Cambridgeshire County Council Provisional Audit Results Report

Year ended 31 March 2021 25 February 2022







Audit and Accounts Committee Cambridgeshire County Council 25 February 2022

Dear Audit and Accounts Committee Members:

2020/21 Provisional Audit Results Report

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

The audit is designed to express an opinion on the 2020/21 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 7 March 2021.

Yours faithfully

MARK HODGSON

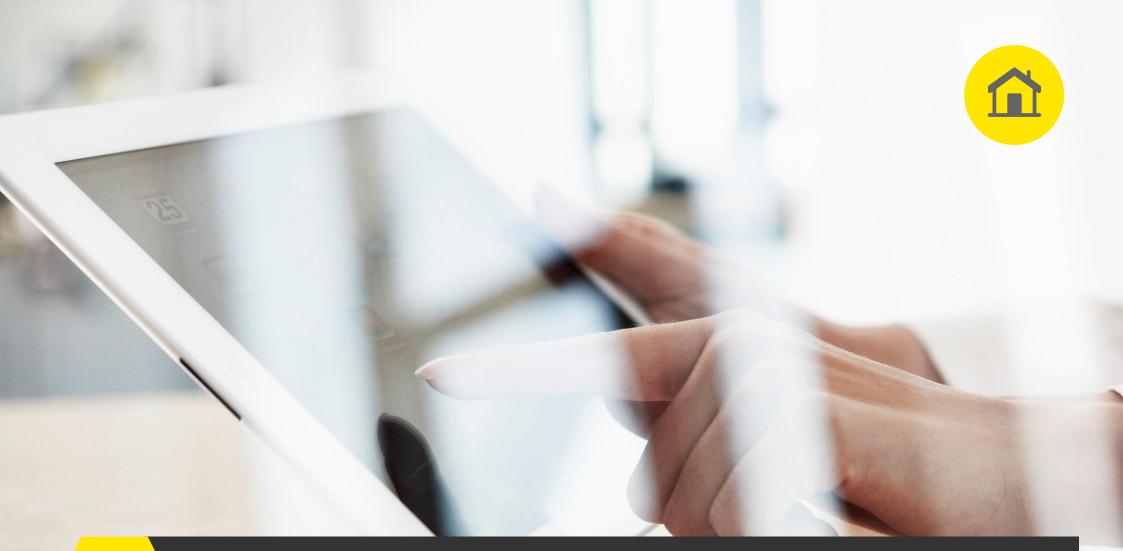
Associate Partner For and on behalf of Ernst & Young LLP Encl



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<u>https://www.psaa.co.uk/audit-guality/statement-of-responsibilities/</u>). 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 or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





Scope update

In our Provisional Audit Plan dated the 15 July 2021, 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 Provisional Audit Plan, we communicated that our audit procedures would be performed using a materiality of £19.8 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 updated our overall materiality assessment to £18.68 million. This results in updated performance materiality, at 75% of overall materiality, of 9.34 million, and an updated threshold for reporting misstatements of £0.935 million.

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, approved financial statements from 31 July to 30 September 2021 for all relevant authorities.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.



Status of the audit

We have progressed well with our audit of the Cambridgeshire Council financial statements for the year ended 31 March 2021 and have performed the majority of the procedures outlined in our Provisional Audit Plan.

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

 Borrowing - 3 have outstanding confirmations from London Borough of Islington, North Yorkshire County Council and Wokingham Borough Council 	 Disclosures - including Pooled budgets, Note 5 Assumptions and Note 28 Fair Value Hierarchy, Related Party Transactions 	
 Investments - 1 outstanding confirmation from Insight Trade Receivables - existence and provision for impairment testing 	 Narrative Report - review for consistency Cashflow statement - currently subject to Manager review 	
 Property, Plant & Equipment - Depreciated Replacement Cost (DRC) valuation assumption testing (1 assumption to finalise) Employee costs - sample testing of supporting invoices in specific cases for 6 items 	 Capital Financing Requirement and Minimum Revenue Provision Capital Adjustment Account 	
Unrecorded Provisions / Liability testing	 Expenditure - currently subject to Manager review Going Concern - currently subject to Manager review 	
Review of City Deal Grant accounting	Group Statements and notes	
Closing Procedures:		

- Review of the final version of the financial statements; ►
- Completion of subsequent events review; ►
- Receipt of the signed management representation letter; and ►
- Final Manager and Engagement Partner reviews. ►

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

However until work is complete, further amendments may arise. We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed.



Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

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

Status of the audit - Value for Money

We have yet to complete our detailed VFM planning. The predecessor audit has only recently concluded on their 2017/18 Value for Money Conclusion (December 2021). We have not yet been able to complete our Value for Money work in relation to the 2018/19 and 2019/20 financial years.

Whilst we have commenced our 2018/19 and 2019/20 Value for Money work we have not yet concluded on that work. We have not commenced our VFM risk assessment for 2020/21 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.



Audit differences

Uncorrected differences

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

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

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

Corrected differences

At the date of this report, we have identified 3 audit differences which are to be adjusted for by management within the revised financial statements.

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

Disclosure Differences

A limited number of disclosure amendments have also been identified in the draft Statement of Accounts which Management has chosen to adjust. This includes adjustments to Note 15 - Officers Remuneration (Exit Packages). See Section 4 for more information.



Areas of audit focus

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

Type of risk	Description	Findings and conclusion
Fraud risk	Management Override: Misstatements due to fraud or error	We have completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls.
Fraud Risk	Management Override: Inappropriate Capitalisation of revenue expenditure	We have completed our work in this area and have no matters to report.
Fraud Risk	Accounting adjustments made in the 'Movement in Reserves Statement'	We have not yet completed our work in this area and will provide a verbal update on 7 March 2022.
Significant Risk	Accounting for grants including Covid-19 related grant funding	We have completed our work on government grants including Covid-19 except for the City Deal Grant and have one matter to report.
		We have not yet concluded our work and judgements on the accounting for the City Deal Grant 2020/21 to 2024/25.
Significant risk	Valuation of Land and Buildings and Investment Properties	We have not yet fully completed our work in this area and will provide a verbal update on 7 March 2022.
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 and have no matters to report.
Inherent Risk	Pensions Valuations and disclosures	We have completed our work in this area and have no matters to report.
Inherent Risk	Group Consolidation	We have not yet completed our work in this area and will provide a verbal update on 7 March 2022.

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.



Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

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 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 2020/21 Statement of Accounts from a member of the public.

We are currently assessing this objection in light of the outstanding objection in respect of the 2016/17, 2017/18, 2018/19 and 2019/20 financial statements and seeking legal advice as appropriate.

We have been able to conclude that the objection raised does not have an impact on our ability to issue our opinion on the Statement of Accounts - given our audit procedures have covered the area of accounts raised within the objection. We therefore expect to issue our audit opinion, but not the certificate, until all the objections (prior and current) are resolved.

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.

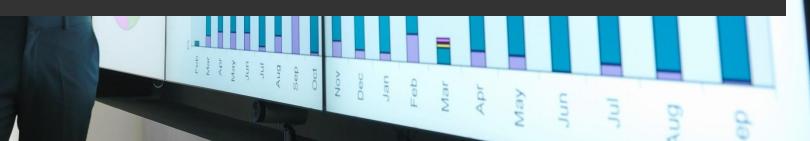
However, we would like to draw your attention to timeliness issues in receiving information for our Payroll testing. As agreed with Management we sent out information requests in August 2021 for a number of areas including payroll, with an October date given for the receipt of the supporting information.

Some of this information was not received until November 2021. Additional requests were made during the audit and we felt that these were not addressed in a timely manner, sometimes taking up to a month for the information to be provided. This has a significant impact on the audit and the completion of the audit work in a timely manner and has led to delays.

ndependence

Please refer to Section 8 for our update on Independence.

O2 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 Provisional 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.

Our mandatory procedures did not identify any instances of management override.



Significant risks

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

What is the risk?

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

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.



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:

- 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.

- Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value;
- Our sample testing of additions to Property, Plant and Equipment did not identify any revenue items that were incorrectly classified;
- Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state; and
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

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.

- No issues were identified with the Council's REFCUS entries and sample testing of REFCUS did not identify any issues.
- Our data analytics work did not identify any inappropriate journal adjustments made in the movement in reserve statement.
- We are completing our work testing of the entries in the Movement in Reserves Statement and the Council's application of the Minimum Revenue Provision policy will verbally update the committee on 7 March 2022.

Significant risk - continued

Accounting for Grants and Covid-19 related Government grants -Excluding the 'City Deal'

What is the risk?

Our audit procedures in 2018/19 and 2019/20 on the Council's financial statements have identified a number of audit adjustments in regards to the accounting treatment and presentation of grants.

The Council has received a significant level of government funding in relation to Covid-19. In 2020/21, this consists of non-ringfenced and ring fenced Covid-19 response grants. Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

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;
- 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; and
- Compared the Council's assessment of whether they were acting as 'agent' or 'principal' for each Covid grant to other Councils' assessment to determine whether ► Cambridgeshire County Council were an outlier in their treatment of any particular grant.

What are our conclusions?

Our sample testing of government grants and Covid-19 grant funding did not identify any grants that were incorrectly classified as specific or non-specific in nature, or any grants where the incorrect accounting treatment was applied.

We identified one grant that had been included incorrectly in the accounts of £1.18 million. Management have decided to adjust for this audit difference. See section 4 for more information - Adjusted Audit Differences.

Following appropriate audit challenge, our work did not identify any grants where Cambridgeshire County Council's assessment of their role as 'agent' or 'principal' was not supported. Management have agreed to include additional narrative within the critical judgements note (Note 3), regarding their assessment of the agent and principal for Covid-19 grants.

Significant risk - continued

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

What is the risk?

City Deal Grant

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

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

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

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

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

What are our conclusions?

We are yet to complete our work in this area. We will provide a verbal update at the committee meeting on 7 March 2022.

Significant risk - continued

Valuation of Property, **Plant & Equipment** and Investment **Properties**

What is the risk?

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

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

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

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

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

- We did not identify any issues with the Council's valuer, their scoping of work, professional capabilities or results of their valuation procedures.
- Our testing of assets not subject to valuation in 2020/21 did not identify any material differences. ►
- Our testing confirmed that assets had been valued within the appropriate timeframe and those valued in the year had been performed correctly. ►
- No issues were identified with the useful economic lives of assets or the accounting entries disclosed in the financial state ments and supporting notes.
- We are completing our sample testing of key asset information used in the valuations, specifically that used in calculating the obsolescence factor in assets valued under Depreciated Replacement Cost (DRC). We have not identified any issues so far with the other information tested.
- We have identified a net £2.169 million difference between the valuer's report and the Statement of Accounts across a limited number of assets. We understand that this was due to the timing of when certain asset valuations were received by the Council. The Council's accounts are overstated by this amount. Management have chosen not to adjust for this difference.

Other Areas of Audit Focus - continued

Accounting for Academy School Transfers inherent risk

What is the risk?

Schools have continued to convert to academy status since 2015/16. This has implications for the treatment of the schools' balances in the financial statements, with the most significant relating to property, plant and equipment.

There is a risk that these schools' transactions and balances may be either incorrectly included or omitted.

Other balances relating to debtors, creditors, cash balances and income (including dedicated schools grant) and expenditure within the Council's accounts are considered to be lower risk due to their size and nature.

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

We identified a risk of expenditure misstatement that could affect the income and expenditure accounts and the balance sheet.

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.

- 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 a cademies 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

Pensions valuations and	What is the risk?
disclosures - inherent risk	The Local Authority Accounting Code of Practice and IAS19 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
	The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.
	Accounting for this scheme involves significant estimation and judgement.
	At 31 March 2020 this totalled £491.615 million. The information disclosed is based on the IAS 19 report 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.

- 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 £7.5 million. Management have decided to adjust for this audit difference. See section 4 for more information - Adjusted Audit Differences.
- We have agreed the Authority's IAS 19 disclosures to the revised actuaries' report to ensure these are fairly stated in the accounts. The disclosures in the accounts have been amended to reflect the most recent valuation of the Pension Fund's assets as per the updated IAS 19 report from the actuaries. (Continued)



Other Areas of Audit Focus - continued

What are our conclusions? (continued)

We were notified of an issue has arisen across all Local Government audits within the sector that needs to be resolved prior to us being able to fully conclude our work in this area.

This is in relation to the impact of the new auditing standard on accounting estimates on planned procedures. We planned to take an audit approach to this estimate based on procedures to evaluate Management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.

Neither we, nor PWC as Consulting Actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements.

Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an Auditor's estimate, in order to gain sufficient appropriate assurance.

We have completed the additional procedure described above. We have performed an independent point estimate procedure to ensure the validity of the Actuary's model based on data received from the Council. We compared our auditor's estimate to the figures produced by the Actuary as at 31 March 2021. The difference between the two was less than 1.0% of the Pension liability amount disclosed by the Actuary and we have therefore concluded that the Council's Pension Liability falls within an acceptable range, thereby giving us assurance over the Actuary's estimation approach.



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 2019/20. 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 'Similar contracts for Building Schools for the Future' projected future payments where amounts within the 16-20 year band for cost of services and capital replacement had been incorrectly disclosed. See section 4 for more information - Adjusted Audit Differences.

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

Other Areas of Audit Focus - continued

Group Consolidation

What is the risk?

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

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

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

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

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

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

• We have reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Cambridgeshire County Council Group;

• Scoped the audit requirements for 'This Land Limited' based on their significance to the group accounts. Liaised with the external auditor of 'This Land Limited' (RSM) and issued group instructions that detailed the required audit procedures in order to provide us with assurance for the opinion we will issue on the group accounts; and

• Ensured the appropriate consolidation procedures were applied when preparing the Council's group accounts and appropriate disclosures were made within the group accounts.

What are our conclusions?

We are yet to complete our work in this area. We will provide a verbal update at the committee meeting on 7 March 2022.



Areas of Audit Focus

Going concern

Going Concern

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 2023, and consider the latest information available to the Council.

Our approach has focused on:

- Assessing the adequacy of disclosures required in 2019/20;
- 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.

We have not yet fully completed our audit work in this area. We will provide an update to the Audit and Accounts Committee with our findings once the work is finalised.







DRAFT

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 for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. 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 Accounts and
- the related notes 1 to 8 to the Group Accounts.

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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Cambridgeshire County Council and Group as at 31 March 2021 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 2020/21.

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 below. 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 (C&AG) 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.



DRAFT

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 authority's ability to continue as a going concern for a period of at least 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 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 2020-21' 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 2020-21'.

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 the mselves. 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 Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



DRAFT

Our proposed opinion on the financial statements

Responsibility of the Chief Finance Officer

As explained more fully in the 'Statement of Responsibilities, Certificate and Approval of Accounts' set out on pages 35 to 36, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine 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 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 Authority either intends to cease operations, or have 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.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council 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 Council 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.



DRAFT

Our proposed opinion on the financial statements

We understood how Cambridgeshire County Council is complying with those frameworks by understanding the incentive, opportunities and motives for noncompliance, 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 noncompliance.

We corroborated this through our reading of the Council's committee minutes, Council 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 Council'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 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.

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.



DRAFT

Our proposed opinion on the financial statements

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 or on our value for money conclusion.

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 2021 as the Authority has not yet received its conclusion in relation to the arrangements in place for the year ended 31 March 2019 or 31 March 2020. 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 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 Authority 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**

Hong Kong



📈 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 £0.935 million which have been corrected by management that were identified during the audit.

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

Disclosure Differences

- Disclosure error in respect of Note 15 Officer's Remuneration and Exit Packages number of other departures reduced from 47 to 39, total number of exit packages reduced from 84 to 76 and total cost of exit packages increased from £0.819 million to £0.943 million.
- Disclosure error in respect of Note 36 Private Finance Initiatives and similar contracts Building schools for the Future amounts were doubled counted in the band 16-20 years element of the projected future payments table. Cost of services to be reduced by £1.218 million and capital replacement to be reduced by £0.495 million.

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

Summary of Unadjusted differences

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

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

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



6

05 Value for Money



Value for money

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

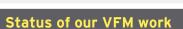
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

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

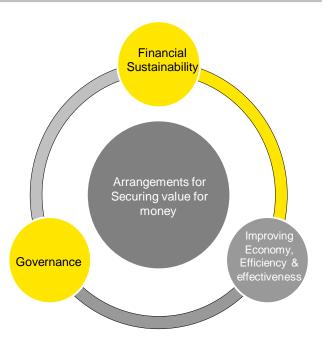
We issued an Audit Plan Addendum dated 8 September 2021 which confirmed we had concluded our detailed VFM planning and risk assessment and that we had not identify any significant weaknesses in the Council's arrangements.

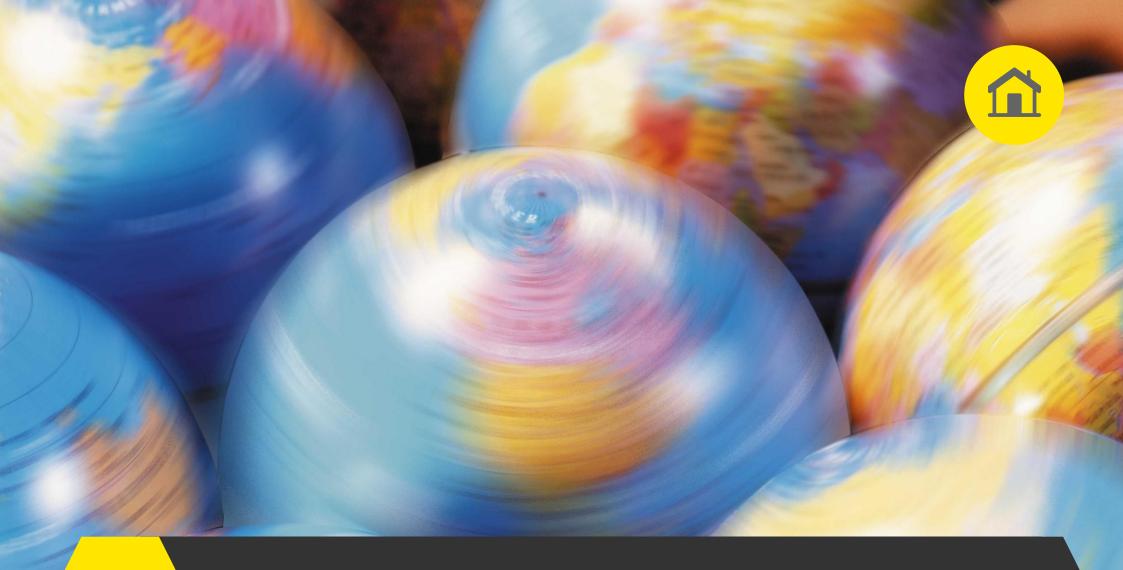
We revisited our procedures during the completion of our audit of the financial statements, and confirm that we have not identified any risks of significant weaknesses against the three reporting criteria we are required to consider under the NAO's 2020 Code.



We have yet to complete our detailed VFM planning. The predecessor audit has only recently concluded on their 2017/18 Value for Money Conclusion (December 2021).

Whilst we have commenced our 2018/19 and 2019/20 Value for Money work we have not yet concluded on that work. We have not commenced our VFM risk assessment for 2020/21 at the time of this Provisional Audit Plan. 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 7 March 2022.

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 and we have no 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.

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 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 be able to issue our Audit Certificate until this work is complete.



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 2020/21 accounts from a member of the public.

We are currently assessing this objection in light of the outstanding objection in respect of the 2016/17, 2017/18, 2018/19 and 2019/20 financial statements and seeking legal advice as appropriate.

We have been able to conclude that the objection raised does not have an impact on our ability to issue our opinion on the Statement of Accounts - given our audit procedures have covered the area of accounts raised within the objection. We therefore expect to issue our audit opinion, but not the certificate, until all the objections (prior and current) are resolved.

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 did not identify 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 earlier in this report. We have no other matters to report.



07 Assessment of Control Environment



Service 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.

Payroll Supporting Information

we would like to draw your attention to timeliness issues in receiving information for our payroll testing. As agreed with management we sent out information requests in August 2021 for a number of areas, including payroll, with an October date given for receipt of the supporting information. Some of this information was not received until November. Additional requests were made during the audit and we felt that these were not addressed in a timely manner, sometimes taking up to a month for the information to be provided. This has had a significant impact on the audit and the completion of the audit work in a timely manner, leading to delays in our work.

Recommendation: We would recommend that Management undertake a review as to why Payroll information has taken so long to be provided and implement actions so that Payroll are able to provide supporting information to the audit process in a timely manner.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.





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 2020 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 2021 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 2021

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 2021:

EY UK 2021 Transparency Report | EY UK

🕸 Independence

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

	Final Fee 2020/21	Scale Fee 2020/21	Final Fee 2019/20
Description	£'s	£'s	£'s
Initial Scale Fee – Code work	72,427	72,427	72,427
2019/20 - Determined Scale Fee Variation	-	-	37,567 (Note 1)
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 2)	53,915		
	Note 2		
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: Accounting for Covid-19 related Government Grant income and City Deal, Recoverability of Receivables, Going Concern.	Note 2		
Revised Scale Fee	ТВС	72,427	109,994

All fees exclude VAT

Note 1 – PSAA Ltd determined the Fee Variation on 22 October 2021.

Note 2 – For 2020/21, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2019/20, 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. In addition, for 2020/21, 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 ISA540, as well as new risks outlined within our Audit Plan and Audit Results Report. The additional fee for 2020/21 will be discussed with management once the audit is complete and will then be subject to determination by PSAA Ltd.

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.





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 🛛 民	Explanation for change
 Property, Plant and Equipment Investment Property Intangible Assets Long 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 Short term investments 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 June 2021	Meeting	The Audit Partner and Audit Manager met with the Chief Financial Officer to discuss the audit strategy and likely audit risk.
28 September 2021	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.
8 November 2021	Meeting	The Audit Partner and Audit Manager held a call with the Chief Financial Officer to discuss the audit progress and findings to date.
25 November 2021	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.
25 February 2022	Report	The Audit Partner had discussions about initial audit findings with the Chief Financial Officer.
7 March 2022	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 Audit Results Report (ISA260).
In addition to the abov audit findings.	e specific meetings and	d letters the audit team met with the management team multiple times throughout the audit to discuss

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 - 15 July 2021 presented to the Audit and Accounts Committee on 28 September 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - 15 July 2021 presented to the Audit and Accounts Committee on 28 September 2021
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 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022

		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 - 15 July 2021 presented to the Audit and Accounts Committee on 28 September 2021 Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022

		Our Reporting to you
Required communications	What is reported?	📅 💎 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 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022
Subsequent events	 Enquiry of the Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022
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: Management; Employees who have significant roles in internal control; or 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. 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022

		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 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022
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 - 15 July 2021 presented to the Audit and Accounts Committee on 28 September 2021 Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022

		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 not yet received one investment confirmation from Insight and three borrowing confirmations from London Borough of Islington, North Yorkshire County Council and Wokingham Borough Council. If these are not received we will undertake alternative procedures.
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 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022
Internal controls	 Significant deficiencies in internal controls identified during the audit 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022

		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 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022
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 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022
Auditors report	 Any circumstances identified that affect the form and content of our auditor's report 	Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022 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 - 15 July 2021 presented to the Audit and Accounts Committee on 28 September 2021 Provisional Audit Results Report - presented to the Audit and Accounts Committee on 07 March 2022 Auditor's Annual Report - To be determined.



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
Investments and Borrowings	External confirmations to be received. If this is not possible alternative procedures to be undertaken.	EY/Management
Trade receivables – existence and provision for impairment testing	Completion of testing	EY
PPE - depreciated replacement cost valuation assumption testing (1 assumption)	Management to provide the EUL policy so that this can be tested in relation to depreciated replacement cost assets	EY/Management
Employee costs - sample testing	To complete testing of sample of 6 items	EY
Review of City Deal Grant accounting	Review and response to consultation	EY
Disclosures including – pooled budgets, Note 5 Assumptions and Note 28 Fair Value Hierarchy, Related Party Transactions	Completion of testing and companies house checks for related parties	EY
Narrative Report	Completion of consistency review with other areas of the financial statements	EY
Cashflow statement	Completion of review	EY
Capital Financing Requirement and Minimum Revenue Provision	Completion of review of MRP and CFR note	EY
Capital Adjustment Account	Completion of testing 1 item	EY

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 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
Expenditure	Completion of review	EY
Going Concern	Queries with management in regards to subsidiary and completion of review of work	EY/Management
Group Statements and notes	Testing of updated group accounts to be completed	EY/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 2020/21 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.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global I members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.

Request for a Management Representation Letter Emst & Young LLP Tel: + 44 1223 394400 One Cambridge Business Park Fax: + 44 1223 39440 2 ey.com Cambridge CB4 0W7 Building a bette 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 Tom Kelly Chief Finance Officer 25 February 2022 Ireland), which involves an examination of the accounting system, internal control and related data to the Cambridgeshire County Council extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily Ref: Your ref: Shire Hall be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Direct line: 01223 394547 Castle Hill Accordingly, you make the following representations, which are true to the best of your knowledge and Cambridge Email: MHodoson@uk.ev.com CB3 0AP belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves: A. Financial Statements and Financial Records Dear Tom 1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the Cambridgeshire County Group and Council - 2020/21 financial year preparation of the financial statements in accordance with, for the Group and Council the Accounts Request for a letter of representation 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 2020/21. 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) 2. That you acknowledge as members of management of the Group and Council, your responsibility 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following for the fair presentation of the Group and Council's financial statements. You believe the Group points to apply 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 auditors may wish to obtain written representation where they are relying on management's accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United representations in respect of judgemental matters (for example the level of likely incidence of a Kingdom 2020/21 and are free of material misstatements, including omissions. You have approved claim), which may not be readily corroborated by other evidence; the Group and Council financial statements. · auditors are likely to request written representations on the completeness of information provided: 3. That the significant accounting policies adopted in the preparation of the Group and Council auditors may wish to obtain written representation on issues other than those directly related to financial statements are appropriately described in the Group and Council financial statements. the Statement of Accounts; · the letter is dated on the date on which the auditor signs the opinion and certificate 4. As members of management of the Group and Council, you believe that the Group and Council has · the letter is signed by the person or persons with specific responsibility for the financial a system of internal controls adequate to enable the preparation of accurate financial statements in statements: and accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United the letter is formally acknowledged as having been discussed and approved by the Accounts & Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. You have Audit Committee, as those charged with governance of the Group and Council. 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 I would expect the letter of representation to include the following matters. 5. That you believe that the effects of any unadjusted audit differences, summarised in our Audit General statement 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 That the letter of representations is provided in connection with our audit of the financial statements of as a whole. Cambridgeshire County Group and Council ("the Group and Council") for the year ended 31 March That you have not corrected these differences identified and brought to your attention by us 2021 because (please specify the reasons for not correcting the missta 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 Or give a true and fair view of the financial position of the Group and Council as of 31 March 2021 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 2020/21. That there are no unadjusted audit differences

Building a better	4
Bonong a botter working world	Building a better working world
B. Non-compliance with law and regulations, including fraud A. That you acknowledge that you are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations, including fraud. That you acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud. 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. Tyou 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 fund that may have affected the Group or Council (regardless of the source or form and including fund that may have affected the Group or Council (regardless of the source or form and including fund that may have affected the Group or Council (regardless of the source or form and including fund that may 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 a direct effect on amounts and disclosures in the francial 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; or in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations in the Group and Councel statements and socess to all information of which we are aware that is relevant to the preparation of the financial statements suc	 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 parles, purchases, to ano, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions from 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. That you have disclosed to us, and the Group and Council financial statements in the overt of non-compliance, including all covenants, conditions or other requirements of all outstanding debt. 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 by 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. Liabilities and Contingencies, including and possible litigation and claims, whether or not l, have been disclosed to us and are appropriately reflected in the Group and Council financial statements. That you have informed us of all outstanding and possible litigation and claims, whether or not ley have been disclosed to us and are appropriately reflected in the Group and Council financial statements. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingenit, and have disclosed in the Group and Council fin
 That all material transactions have been recorded in the accounting records and are renected in the Group and Council financial statements, including those related to the COVID-19 pandemic. 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: X March 	 F. Other information 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 2020 - 2021.

Request for a Management Representation Letter 5 6 2. You confirm that the content contained within the other information is consistent with the financial L. Valuation of Property, Plant and Equipment Assets statements 1. That you agree with the findings of the experts engaged to evaluate the valuation of the Group and G. Accounting Estimates 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 1. That you believe that the significant assumptions you used in making accounting estimates, including financial statements and the underlying accounting records. That you did not give or cause any those measured at fair value, are reasonable. 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 2. In respect of accounting estimates recognised or disclosed in the financial statements: independence or objectivity of the experts. · That you believe the measurement processes, including related assumptions and models, you 2. You believe that the measurement processes, including related assumptions and models, used to used in determining accounting estimates is appropriate and the application of these processes determine the accounting estimate(s) have been consistently applied and are appropriate in the is consistent context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. · That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework. 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 · That the assumptions you used in making accounting estimates appropriately reflects your intent of the entity and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures. 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, · That no subsequent event requires an adjustment to the accounting estimates and disclosures Plant and Equipment valuations and made in accordance with the CIPFA LASAAC Code of Practice included in the financial statements. on Local Authority Accounting in the United Kingdom 2020/21. H. Expenditure Funding Analysis 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 1. You confirm that the financial statements reflect the operating segments reported internally to the pandemic. Group and Council. 6 You confirm that you have performed a desktop review of all assets not subject to revaluation as part. I. Going Concern of the 5 year rolling programme for valuations and that each asset category is not materially misstated. 1. That the Group and Council has prepared the financial statements on a going concern basis and that 7. You confirm that for assets carried at historic cost, that no impairment is required. Note X (insert note) 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 M Retirement benefits significant conditions and events, your future financial plans and the veracity of the associated future funding allocations from the Ministry of Housing, Communities and Local Government, the sufficiency 1. That on the basis of the process established by you and having made appropriate enquiries, you are of cash flows to support those financial plans. 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 J. Ownership of Assets curtailments have been identified and properly accounted for. 1. That except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the 2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are Liabilities and have adequately considered the qualifications of the specialists in determining the no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as amounts and disclosures included in the Group and Council financial statements and the underlying collateral. All assets to which the Group and Council has satisfactory title appear in the balance 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 sheet(s). aware of any matters that have had an effect on the independence or objectivity of the specialists. K Reserves 3. You believe that the measurement processes, including related assumptions and models, used to 1. You have properly recorded or disclosed in the Group and Council financial statements the useable determine the accounting estimate(s) have been consistently applied and are appropriate in the and unusable reserves. context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

Request	for a Management Representation Letter
	EY
	Building a better working world
	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.
	 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 2020/21.
	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
	 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.
	Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
	You confirm that entities excluded from the Group financial statements are immaterial on a quantitative and qualitative basis.
	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 Accounts & Audit Committee) on the proposed audit opinion date (X March 2022) on formal headed paper.
	Yours sincerely
	Mark Hodgson
	Associate Partner Ernst & Young LLP
	Ernst & Young LLP United Kinadom



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 2022. 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 2022/23 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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