

**East Cambridgeshire  
District Council  
Audit results report**

Year ended 31 March 2020

16 November 2020



16 November 2020

Dear Finance and Asset Committee Members,

We are pleased to attach our audit results report for the forthcoming meeting of the Finance and Assets Committee (the Committee). This report summarises our preliminary audit conclusion in relation to the audit of East Cambridgeshire District Council (the Authority) for 2019/20.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on page 5, as per our update to the Committee in June 2020, the Covid-19 pandemic has impacted the statements and our audit opinion. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Finance and Assets Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the meeting on 26 November 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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.psa.co.uk](http://www.psa.co.uk)). This 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 April 2018)' 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 Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the June 2020 Finance and Assets Committee meeting, 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 to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Authority's external valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. This is particularly relevant for assets valued at fair value, existing use value (EUV) or value of land on which specialised assets sit because of the scarcity of reliable market information available at 31 March 2020 upon which to give those valuations.
- ▶ **Disclosures on Going Concern** - The pandemic has had a significant impact on the Authority's finances and as a result there was a need for the Authority to revisit and update financial plans for 2020/21 and the medium term financial plan. We determined that the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern. We have therefore performed procedures to ensure the going concern assumption is underpinned by management's assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 has been deferred until 1 April 2021. We therefore no longer considered this to be an area of audit focus for 2019/20.

## Executive Summary

### Scope update

**Changes in materiality** - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £0.790m (Audit Planning Report – £0.828m). This results in updated performance materiality, at 50% of overall materiality, of £0.395m, and an updated threshold for reporting misstatements of £0.039m.

**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 Authority'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
- ▶ Agree IPE to scanned documents or other system screenshots.

### **Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.**

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We will determine the impact on our audit fee and discuss with the Finance Manager at the conclusion of the audit.

## Executive Summary

### Status of the audit

We have substantially completed our audit of East Cambridgeshire District Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- ▶ Completion of procedures on group accounts
  - ▶ Completion of procedures on reserves testing
  - ▶ Completion of procedures on income testing
  - ▶ Completion of procedures on Collection Fund
  - ▶ JP Morgan and Goldman Sachs investment confirmations; and
  - ▶ Whole of Government accounts procedures
- 
- ▶ Completion of EY internal consultation process
  - ▶ Clearance of queries arising from review by Associate Partner and Manager
  - ▶ Review of the final version of the financial statements
  - ▶ Completion of our final review processes
  - ▶ Completion of subsequent events review
  - ▶ Receipt of the signed management representation letter.

Our audit opinion will emphasise the following:

- ▶ Valuation of other land and buildings valued using market data - We will include an "emphasis of matter" paragraph to draw users attention to the valuation uncertainty disclosure in Note 5 of the accounts. This is not a modification to the audit report.

In addition, we are currently considering that for Going concern, we will not include an emphasis of matter paragraph given the limited financial impact on the Authority of the Covid-19 pandemic. This is subject to internal EY consultation.

# Executive Summary

## Audit differences

### Unadjusted differences

Pension Liability (IAS 19): There has been an increase of £0.169 million in the pension liability (as a result of the updated pension fund asset valuations) and a decrease of £0.083 million due to the impact of McCloud. As such, the overall pension liability is understated by £0.086 million. Given the changes are immaterial, management have chosen to not amend the original figures in the accounts.

### Adjusted differences

At the time of writing there is one adjusted difference we wish to highlight. Our work on the valuation of other land and buildings identified that an incorrect uplift had been applied to the valuation of the Hive Leisure Centre. This resulted in an overvaluation of £0.160m which has been adjusted for by the Authority.

During the audit we have identified some minor disclosure audit amendments in the draft financial statements which management have chosen to adjust. We have judged that the majority of these do not warrant flagging to the Finance and Assets Committee in this report. There are two that we do believe merit the attention of the Committee:

1. Going Concern - Covid-19 has substantial implications for the Authority's finances. We therefore assessed the work performed by the Finance Manager to assess the impact of Covid-19 on the 2020/21 budget and future finances of the Authority. We then considered the adequacy of the associated new disclosure that the Finance Manager has now made in the statement of accounts at Note 32.
2. Estimation Uncertainty - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer give rise to an increased risk relating to disclosures on the valuation of property, plant and equipment using existing use value or fair value and thus have requested that further disclosure is included within Note 5 & Note 12.

Until our work is complete, further amendments may arise. We will update the Finance and Assets Committee should any further adjustments arise from our remaining work.



# Executive Summary

## Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings:

Significant risk	Findings & conclusions
Misstatements due to fraud or error - management override of controls	We have completed our testing and found no indications that management have overridden controls and have no matters to report.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital.
Other area of audit focus	Findings & conclusions
Property, plant and equipment (PPE) valuations	We have completed our work in response to this risk. We identified the need for the Council to decrease the value of PPE by £0.160m.
Pension Valuation and Disclosures	We have completed our work and identified a net impact of £0.086 million on the pension liability as a result of the updated Cambridgeshire Pension Fund asset valuations and the impact of McCloud.
Group Accounting	Our work in this area is in progress, and we are to conclude work through our review of the work of the component auditor.
Implementation of new auditing and accounting standards - Going Concern	The draft accounts did not include a detailed disclosure note relating to going concern. However, the Finance Manager has carried out an assessment of the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions.. We also discussed with management the need to make specific disclosures in the 2019/20 statements. Subsequently, the Authority has included a going concern disclosure in the statement of accounts. We are satisfied that the disclosure appropriately reflects the impact of the Covid-19 pandemic on the Authority's finances. We are currently not planning to include an emphasis of matter paragraph in our audit report given the limited financial impact reported. This is subject to final EY internal consultation.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

## Executive Summary

### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed 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 statement.

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we did not identify a significant risk in respect of value for money. We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources, and have considered the Council's response to our recommendations raised in the Audit Planning Report.

### Other reporting issues

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

Our work on Related Party Transactions identified that 16 out of 49 Members and Senior Officers had not returned Declaration of Interest forms as at 31 March 2020 as part of the annual process to identify related party transactions. We have performed the following procedures to identify undisclosed or unidentified interests, which has not identified any issues with the Statement of Accounts:

- Searches on Companies House for interests held by new members and officers
- Read minutes of Council and Committees
- Checks of bank confirmations obtained

We have also confirmed with officers the extent of mitigating procedures they have performed to assure themselves of the completeness of the disclosure, which has also included searches on Companies House. Our recommendation is that all Members and Senior Officers return Declaration of Interest forms on an annual basis, and appropriate procedures are put in place to ensure this is the case.

Subject to the finalisation of the areas in the Status of Audit work section, we have no other matters to report.

### Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 9 for our update on Independence.



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## Areas of Audit Focus



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error – management override of controls

##### 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 and Ireland) 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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

##### What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

##### What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Reviewing critical judgements made by management in applying accounting policies.

##### What are our conclusions?

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We have not identified any other transactions during our audit which appear unusual or outside the Authority's normal course of business.



## Areas of Audit Focus

### Significant risk

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

##### What is the risk?

The Authority 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 judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We have focused on the Authority's judgement that an item is capital expenditure in nature.

##### What did we do?

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- ▶ Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

##### What are our conclusions?

- ▶ 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 data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.





# Areas of Audit Focus



## Other Areas of Audit Focus – Valuation of Other Land and Buildings

Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular.

The Authority engages an internal expert valuer who applies a number of complex assumptions. Annually, PPE assets are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value). 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.

Our approach has focused on:

- ▶ Considering the work performed by the Authority's external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Reviewing and sample testing the key asset information provided by the Authority to the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, leasing agreements for the estimated rental income);
- ▶ Reviewing and sample testing the key assumptions used by the valuers in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g. value of developed and undeveloped land)
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Performing a reasonableness review on the valuation of assets not included in the 2019/20 valuation cycle. This is performed to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

### Findings and conclusions:

- ▶ We did not identify any issues with the Authority's valuer, their scoping of work, professional capabilities or results of their valuation procedures;
- ▶ Our sample testing of key asset information used in the valuations did not identify any material differences;
- ▶ Our testing of assets not subject to valuation in 2019/20 identified one difference above the reporting threshold relating to an incorrect uplift applied to the valuation of the Hive Leisure Centre, resulting in an overstatement of £0.160m;
- ▶ Our review of the valuer's report identified the inclusion of caveats around material uncertainty, which has required enhanced disclosure in the Statement of Accounts;
- ▶ Our testing confirmed that assets had been valued within the appropriate timeframe and those valued in the year had been performed correctly; and
- ▶ No issues were identified with the useful economic lives of assets or the accounting entries disclosed in the financial statements and supporting notes.



## Areas of Audit Focus



### Other Areas of Audit Focus - Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £21.6 million (£27.1 million at 31 March 2019).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.

Our approach has focused on:

- ▶ Liaising with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to East Cambridgeshire District Council;
- ▶ Assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Cambridgeshire Pension Fund (for example private equity investments) where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability.

#### Findings and conclusions

We have received assurances from the Cambridge Pension Fund auditor, which states that there is a £0.169m increase in net pensions liability from the original IAS19 report provided, as a result of the valuation of investment assets. In addition, there is a £0.083m decrease due to the impact of McCloud. As the amounts are immaterial, Management will not be updating the figures in the statement of accounts, and as such this will be an unadjusted audit difference.



## Areas of Audit Focus



### Other Areas of Audit Focus - Group accounting

The Authority consolidates East Cambridgeshire Trading Company and East Cambs Street Scene into its group accounts. The Local Authority Accounting Code of Practice requires the Authority to prepare group financial statements to consolidate the Authority's interests, unless these interests are considered not material. Group accounting is a complex accounting method, and therefore there is an increased risk of material misstatement due to error.

Our approach has focused on:

- ▶ Testing the consolidation of entries relating to the subsidiary into the Council's Group Statement of Accounts
- ▶ Checking that group disclosures are complete and accurate.
- ▶ As we identified ECTC as a significant component we also carried out procedures to gain assurance over the work of the auditor of ECTC.

#### Findings and conclusions

At the time of writing, our work on group accounting is in progress. Overall the Authority's group financial statements have been prepared on an appropriate basis. However work completed needs to be reviewed.





## Areas of Audit Focus



### Going concern disclosure

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. We also reviewed the Authority's subsequent new disclosure note.

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;
- ▶ Considering the impact on our audit report, including completing the EY consultation requirements.

### Findings and conclusions

The draft accounts did not include a going concern disclosure but the Finance Manager has carried out an assessment of the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We also discussed with management the need to make specific disclosures in the 2019/20 statements.

The Authority is forecasting that in 2020/21 it will utilise £1.391 million of Unallocated Surplus Savings Reserves. This is at a similar level to pre-Covid budget forecasts, due to the additional income the Authority will receive as support in the year, including through the Income Compensation Scheme. The £1.391 million compares to an Unallocated Surplus Savings balance as at 31st March 2020 of £7.017 million, a General Fund of £1.046 million and further Earmarked reserves of £4.781 million. We therefore note that the Authority has headroom within the General Fund to absorb the estimated financial impact of the Covid-19 pandemic in the short to medium-term.

We have now reviewed the new going concern disclosure included in the statement of accounts, and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the pandemic on the Authority's finances.

Given the limited financial impact reported we are currently not planning to include an emphasis of matter paragraph in the audit report. This is subject to EY internal consultation.



# 03 Audit Report



# Audit Report

## Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST CAMBRIDGESHIRE DISTRICT COUNCIL

##### Opinion

We have audited the financial statements of East Cambridgeshire District Council for the year ended 31 March 2020 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 and the related notes 1 to [x].
- ▶ Collection Fund and the related notes 1 to [x]

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 2019/20.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of East Cambridgeshire District Council as at 31 March 2020 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 2019/20.

##### 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 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.

##### Emphasis of matter - Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 5 - Assumptions made about the future and other major sources of estimation uncertainty and Note 12 Property, plant and equipment as a result of the coronavirus pandemic, which describe the valuation uncertainty the Council is facing as a result of COVID-19 in relation to the valuation of its land and buildings. Our opinion is not modified in respect of this matter.

# Audit Report

## Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Finance Manager and Section 151 Officer 's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Finance Manager and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Finance Manager is responsible for the other information. 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. In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

#### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

##### Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, East Cambridgeshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

##### 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; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

# Audit Report

## Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

#### Responsibility of the Finance Manager and Section 151 Officer

As explained more fully in the Statement of the Responsibilities set out on page 1, the Finance Manager and Section 151 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Finance Manager and Section 151 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.

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.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether East Cambridgeshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Cambridgeshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East Cambridgeshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.



# Audit Report

## Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

### Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Certificate

We certify that we have completed the audit of the accounts of East Cambridgeshire District Council 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 East Cambridgeshire District 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.

Suresh Patel (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Cambridge Date



# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

1. Reduction in the value of the Hive Leisure Centre by £0.160m due to an incorrect uplift percentage being applied for 2019/20.

### Summary of un-adjusted differences

We highlight the following misstatement which has not been corrected by management. The Finance and Assets Committee should consider management’s rationale as to why they have not corrected the misstatement. This should be included in the management Letter of Representation.

We have received assurances from the Cambridgeshire Pension Fund auditor around the IAS19 report, which states there is a £0.169m difference in respect of the investment assets, meaning the net liability is understated by this amount. Further to this, there is a £0.083m overstatement due to the impact of McCloud.

The Authority have decided not to update the financial statements for this difference, an explanation for which will be provided in the letter of representation.



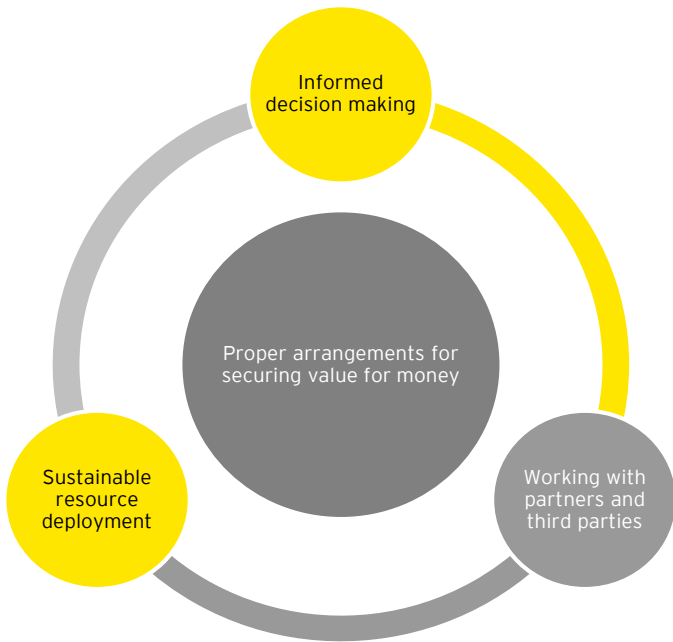


**05**

## **Value for Money**



# Value for Money



## Background

We are required to consider whether the Authority 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.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

## Overall conclusion

We did not identify a significant risk around these arrangements.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources. In our 2018/19 Audit Results Report, we presented recommendations in respect of the Authority's Value for Money arrangements. These are revisited on page 27.



## Prior year recommendation to follow up

### Sustainable resource deployment: Achievement of savings needed over the medium term

- The Authority should consider increasing the frequency that it considers and updates its MTFs and the underlying assumptions.

### Matters highlighted by the correspondence

- The Authority should consider obtaining legal advice on the changes it has made to the composition of the ECTC Board to ensure that the new arrangements enable the Board to mitigate any conflicts of interest that the two Authority officers may face when making decisions as Board Directors.
- The Authority should document its consideration of the risk associated with ECTC defaulting on repaying its loan. The risk should be regularly revisited and updated as appropriate.
- The Authority should ensure that the challenge made by the Finance Manager as to the financial performance (current and future) of ECTC is documented and shared with the Finance and Assets Committee in its role as Shareholder Committee.
- The Authority should ensure that the ECTC loan repayment schedule is made available to the Finance and Assets Committee (in its role as Shareholder Committee) as part of the assurances that they should obtain to support ECTC's ability to repay its loan to the Authority.

## What are our findings?

Our prior year recommendations were raised in our 2018/19 Audit Results Report shared at Finance and Assets Committee on the 6<sup>th</sup> February 2020. As a result, management have had limited opportunity to implement the recommendations during the 2019/20 year, but have addressed these during the period of audit.

- On 24<sup>th</sup> September 2020, the revisited MTFs was shared with the Finance and Assets Committee. This was a direct response to the recommendations in our audit report, and reflects the significant changes as a result of the outbreak of Covid-19.
- The Authority obtained legal advice about the role of the Directors at ECTC and potential conflicts of interest arising. This did not raise concerns about conflicts of interest arising, and has addressed our recommendation in seeking legal advice for the matter.
- The Finance Manager has considered the ability of the Company to repay the loan as at 1 April 2020, and did not raise any concerns. However, this was caveated that a further judgement would be required in light of Covid-19. A further consideration was made on 6 August 2020, following the Authority's decision on the 16 July 2020 to provide new funding to replace previous loan facilities. In light of the ongoing pandemic, we would expect this to be revisited regularly.
- At Full Council on 16 July 2020 a further loan facility was approved. At Council, the Finance Manager has made clear that the revised Business Plan has been reviewed & considered in line with discussions with the trading company, and the Finance Manager was content with the overall financial position of the trading company
- Details of the repayment timings, including the replacement of previous loan facilities as a direct response to Covid, have been shared as part of the trading company's business plan, on the 24 September with the Finance & Assets Committee.



## 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 Statement of Accounts 2019/20 with the audited financial statements. 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.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. Management has agreed to update the statement to include Covid-19 related considerations as required by CIPFA. We have no other matters to report.

### Whole of Government Accounts

The Authority is below the threshold for requiring audit procedures on its WGA submission however as the WGA timetable has been moved to later in the year we have yet to review the Authority's consolidation pack for consistency with the audited statements.

### 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 Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority 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 Authority 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.

We have, however, identified a finding in respect of the related party disclosure process and the receipt of Declarations of Interest to support the accounts production and the monitoring of related parties. Our recommendation is that all Members and Senior Officers return Declaration of Interest forms on an annual basis, and appropriate procedures are put in place to ensure this is the case.

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.



# 08 Data Analytics





# Use of Data Analytics in the Audit

## Data analytics – Journal Entry Analysis and Payroll Analysis

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



## Journal Entry Testing

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

### Journal entry data criteria – 31 March 2020



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated. We have also gained insights from review of our key journal screens, including the above.

From a high level review of the journal entry data, whilst 14.2% of the volume of journals posted are manual, this accounts for 88.7% of the value of journals. Whilst this is not uncommon given the value of journals posted manually, in particular as part of the closedown process, this does emphasise the attention and audit work required on these journals to ensure appropriate audit work has been performed.



09

Independence

# Independence

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## Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020. We complied with the APB Ethical Standards. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Finance and Assets Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Finance and Assets Committee on 26 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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 table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

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.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan and subsequent reporting to the Finance and Assets Committee, we have communicated our proposal to increase the scale fee for 2019/20. Our proposed increased scale fee is £50,764. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does **not** reflect those proposals.

All fees exclude VAT	Final fee 2019/20	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£	£
Code work - scale fee	31,955	31,955	31,955	31,955
Additional code work:				
• Going concern disclosure (Note 1)	2,000-3,000	-	-	-
• Asset valuations impacted by Covid-19 (Note 2)	3,000-4,000	-	-	-
• EY consultations on auditor report (Note 3)	1,000-2,000	-	-	-
• Group consolidation	5,900	4,000-6,000	-	6,425
• 50% performance materiality	6,250	4,000-7,000	-	6,666
• Correspondence from the public	-	-	-	2,005
<b>Total audit</b>	<b>50,105-53,105</b>	<b>39,955-44,955</b>	<b>31,955</b>	<b>47,050</b>
Other non-audit services not covered above (HB)	TBC	14,960	N/A	17,155
<b>Total other non-audit services</b>	<b>TBC</b>	<b>14,960</b>	<b>N/A</b>	<b>17,155</b>
<b>Total fees</b>	<b>TBC</b>	<b>54,915-59,915</b>	<b>31,955</b>	<b>64,205</b>

*Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Finance Manager and then PSAA.*

- 1. We have carried out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure.*
- 2. We have carried out additional work in response to the material uncertainty reported by the Authority's valuer on other land and buildings valuations. This has led to an emphasis of matter paragraph in the audit report.*
- 3. To ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.*

# Independence

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

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 2019: [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)







# 10 Appendices

## Appendix A




# Required communications with the Finance and Assets Committee

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

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Terms of engagement	Confirmation by the Finance and Assets 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 - March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - November 2020



## Appendix A

		 Our Reporting to you
<b>Required communications</b>	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about East Cambridgeshire District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - November 2020
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report - November 2020
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Finance and Assets committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Finance and Assets Committee responsibility.</li> </ul>	Audit Results Report - November 2020




# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report - November 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Plan - March 2020 and Audit Results Report - November 2020

# Appendix A

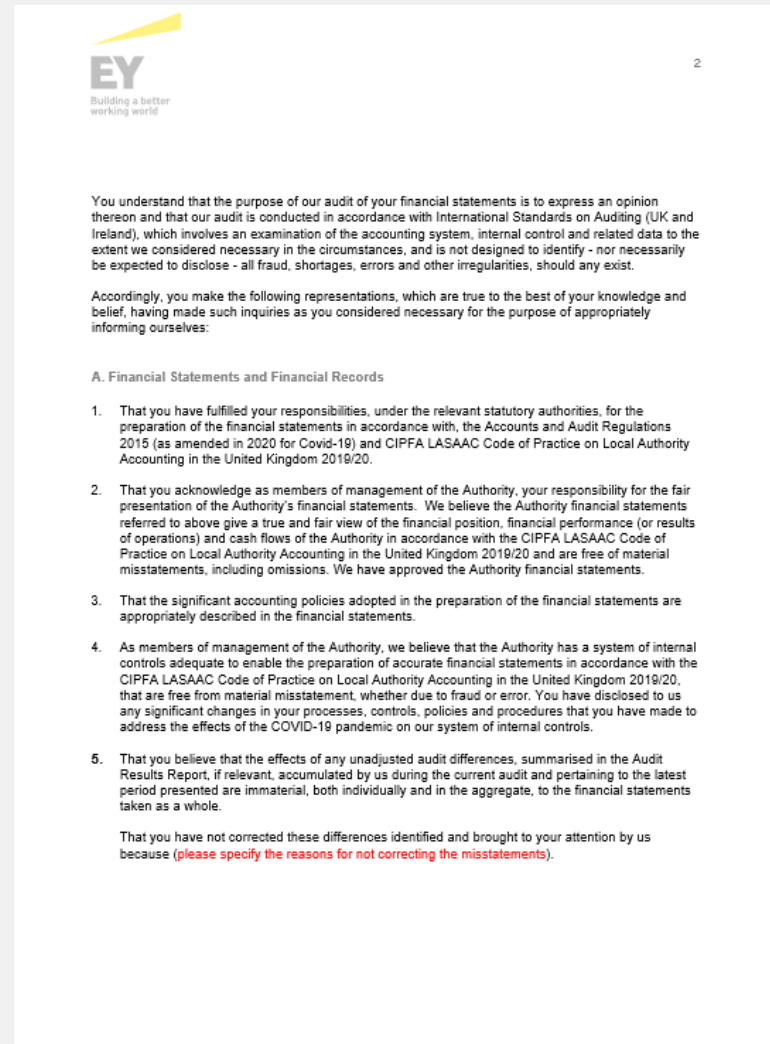
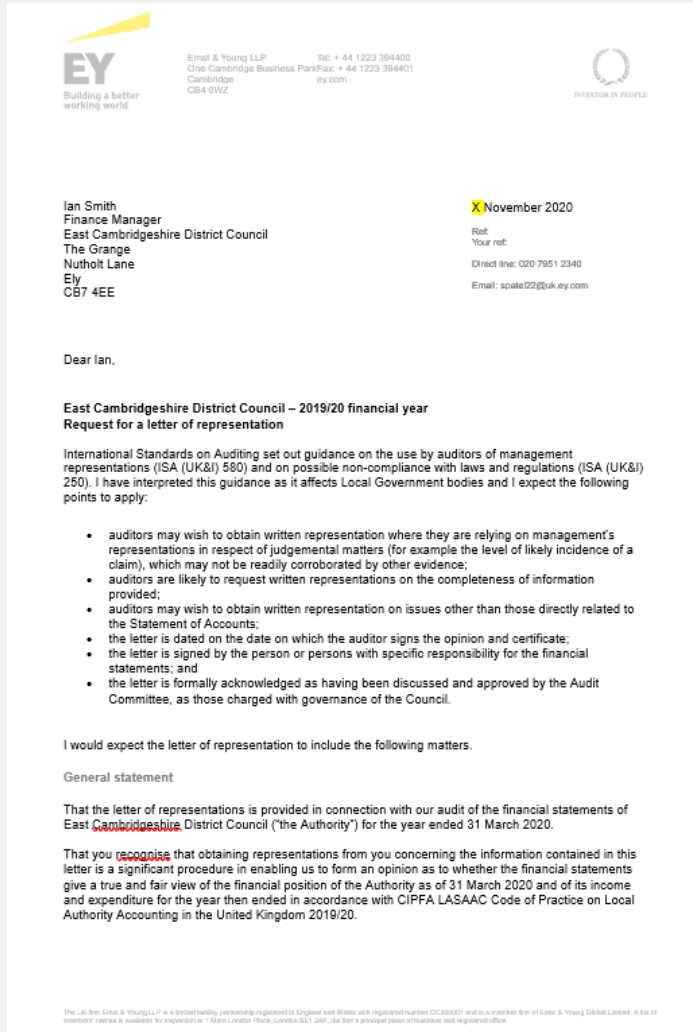
		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<b>We are awaiting external confirmation in relation to two investments.</b>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit 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 committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - November 2020

## Appendix A

		Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit Plan - March 2020 and Audit Results Report - November 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - November 2020
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - November 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - March 2020 and Audit Results Report - November 2020

# Management representation letter

## Management Rep Letter



# Management representation letter (continued)

## Management Rep Letter



3

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

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

### C. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that we have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. That you have made available to us all minutes of the meetings of the Authority 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: 26 November 2020.



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4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
6. That you have disclosed to us, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. That from the date of your last management representation letter to us, through the date of this letter, you have disclosed to us any unauthorized access to your information technology systems that either occurred or to the best of your knowledge is reasonably likely to have occurred based on your investigation, including of reports submitted to you by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to your information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### D. Liabilities and Contingencies

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

### E. Subsequent Events


1. That other than the disclosure described in Note 7 (insert Note) to the Authority's financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates ~~recognised~~ or disclosed in the financial statements:

# Management representation letter (continued)

## Management Rep Letter

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

G. Expenditure Funding Analysis

1. You confirm that the financial statements reflect the operating segments reported internally to the Authority.

H. Going Concern

1. That the Authority has prepared the financial statements on a going concern basis and that Note 32 (insert note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Authority's ability to continue as a going concern, including significant conditions and events, your future financial plans, the veracity of the associated future funding allocations and the sufficiency of cash flows to support those financial plans.

I. Ownership of Assets


1. That except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet(s).

J. Reserves

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

K. Valuation of Property, Plant and Equipment Assets

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

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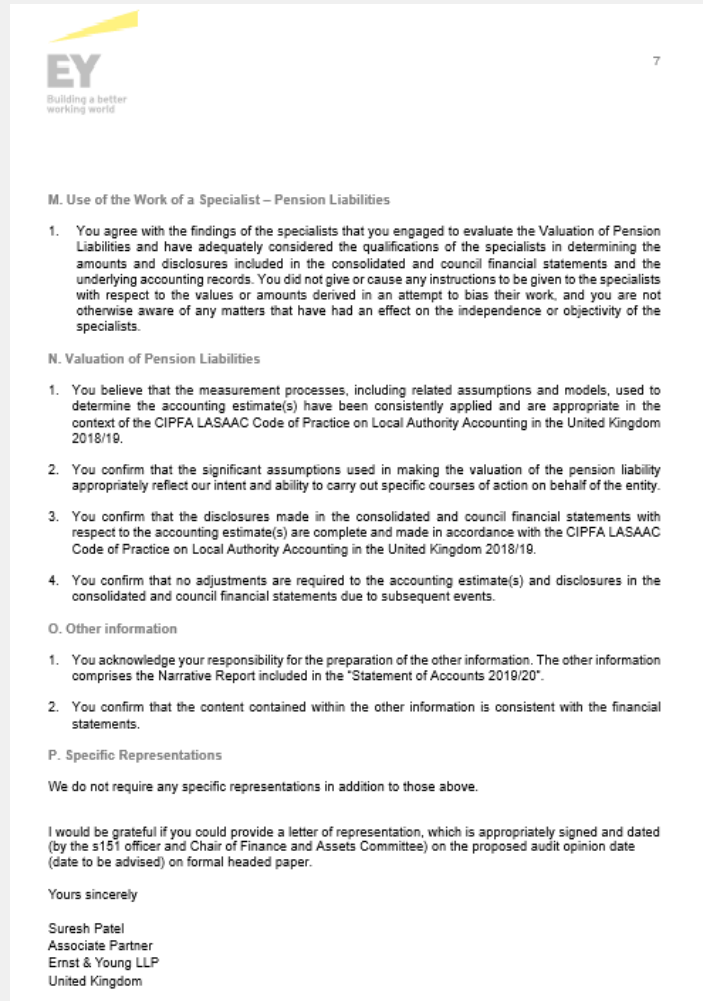
2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
3. You confirm that the significant assumptions used in making the valuation of assets appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
4. You confirm that the disclosures made in the Authority financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Authority financial statements due to subsequent events.
6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
7. You confirm that for assets carried at historic cost, that no impairment is required.

L. Retirement benefits

1. That ~~on the basis of~~ the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.
2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Authority financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
5. You confirm that the disclosures made in the consolidated and Authority financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Authority financial statements due to subsequent events.

# Management representation letter (continued)

## Management Rep Letter





## EY | Assurance | Tax | Transactions | Consultancy

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