

South Cambridgeshire District Council

Annual Audit Letter for the year ended 31 March 2017

May 2018

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 (updated 23 February 2017)” issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to South Cambridgeshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<p>Opinion on the Council's:</p> <ul style="list-style-type: none"> ▶ Financial statements 	<p>Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended. However, the Council did not meet the requirements of the Accounts and Audit Regulations and publish audited financial statements by the 30 September. We issued our opinion on 26 January 2018 and the Council published the financial statements on the same day.</p>
<ul style="list-style-type: none"> ▶ Consistency of other information published with the financial statements 	<p>Other information published with the financial statements was consistent with the Annual Accounts.</p>
<p>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</p>	<p>We concluded that you have put in place proper arrangements to secure value for money in your use of resources.</p>

Area of Work	Conclusion
<p>Reports by exception:</p> <ul style="list-style-type: none"> ▶ Consistency of Governance Statement 	<p>The Governance Statement was consistent with our understanding of the Council.</p>
<ul style="list-style-type: none"> ▶ Public interest report 	<p>We had no matters to report in the public interest.</p>
<ul style="list-style-type: none"> ▶ Written recommendations to the Council, which should be copied to the Secretary of State 	<p>We had no matters to report.</p>
<ul style="list-style-type: none"> ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 	<p>We had no matters to report.</p>

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report to the Audit and Corporate Governance Committee on 26 September 2017. Following completion of further audit work we issued a follow up report on 26 January 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our certificate on 26 January 2018.

In January 2018 we also issued a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Suresh Patel

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose and responsibilities



Purpose and responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 26 September 2017 and 26 January 2018 Audit and Corporate Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the Audit and Corporate Governance Committee meeting in March 2017 and is conducted in accordance with the National Audit Office's (NAO) 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 26 January 2018.

Our detailed findings were reported to the September 2017 and January 2018 Audit and Corporate Governance Committees. The key issues identified as part of our audit were:

- ▶ Due to a combination of factors including difficulties in maintaining adequate capacity and knowledge within the finance team, the Council did not prepare draft financial statements by 30 June nor publish audit financial statements by 30 September, as required by the Audit and Accounts Regulations.
- ▶ The Council prepared a comprehensive set of financial statements on 31 July 2017 and published audited financial statements on 26 January 2018, the date of the audit opinion.
- ▶ We did not identify any issues in response to the two significant risks we planned to address - management override of controls and the recognition of revenue and expenditure.

We did however identify several errors in the financial statements, the majority of which management agreed to correct. None impacted the Council's general fund balance. We had no concerns with the Council's decision not to correct a small number of items on the basis of materiality.

- ▶ In auditing the Council's valuation of its housing stock we challenged management's use of its external expert - an independent and external valuation company. We engaged our own experts, EY Real Estates, to further challenge the methodology and assumptions used. Whilst we concluded that the valuation in the accounts was materially accurate we did report weaknesses in the valuation approach which management and its expert responded to appropriately.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.89 million (2016: £1.69 million), which is 2% of gross expenditure reported in the accounts of £94.6 million, adjusted for revaluation losses, financing and investment expenditure, and other operating expenditure.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit and Corporate Governance Committee that we would report to the Committee all audit differences in excess of £0.091 million (2016: £0.084 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they were correctly disclosed. In particular we confirmed the figures for senior officer remuneration in full.
- Related party transactions. Accounting standards require materiality of the disclosure to be considered from the point of view of either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they are correctly disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

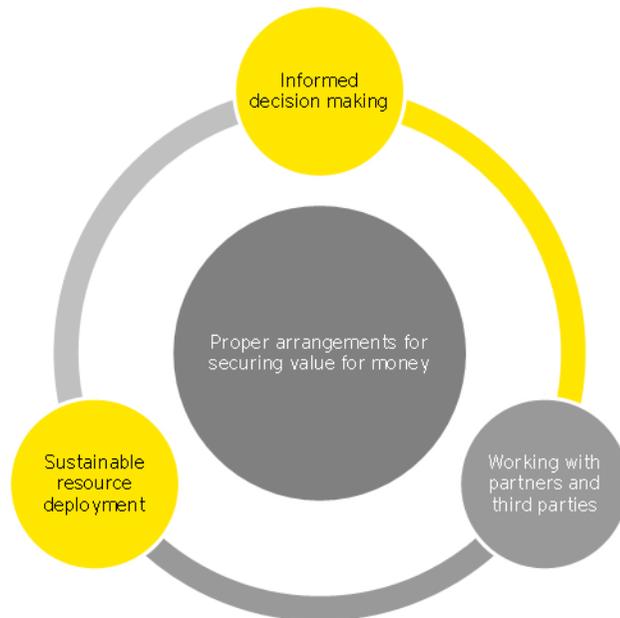
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 26 January 2018.

We noted in their medium term financial strategy presented to Cabinet in November 2017 that the Council projected a budget gap across the 2018 - 2021 financial years of £2,348,000. The Council are confident that they will be able to delivery this, assuming that there are no significant external funding changes. We will consider the principles included in the budget when received but the Council does have a history of meeting budget gaps.

We therefore issued an unqualified value for money conclusion on 26 January 2018.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Corporate Governance Committee on 29 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit and Corporate Governance Committee.

Appendix A

Audit Fees



Appendix A Audit Fees

We completed the audit in accordance with the NAO's Code and in line with the terms of engagement set by PSAA. Where we were required to carry out additional audit procedures to complete the audit we have kept the Executive Director informed and provided a detailed analysis of the procedures, skill mix and time.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work (note 1)	85,531	56,975	51,975	72,619
Total Audit Fee - Certification of claims and returns (note 2)	13,793	13,793	13,793	9,190
Other Audit Related Services -				
Pooling of Housing Capital Receipts Return	3,500	3,500	n/a	3,300
Audit of South Cambs Ltd	18,000	14,500	n/a	17,272
Non-audit Services				
Tax compliance and advisory service for South Cambs Ltd	-	8,000	n/a	18,000

Note 1: The final fee for the 2016/17 Code work includes a scale fee variation of £33,556 (2015/16: £20,644) due to group accounts (£3,940) and difficulties with the audit of the Council's property plant and equipment and audit delays (£29,616). The 2016/17 variation remains subject to approval by the PSAA.

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ED None

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