

Financial Reporting and External Audit Update

To: Audit and Accounts Committee

Meeting Date: 24 November 2022

From: Service Director: Finance & Procurement

Electoral division(s): All

Outcome: Committee will have considered an update on financial reporting, particularly the progress of the 2021-22 external audit and those of previous financial years.

Recommendation: To note and comment on the report.

Officer contact:

Name: Stephen Howarth
Post: Head of Finance
Email: stephen.howarth@cambridgeshire.gov.uk
Tel: 01223 507126

Member contacts:

Names: Councillors Graham Wilson and Nick Gay
Post: Chair/Vice-Chair
Email: graham.wilson@cambridgeshire.gov.uk / nick.gay@cambridgeshire.gov.uk
Tel: 01223 70639

1. Background

- 1.1 This report primarily provides an update to the committee on progress on the Council's external audit of 2021/22's draft accounts, as well as on progress with accounts from previous years.

2. Main Issues

2.1 External Audit of 2021-22's accounts

- 2.1.1 The Council's draft statement of accounts was published at the end of July 2021. Under the current government regulations (The Accounts and Audit Regulations 2015, as amended) this should be subject to external audit, approved and published in final form by the end of November 2022. The Council's auditor for these accounts is EY.
- 2.1.2 At its September meeting, this committee agreed the audit plan submitted by EY, which would see the external audit taking place through mid-September to November.
- 2.1.3 Work commenced in line with that timetable and is progressing well. The large majority of pre-audit deliverables were provided on time, enabling the audit to commence as planned. At time of publishing this report all main areas of work have commenced, and most samples have been issued and have either been responded to or are in progress. Several samples are to be provided by the auditor and responded to in the near future.
- 2.1.4 The central Closedown Team is directly responding to a number of queries and is providing support in a risk-based way to other teams who have a part to play in responding to audit requests. There are no particular bottlenecks in responding to the audit at this stage. In particular, while not all samples have been issued yet, there are no significant outstanding items sitting with the Payroll service.
- 2.1.5 In relation to the two specific risk areas identified in the audit plan (This Land and the solar farm valuation), work is ongoing with nothing yet to report. There is also nothing else at this stage on the horizon that is a potential further risk (as infrastructure asset accounting was last year).
- 2.1.6 The audit will not have fully concluded, with final accounts published, in line with the statutory deadline of the end of November. This was a risk of the timing of our external audit and reflects a very challenging set of timescales set by government in the current external audit context. The Council will comply with the regulations by publishing a notice explaining that the audit is ongoing as at 30 November 2022 should that be the case.
- 2.1.7 With testing due to conclude in November, we expect to resolve outstanding queries and make any required adjustments in December with a view to reporting as soon as is practicable.
- 2.1.8 The Council has been copied into an objection sent to EY from an individual local government elector relating to these draft accounts. The 2022 objection is under three headings, principally covering the powers of the Council and This Land in relation to each other, the coding and validation of amounts expended with Opus People Solutions East and

extent of information provided during the inspection period. If the auditor accepts these matters as valid objections, these will be matters for EY to determine in due course. For its part, the County Council has set out its position and compliance with the relevant laws and governance related to the objection and made this available to EY.

2.2 Previous financial years' audits

2.2.1 The Council is awaiting the outcome of two objections submitted by a local government elector to BDO in 2017 and 2018. The main areas of objection mentioned in these years were: contract management (libraries, consultancy, transparency and governance), accountancy and governance in relation to the Cambridgeshire guided busway, officer conflict of interests and remuneration (particularly in relation to related Council companies), accounting for government grants and transparency in relation to the former Local Enterprise Partnership. Under legislation, valid objections should either concern a matter where the auditor could make a public interest report or apply for a declaration that items of account were unlawful. Determination of these objections is required before BDO will provide an audit completion certificate for the relevant years of account. This Committee heard from the BDO key audit partner assigned to this at its meeting in May 2022. The Committee expressed concern at the very long delay by that date and heard that a revised completion of 31 August 2023 was now targeted. Regrettably, that timeline was not met and frustration was reiterated by this Committee in September 2022.

2.2.2 At the date of drafting this report Officers do not have a further progress update from BDO. The Chief Executive wrote to Mr Scott Knight, BDO's UK Head of Audit & Assurance on 7 October registering dismay at the delays, requesting assurances that delivery of the determinations from BDO was imminent and requesting that a review of the complaint was undertaken. Having received no reply or acknowledge to this letter, a further chaser was sent on 28 October. Mr Paul Eagland, BDO's UK Managing Partner also received copies of these letters. The Service Director: Finance & Procurement has also requested updates from BDO's local office and met with Public Sector Audit Appointments Ltd (PSAA) to express the Council's frustrations. PSAA undertook to raise the matter in their upcoming monitoring meeting with BDO. We understand that BDO have chosen not to undertake work for principal local government bodies after the expiry of current contracts in 2023.

2.2.3 In relation to the 2020/21 objection, EY has informed the Council that it is now in a position to consider the matter in relation to prior year adjustments for City Deal grant accounting and will provide a decision as to whether to take any action on this front by 20 January 2023.

2.3 Other updates

2.3.1 Earlier in 2022 a national issue emerged in relation to accounting for infrastructure assets. This area has not historically been considered to be an area of significant audit risk in local government. However, recent concerns have been raised that authorities are not applying component accounting requirements with respect to these assets. Specifically, due to significant historical information deficits it is challenging to provide sufficient evidence of the value of replaced components of infrastructure assets (such as roads) when they are derecognised. This may also lead to issues relating to the reporting of gross historical cost and accumulated depreciation. An accounting solution has not been found that satisfies all

stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices. In October government began a consultation, proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The proposal is the override would continue until the 2024/25 financial year.

- 2.3.2 In February 2022, the Full Council opted into the PSAA arrangements for appointment of external auditors. PSAA have announced the national results of their procurement exercise and advised local government bodies to expect fee increases in the region of 150%. The strains on the audit market and the recommendations from the Redmond Review will be familiar to this Committee and provide context to the fee increases. PSAA are currently consulting on individual audit appointments for audited body and completing independence checks and we anticipate that the appointed auditor for Cambridgeshire County Council for 2023-28 will be announced later this calendar year.
- 2.3.3 At its September Committee, members requested clarification and codification of our approach to adjusting for immaterial audit differences. These are items identified during an external audit as at variance with the correct accounting treatment but that are below the auditor's materiality level; these are in management's discretion as to whether to adjust or not. The materiality limit applies to the total of all the accumulated differences added together rather than to each difference individually. We inform this Committee of all these differences. In our statement of accounts, our approach is to adjust for these differences unless there is a specific justification not to do so. In considering when it might be justified not to adjust, we would always bear in mind both the auditor's strict accumulated materiality threshold and our own assessment of materiality or significance to users of the accounts even where below that threshold. Examples of when we would retain discretion not to adjust include:
- Where the adjustment would impact on our outturn position. As this outturn will have been published in our management accounts, we try to avoid these ending up being different from our financial accounts. For financial planning purposes, often it is valuable to have certainty about outturn results and the opening planning basis/assumption as declared in a particular year rather than an unforeseen correction arising outside of the planning cycle as the audit concludes.
 - Where we cannot precisely calculate the adjustment needed. We may be able to estimate the adjustment, which would be reported as the difference, but in this case waiting until a point where the actual impact can be calculated in a later year.
 - Where processing an adjustment is significantly time consuming for little benefit to an ordinary user of the accounts

This sets out our approach to immaterial audit differences. Not all circumstances in which differences arise can be foreseen and importantly we retain discretion in this area for the section 151 officer's professional judgement up to the materiality limit.

3. Alignment with corporate priorities

3.1 Environment and Sustainability

There are no significant implications for this priority.

3.2 Health and Care

There are no significant implications for this priority.

3.3 Places and Communities

There are no significant implications for this priority.

3.4 Children and Young People

There are no significant implications for this priority.

3.5 Transport

There are no significant implications for this priority.

4. Source documents guidance

4.1 Source documents

[The Accounts and Audit \(Amendment\) Regulations 2022](#)
[The Accounts and Audit Regulations 2015](#)