrying value of those loans is appropriately reflected within the financial statement.

O. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Audit & Accounts Committee) on the proposed audit opinion date (date to be advised) on formal headed paper.

Yours sincerely

Mark Hodgson
Partner
Ernst & Young LLP
United Kingdom

Appendix F

Implementation of IFRS 16 Leases

In previous reports to the Audit and Accounts Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2024. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Councill will be fully compliance with the 2024/25 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: ▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▸ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▸ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The Council needs to agree on certain policy choices. In particular: ▸ Whether to adopt a portfolio approach ▸ What low value threshold to set and agree with auditors ▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▸ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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