## Cambridgeshire County Council Audit Results report -Addendum update

Year ended 31 March 2019 7 February 2020





## 01 Executive Summary



### **Executive Summary**

#### Status of the audit

This addendum update Audit Results Report provides a bridge between our report presented to the Audit And Accounts Committee on the 31 October 2019 and the final closing position following the conclusion of our audit.

We have now completed our audit of Cambridgeshire County Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan.

Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Council's financial statements as previously reported.

The work that is outstanding as at the date of this report is in relation to:

- Review of the final version of the financial statements;
- Completion of subsequent events review; and
- Receipt of the signed management representation letter and financial statements

There are no further matters to report following the conclusion of the outstanding work reported to the 31 October 2019 Audit and Accounts Committee.

We will not be able to issue the audit certificate at the same time as the audit opinion, as we will have to complete key elements of the Code of Audit programme - namely:

- the Whole of Government Accounts submission; and
- Value for Money Conclusion.



### **Executive Summary**

#### Adjusted Audit differences

We have identified seven key audit differences with an aggregated impact above our reporting level of £16.2 million. We have discussed and agreed these adjustments with management who will amend the Draft Financial Statements. Full details of these adjustments can be found in Section 1- Adjusted Audit Differences.

There has been a national issue which has required a late change to the pension fund accounts and IAS19 fund liability disclosures following the publication of the draft financial statements. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. However, since the year-end there have been some movement in the understanding and assessment of the likely outcome and in the potential impact of any outcome, which has lead to the need for a re-assessment of the scheme liabilities under IAS19, together with supporting disclosure notes. In addition, there has been the High Court case ruling that all schemes must equalise Guaranteed Minimum Pensions ('GMP') between males and females and this had had an impact on the Pension Fund Liability as well.

The initial work performed by the Authority on this issue has indicated that the impact was material for the Pension Fund disclosures and therefore revised figures for the LGPS were obtained and updated from the Council's actuary.

This has resulted in an increase to the total pension fund liability of £24.980 million, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event.

#### Unadjusted Audit differences

We identified three unadjusted audit differences as set out in Section 2 - Unadjusted Audit Differences.

Management have chosen not to adjust for these.

We ask that this adjustment be corrected or a rationale as to why they are not corrected be approved by the Audit and Accounts Committee and include in the Letter of Representation. The aggregated impact of unadjusted audit differences is £7.284 million. We concur with management's assessment that the impact is not material to the financial statements as a whole.



# 01 Adjusted Audit Differences

Mon, October 06, 02:58 Hong Kong





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 the following misstatements greater than £0.81 million which have been corrected by management that were identified during the course of our audit:

#### 1. IAS19 Pension Liability

A ruling was made related to age discrimination arising from public sector pension scheme transition arrangements affecting judges' pensions (McCloud) and firefighter pensions (Sergeant) that had implications for the local government pension scheme.

The LGPS Scheme Advisory Board commissioned GAD to undertake an assessment of the impact of the McCloud judgement on the LGPS. EY Pensions have been able to replicate GAD's findings and outcomes and we have therefore concluded that a reliable estimation methodology is available.

The judgement gives rise to a liability and past service cost under IAS19. There is a constructive obligation to take into account given the McCloud (and Sargeant) rulings are that the transitional protections given during the 2015 pension scheme reforms were unlawful. The circumstances meet the criteria for a provision, taking account of the principles under IAS37. The Council has assessed the impact on their statement of accounts taking into account their view of materiality, by requesting a revised IAS 19 report from their actuary. We have made an assessment of the reasonableness of the calculation based on guidance from EY Pensions.

In addition to the above, the Guaranteed Minimum Pension (GMP) ruling has also had an impact on the pension liability along with a difference between the estimated year end asset valuation of the pension fund and the actual year end valuation.

The revised IAS 19 report received by the Council updated the net assets position based on the final reported position of the Pension Fund, the impact of the Guaranteed Minimum Pension (GMP) ruling and the impact on the McCloud rulings. This has resulted in a number of changes to the statement of accounts, the main impact being an increase in the net pension fund liability of £24.980 million, and a corresponding increase in the Council's Unusable reserves.

- Debit: Balance Sheet Unusable Reserves: Pensions Reserve = £24,980 million
- Credit: Balance Sheet Liability related to Defined Benefit Pension Scheme = £24.980 million

#### Summary of adjusted differences (continued)

#### 2. Property, Plant and Equipment

Our audit procedures over Property, Plant and Equipment identified a number of audit adjustments:

a. During the financial year 2018/19 the Council undertook a valuation of a number of its property, plant and equipment assets leading to an overall upwards revaluation of these assets. The Council had not correctly posted the split between the Revaluation Reserve and Surplus or Deficit on Revaluation of Property, Plant and Equipment in the Comprehensive Income and Expenditure Statement for this upwards revaluation. This resulted in an understatement of £6.348 million of the Surplus / Deficit on Revaluation of property, Plant and Equipment in the Comprehensive Income and Expenditure Statement in the Comprehensive Income and Expenditure Statement in the Comprehensive Income and Expenditure Statement with the corresponding understatement in the Council's Revaluation Reserve.

- Debit: Balance Sheet Revaluation Reserve = £6.348 million
- Credit: Comprehensive Income & Expenditure Statement Surplus or Deficit on revaluation of PPE = £ 6.348 million

b. The Council's 2018/19 Property, Plant and Equipment valuation was performed as at 30<sup>th</sup> November 2018 and included the valuation of the old Wyton School Building. This asset was subsequently demolished prior to the Balance Sheet date of the 31 March 2019 when the new Wyton School building became operational in February 2019. Our audit procedures identified that the Council's Draft Financial Statements did not correctly reflect this situation showing two audit differences:

- The Draft Financial Statements did not include the disposal of the old Wyton School building and as such Property, Plant and Equipment was overstated by £1.875 million, with the corresponding adjustment in the Comprehensive Income and Expenditure statement, Loss on Disposal of Property, Plant and Equipment.
- The Draft Financial Statements incorrectly classified the new Wyton School asset with a value of £8.822 million as an Asset under construction rather than an operational asset as at the 31 March 2019.
- ► Debit: Comprehensive Income & Expenditure Statement Loss on disposal of PPE = £1.875 million
- ► Credit: Balance Sheet Property, Plant and Equipment Land and Buildings = £1.875 million
- ▶ Debit: Balance Sheet Property, Plant and Equipment Land and Buildings = £8.822 million
- Credit: Balance Sheet Property, Plant and Equipment Assets Under Construction = £8.822 million

The value of Property, Plant and Equipment within the Council's Draft Financial Statement was understated by £15.553 million as it did not include indexation adjustment of Land and Buildings assets not valued during the financial year 2018/19.

c. The Council's Draft Financial Statements included an 'Opening Balance Adjustment' of £26.180 million within its Capital Adjustments Account note. This adjustment relates to accounting errors identified by the Council in financial years prior to 2018/19 arising from the implementation of the Council's new accounting system and fixed asset register. The errors identified relate to prior year treatment of revaluation movements and accounting adjustments between the Comprehensive Income and Expenditure Statement and the Revaluation Reserve. (Continued over the page)

#### Summary of adjusted differences (continued)

Upon review of this adjustment we have agreed with management that this constitutes a material prior period adjustment and requires disclosure as such in the revised accounts, there also being a prior period adjustment required to the comprehensive income and expenditure statement along with the adjustments made to the Council's reserves.

- ▶ Debit: Balance Sheet Property, Plant and Equipment Land and Buildings = £15.554 million
- Credit: Balance Sheet Revaluation Reserve = £13.112 million
- Credit: Comprehensive Income & Expenditure Statement = £2.442 million

#### 3. Revenue Grant Income

The Basic Needs Grant received by the Council during the financial year was understated by £27.531 million within Note 11 originally. There were significant other adjustments to both Note 11 and 31 to get to the re-presented disclosures.

#### 4. Private Finance Initiatives

The Council has three Private Finance Initiative schemes in relation to Waste, Street Lighting and Building Schools for the Future. Upon review of these schemes and the financial models underpinning them, we identified a number of disclosure adjustments and for the Waste scheme the total finance lease liability was overstated by £1.260 million.

- Debit: Balance Sheet Long term Finance Lease Liability = £1.073 million
- Debit: Balance Sheet Short term Finance Lease Liability = £0.187 million
- Debit: Comprehensive Income and Expenditure Statement Financing and Investment expenditure = £1,259 million
- Credit: Balance Sheet Capital Adjustment Account = £1.260 million
- Credit: Comprehensive Income and Expenditure Statement Place and Economy expenditure = £1,021 million
- Credit: Balance Sheet Minimum Revenue Provision = £0.238 million

#### Summary of adjusted differences (continued)

#### 5. REFCUS (Revenue Expenditure Financed by Capital under Statute)

We identified that REFCUS was erroneously included within the CIES (Surplus or Deficit on revaluation of property, plant and equipment), when it should have been included within the Net Cost of Services section against the relevant service heading.

The adjustment impacted the following:

- Debit: CIES Cost of Services Place & Economy = £1.981 million
- ► Debit: CIES Cost of Services People & Communities = £45.215 million
- Debit: CIES Cost of Services Commercial & Investment = £0.087 million
- Credit: CIES Surplus or Deficit on revaluation of property, plant and equipment = £47.283 million

#### 6. Reclassification adjustments

We identified a number of reclassification adjustments within the Draft financial statements: Reclassification of This Land debtor of £2.800 million from Short term Investments to Long term Debtor.

- Debit: Balance Sheet Long Term Debtors = £2.800 million
- Credit: Balance Sheet Short Term Investments = £2.800 million

Reclassification of £40.000 million from Short term borrowing to Long term Investments.

- Debit: Balance Sheet Long term borrowing = £40.000 million
- Credit: Balance Sheet Short term borrowing = £40.000 million

Reclassification of grant income of £34.082 million to Capital grants and Contributions which had been incorrectly netted off within Revenue Expenditure Funded through Capital Under Statute (REFCUS) within the notes to the Financial Statements.

- Debit: REFCUS = £34.082 million
- Credit: Capital Grants and Contributions = £34.082 million

Reclassification of Short Term Cash liability of £20.936 million to Cash and Cash Equivalents.

- Debit: Cash and Cash Equivalents (Liability) = £20.936 million
- Credit: Cash and Cash Equivalents (Asset) = £20.936 million

#### Summary of adjusted differences (continued)

#### 6. Reclassification adjustments (continued)

Reclassification of Short Term Debtors of £14.762 million to Cash and Cash Equivalents.

- Debit: Cash and Cash Equivalents (Liability) = £14.762 million
- Credit: Cash and Cash Equivalents (Asset) = £14.762 million

Reclassification of Other Operating Expenditure of £10.075 million to Net Cost of Services.

- Debit: CIES Cost of Services People & Communities = £8.857 million
- Debit: CIES Cost of Services Place & Economy = £0.566 million
- Debit: CIES Cost of Services Commercial & Investment = £0.652 million
- Credit: CIES Other Operating Expenditure £10.075 million.

Reclassification of Cash and Cash Equivalents of £1.619 million to Long-term Debtors and Short-term Creditors.

- Debit: Balance Sheet Short-term Creditors = £1.619 million
- Credit: Balance Sheet Cash and Cash Equivalents = £1.582 million
- Credit: Balance Sheet Long-term Debtors = £0.037 million

Reclassification of Short Term Debtors of £1.339 million to Short-term Creditors.

- Debit: Balance Sheet Short-term Debtors = £1.339 million
- Credit: Balance Sheet Short-term Creditors = £1.339 million

#### 7. Other Adjustments

We also identified through our initial review of the draft financial statements 110 disclosure adjustments which have been corrected by management in the revised financial statements subject to approval.



# 02 Unadjusted Audit Differences

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#### Summary of unadjusted differences

We highlight the following misstatements greater than £0.809 million which have not been corrected by management that were identified during the course of our audit:

#### 1. PFI - Street Lighting

Our review of the Council's Private Finance initiative schemes identified that the Councils Street Lighting PFI's total finance lease liability was over stated by £1.261 million.

- ► Debit: Balance Sheet Long term Finance Lease Liability = £1.178 million
- ▶ Debit: Balance Sheet Short term Finance Lease Liability = £0.083 million
- Credit: Balance Sheet Capital Adjustment Account = £1.261 million

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 Month 2019.

#### 2. Capital Grant Income

The Draft Financial Statements included £1.442 million of Capital Grant Income classified as Capital Grants Received in Advance within the Council's Balance Sheet which should have been classified as Grant income with in Net Cost of Services in the Comprehensive Income and Expenditure Statement.

- Debit: Balance Sheet Capital Grants Received in Advance = £1.442 million
- ► Credit: Comprehensive Income and Expenditure Statement Net Cost of Services = £ 1.442 million

#### 3. Grants Income

Our testing identified that £4.581 million of Grant Income was not included within Note 31. This amount was originally within the draft financial statements submitted for audit, but the subsequent revisions to the financial statements removed it. Our testing of the original note disclosure supports it inclusion and the Council has been unable to explain why it was removed.



# 03 Other audit findings

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#### Other Audit findings to consider for future years accounting treatment

#### Minimum Revenue Provision Review

We employed out internal specialist to review the treatment and calculation of the Council's Minimum Revenue Provision charged to the 2018/19 statement of accounts.

This review concluded that the amounts charged in the 2018/19 financial statements are materially correct but the review did identify a number of areas detailed below which the Council will need to consider as these may lead to material errors in future years:

- The Council will need to review its 'Assets Under Construction' to determine the amount that has been funded through 'unsupported borrowing' versus that which has been funded through other means;
- Charge Minimum Revenue Provision on share equity such that it is repaid by 20 years since inception;
- The Council will need to review and identify any additional amounts necessary to fully reconcile the Minimum Revenue Provision to the Council's Capital Financing Requirement (CFR);
- The Council will need to calculate the additional amount of Minimum Revenue Provision that is due on Investment Properties and any other new items and charge the relevant Minimum Revenue Provision in 2019/20, applying appropriate adjustments to future Minimum Revenue Provision calculations; and
- Update the Council's Minimum Revenue Provision policy to explain the treatment of Private Finance Initiative Schemes.

**Recommendation**: We recommend that the Council addresses the above considerations, in advance of the 2019/20 closedown process.