

## Financial reporting and related matters

To: Audit and Accounts Committee

Meeting Date: 6 February 2024

From: Executive Director for Finance & Resources

Executive summary: The Committee is updated on latest progress with matters related to external audit. This comprises the ongoing audit of 2021-22 (including the audit differences shown in the appendix, and value for money) and historic objections received in 2017 and 2018. Planning for financial reporting for 2023-24, the first year of a new auditor appointment, is also progressing

Recommendation: The Committee is invited to

- i) note the report and
- ii) accept the treatment of audit differences selected by management that are shown in the appendix

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## 1. Background

- 1.1 The Council published its [draft and unaudited statement of accounts](#) for 2022-23 on 20 July 2023. These are available on the Council's website and were received and discussed by this Committee at its meeting on 28 July 2023.
- 1.2 There are well-known and widespread challenges nationally with the timeliness of reaching audited, certified and completed financial statements for local government arising from various factors including regulation and risk, auditor capacity and technical/accounting standard related issues.
- 1.3 On 9 January 2024, the new Minister for Local Government, Simon Hoare MP wrote to the Chair of the House of Commons Levelling Up, Housing and Communities Committee restating that there is resolve across the stakeholders in the local audit system to take action to tackle the current backlog issues and ensure a return to timely delivery of high quality financial reporting and external audit in local government. It is anticipated that the Department for Levelling Up, Housing and Communities will launch consultation on proposals soon aimed at introducing a set of deadlines in statute for the completion of outstanding audits. The proposals are to include an initial backstop date of 30 September 2024 for all local audits in England, up to and including the financial year 2022-23. This may result in a number of qualifications and disclaimers of opinions for a number of local authorities, but it is emphasised that statutory requirements for auditors to report on value for money arrangements would remain a high priority. Legislation and changes to the Code of Audit Practice (by the National Audit Office) will be required to implement the backstops.

## 2. Main Issues

### 2.1 **Objections to the accounts in 2016-17 and 2017-18**

- 2.1.1 As at the date of drafting this report there remain two objections to the accounts for the years ending 2017 and 2018 which are to be determined by the Council's previous external auditor BDO LLP. Since the last Committee, lead Members from this Committee have further escalated concerns with delays and written to the Financial Reporting Council, Public Sector Auditor Appointments Ltd and the National Audit Office. All of those organisations have acknowledged the Council's concerns and responded, for their respective part. PSAA in its contract management role, for example, is working with BDO across their wider local government external audit work, as this winds down, and has the Council's concerns firmly in view as part of escalation.
- 2.1.2 The Executive Director for Finance and Resources has received communications from BDO since the Committee last met. As a result of retirement of the previous key audit partner leading the work on the objections, we understand that the remaining work has been reassigned by the BDO head office to an experienced local government audit lead, who had recently joined the firm. BDO have acknowledged the understandable frustration on the Council's part and have stated that they are now targeting issue of statement of reasons on the objections by 31 January 2024. Once the determinations are known there may then follow a period for appeals and/or issue of audit completion certificates.

2.1.3 In September, we relayed to the Committee BDO's position that they are looking to exercise their statutory entitlement to fees for the work related to the objections. We have requested an itemisation of any costs proposed.

## **2.2 Audit of the financial statements for the year ending 31 March 2022**

2.2.1 This Committee received a provisional audit results report from EY for 2021-22 at its meeting on 9 February 2023 and further progress updates in September and December. In order that EY could progress audits for other clients and such that the Council could focus on production of draft accounts for 2022-23 audit activity was largely paused during the spring and early summer and has resumed during August to complete the outstanding items.

2.2.2 At the end of January, the Council has provided to the auditor a final version of the accounts resulting from the audit findings and adjusted differences (which is focused on balance sheet presentation and disclosure wording) in readiness for signatures. There has been further progress with resolving areas that were listed as outstanding at the previous meeting including vehicle, plant, equipment balance and depreciation and the cash and VAT debtor. We understand the review work on the remaining areas of long term debtor (This Land) and going concern assessment (focused on the Council's cashflows and reserve projections) is underway, as well as value for money review, and that audit closing procedures are about to commence.

2.2.3 The appendix to this report includes listings of the adjusted and unadjusted differences that have resulted from the audit. Where we are not proposing to make adjustments that have been identified by the auditor, the practical reasons for this that the Council relies on are:

- Immaterial: changes that are small, within the materiality threshold and that we consider would require disproportionate officer time in view of competing priorities for accountancy input.
- Correctable in future year: for some items relating to capital, we can correct a multi-year scheme in a later year, if immaterial to the year in question
- Impacting previous outturn: we look to avoid, where possible, adjusting the outturn that was included in the management accounts as this is helpful to provide certainty to the financial planning processes by which decisions are taken on future budget allocations
- Professional disagreement: if we disagree with the basis for EY's finding
- Over-prudence: we would generally not actively adjust if our estimates were more prudent than that required by EY

EY have indicated the proposed split of adjusted/unadjusted items shown in the appendix is acceptable from an audit perspective and cumulatively.

Through this report the Committee is invited to accept the recommended approach to adjustments shown in the appendix.

2.2.4 We have previously reported to Committee that EY's value for money work for the years from 2018 onwards is progressing. An update on this work is expected imminently from EY. If this becomes available in time for the Committee on 6 February, we will issue this to Members as an addendum to this report.

## 2.3 Planning for accounts production and audit 2023-24

2.3.1 KPMG LLP is the appointed auditor to the Council for the five years commencing 1 April 2023. Liaison meetings have begun between the audit leads at KPMG and the Council's finance officers in order to build familiarisation with the Council's financial position and risk profile. KPMG attended the Committee in December. Contingent on national timelines and local circumstances/handover, KPMG have advised the Council of their preferred timescales for undertaking an interim/preliminary audit of the Council's main accounts and pension fund during 2024, providing the finance team with an initial planning basis. (We continue to expect that the 2022-23 financial statements opinion will be disclaimed).

2.3.2 We can expect the changeover of auditor to bring with it some early challenges in terms of adjustments to processes, additional background and familiarisation with systems and alternative perspectives / approaches to audit risk or code compliance. KPMG's planning work to date has included preparations for sampling and risk assessment and understanding areas such as assets and valuation; IT, cyber and business systems; fraud, internal audit arrangements and internal controls and value for money and partnership working as well as chart of accounts and ledger requests. The Council is proactively responding to these requests in order that the capacity KPMG LLP has allocated can be well utilised, and a smooth start to 2023-24 secured.

2.3.3 The main areas identified for attention leading to a faster year-end closure of the accounts and published financial reports are:

- Business systems enhancements – streamlining the process for processing of annual fixed assets accounting journals.
- Property and valuations
  - valuer accountability for delivery of asset valuations much earlier (on track: 4 months earlier than 2023).
  - improved quality assurance and data manipulation through implementation of the Council's incoming asset management system, Concerto.
- Finance capacity and resilience – we have created a specialist role within the corporate finance team focused on fixed assets and capital accounting, which has been filled through internal recruitment; pending a backfilling appointment this will boost the Council's financial reporting capacity.
- Improved processes for grant registers and receipt of payroll information from school payroll providers.
- Accounts document streamlining.

Preparations are also progressing for implementation of IFRS 16 in relation to leases.

2.3.4 The Committee has already provided a delegation to the section 151 officer and the Chair in consultation with the Vice Chair and Cllr Boden to sign the final Statement of Accounts,

and to make any related declarations and representations taking account of the final audit results report to be received from the external auditor and agreed adjustments, contingent on receiving an unqualified opinion on the financial statements. This will be utilised to finalise the accounts ahead of the next scheduled Committee date.

### 3. Significant implications

#### 3.1 Finance implications

This report details progress with financial reporting matters, and the appendix sets out the approach to audit differences.

#### 3.2 Legal implications

The principal governing legislation are the Accounts and Audit Regulations 2015. The Council has published appropriate notices on its website to explain how it is complying with statutory provisions notwithstanding that, in common with many local authorities, stipulated deadlines for final accounts have not been achieved

#### 3.3 Risk implications

There are no new significant risk implications arising from this report. The auditor's work contributes to the Committee's awareness of the risk environment and assurances around stewardship of public funds.

#### 3.4 Equality and Diversity Implications

None identified

### 4. Source documents

[Council and committee meetings - Cambridgeshire County Council > Meetings \(cmis.uk.com\)](http://cmis.uk.com)

[Statement of accounts - Cambridgeshire County Council](#)

[Local Audit Liaison Committee - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

[HM Treasury review of non-investment asset valuations | Local Government Association](#)

# APPENDIX

## Non-adjusted differences

Item	Description	Amount	Reason for not adjusting
Insurance Provision	The insurance provision within the Statement of Accounts has been overstated as the 2021-22 estimate was not received until after the draft Statement of Accounts had been prepared.	£1.418m	Immaterial Would impact outturn Being more prudent rather than less Updated annually
A14 Contribution Accrual	Accrued for expected capital contribution CCC was due to make to the A14 project relating to 2021-22 but these contributions have since been delayed to start in 2022-23. Multi-year nature of capital means this can be corrected in 2022-23.	£1m	Correctable in future year Would impact outturn (but earmarked)
Proceeds of crime act creditor	As this money has been awarded to CCC by the court we do not need to pay it back and therefore it should be an earmarked reserve rather than a creditor.	£0.013m	Immaterial
Creditors - old balances	Identified in previous audits, a debit balance is held in creditors relating to a payment in 2018-19. It is expected that a credit balance will be identified to offset this given the nature of the account (payroll payments to HMRC), but at this stage the significant work required to trace this back into historic transactions (pre-dating current ERP system) has not been prioritised. There is uncertainty therefore about where the offsetting credit balance would need to be matched.	£2.4m	Certainty around adjustment that is required
Land values – central Cambridge	Auditor's valuation specialists (EYRE) opinion that central Cambridge land value used by council's valuers (BK) is too high but, considering information from BK and the assumptions made by EYRE (BK using more local knowledge), we prefer the opinion of the appointed valuer so are not adjusting.	£4.2m	Do not agree that an adjustment is appropriate.
Farm valuations	EYRE judge BK farm valuations to be too conservative, but EYRE calculations are based upon a more commercial basis than the Agriculture Act 1970 basis on which CCC operate the farms' portfolio.	£5.0m	Do not agree that an adjustment is appropriate.
Burrough Green	BK valuation used modern equivalent asset calculation for leased-in land area in error, as should have been depreciated replacement cost valuation based upon actual land area.	£0.046m	Immaterial

Item	Description	Amount	Reason for not adjusting
Brunswick House	Net £0.1m understatement of investment property in the balance sheet due to offsetting income assumption adjustment and underlying revaluation.	£0.1m	Immaterial
Investment property valuations	EYRE's opinion that Kingsbridge Centre and Evolution Business Park have been undervalued by BK. Considering information from BK and the assumptions made by EYRE (assumptions not based upon local area knowledge), we do not agree.	£3.4m	Do not agree that an adjustment is appropriate.
<b>Total</b>		£17.5m	

## Adjusted differences

Element of accounts	Item	Absolute Amount	Explanation
Disclosure note	Account standards that have been issued but not yet adopted	N/A	Updated to reflect CIPFA bulletin for 2021-22.
Accounting policies	Accounting policies	N/A	VPFE assets have not been accounted for in-line with accounting policies. Wording of accounting policy to be amended for 2021-22 to align with accounting treatment (further amendment made in 2022-23 draft SoA). No change to 'recognition' section; only change required to 'measurement' section: "Land and Building assets and Vehicles, Plant, Furniture and Equipment assets have been included in the Balance Sheet at their current value" to be replaced by "Land and Building assets and PFI-related Vehicles, Plant, Furniture and Equipment assets have been..."; additional paragraph to be added above this: "Upon recognition in the balance sheet, full impairment of Non-PFI Vehicles, Plant, Furniture and Equipment assets is also accounted for".
Disclosure note	Adjustments between funding and accounting basis (ABAB&FB)	N/A	Disclosure only - ABAB&FB note shows unnecessary line for unequal back pay account adjustments - to be removed
Statement & notes	Balance Sheet, CIES, MiRS, EFA, Expenditure Analysis, Unusable reserves, DSG, Grants	£0.056m	DfE EY clawback amount now finalised (£55k greater than estimate), so DSG disclosure note to be updated to agree with final DfE return
Statement & notes	Balance sheet, financial instruments	£1.35m	Correction to year-end school VAT due to journal posting error
Statement & notes	Balance Sheet, MiRS, PPE, reserves	£4.58m	Final valuations from BK received after draft accounts prepared.
Statement & notes	Balance sheet, short term creditors, short-term debtors, financial instruments, cash flow	£3.20m	Recognise creditor balance with pension fund, and recognise VAT debtor balance re voluntary disclosure
Statement & notes	Balance sheet, short-term creditors, Financial Instruments, cash flow	£1.958m	Correction to year-end school creditors due to journal posting error
Disclosure note	Capital expenditure and financing note	N/A	Disclosure only - capital exp and financing note (34), wording above table, 'The closing CFR at 31 March 2021 was £1,026.6m' should read 'The closing CFR at 31 March 2022 was £1,026.6m'
Statement	Cashflow	£6.167m	Disclosure only - adjustment for capital grant income accrual debtor movement missed from capital grants line within operating activities section of cash flow and capital grants line within investing activities section of cash flow - net nil adjustments
Statement & notes	CIES, Balance sheet, MiRS, cash flow, short-term creditors, financial instruments, Audit	£0.174m	Update accruals to reflect better/more up-to-date information on levels of additional audit fees.
Statement & notes	CIES, Balance sheet, MiRS, unusable reserves, adjustments between accounting and funding basis, PPE, expenditure & funding analysis	£1.583m	Differences corrected for some asset components between final valuation information and figures included in PPE workings
Statement & notes	CIES, Balance sheet, MiRS, unusable reserves, adjustments between accounting and funding, PPE, expenditure & funding analysis	£4.686m	Revaluation of solar farm asset following review of the business case model



Element of accounts	Item	Absolute Amount	Explanation
Statement & notes	CIES, Balance sheet, MiRS, unusable reserves, adjustments between accounting and funding, PPE, expenditure & funding analysis	£1.186m	Revaluation of school following correction to some of the valuation inputs
Statement & notes	CIES, Balance sheet, MiRS, unusable reserves, Retirement benefits	£5.477m	Updated IAS19 reports – including taking account of triennial valuation impact
Statement & notes	CIES, MiRS, expenditure & funding analysis, Unusable reserves	£0.006m	Derecognition of disposal cost revenue expenditure
Disclosure note	Exit packages/termination benefits	£0.003m	Disclosure only - Update to include Pension strain payment which was invoiced after the draft accounts
Disclosure note	Going Concern	N/A	Updates to Going Concern note to reflect final position and some typos
Disclosure note	Grants, Expenditure Analysis	£11.39m	PFI credits recoded as grants
Group accounts	Group accounts	N/A	Disclosure only - Added in group audit fee note
Group accounts	Group accounts CIES only	N/A	Disclosure only - Group CIES service descriptions to be updated to match CCC
Group accounts	Group accounts only	£2.572m	Updates to Group Accounts to reflect This Land & CCC final accounts
Disclosure note	Leases	£2.008m	Disclosure only - lessor operating leases working paper corrected
Statements	MiRS and Group accounts MiRS	N/A	Disclosure only - MiRS includes unnecessary row '2021-22 Statutory opening balance adjustment for DSG deficit' - to be removed
Narrative Report	Narrative Report	N/A	Updates to Narrative Statement to reflect final position
Disclosure note	Officer Remuneration	£0.004m	Minor correction to information for shared posts provided by partner council. Also, some updated pay banding figures within the note following correction to school data
Disclosure note	PFI	N/A	Updating presentation of the note to include more lines rather than merging items in opening balances
Disclosure note	Post balance sheet events	N/A	Updates to 'events after balance sheet date' disclosure note to reflect events since draft SoA
Disclosure note	PPE (Capital Commitments)	£21.4m	Capital commitments included budget amount where contract was not yet let. This has now been removed.
Disclosure note & policies	PPE, accounting policies	N/A	Disclosure only - amend disclosure of infrastructure assets to net basis only, add reconciliation to PPE total on BS, update disclosure note wording and accounting policies, all in accordance with CIPFA Bulletin 12
Statement, notes and policies	PPE, accounting policies, BS, CIES, MiRS, expenditure & funding analysis, cash flow, adjustments between accounting and funding basis, unusable reserves	£5.376m	Update estimated useful life for infrastructure assets from 40 years to 50 years following updated estimate

Element of accounts	Item	Absolute Amount	Explanation
Disclosure note	Related parties	N/A	Disclosure only - related parties disclosure note: remove reference to grant made in a prior year.
Disclosure note	Related parties	N/A	Disclosure only - related parties disclosure note: 'entities controlled or significantly influenced by the Council' section - correct date to 31 March 2022 (draft SoA = 31 March 2021)
Disclosure note	Related parties	N/A	Disclosure only - related parties disclosure note: draft SoA states £425k owed to Opus at 31 March 2022, but actually all invoices paid so disclosure needs amending to state that there was no amount owed at that date
Disclosure note	Retirement benefits	N/A	Correcting sensitivity analysis percentage to 0.1% to match IAS19 report (was previously incorrect as 0.5%)
Disclosure note	Short-term debtors	£1.593m	Correction to accrual where debit and credit balances were reversed
Annual governance statement	N/A	N/A	Moving part of significant issues section to future issues as this is more appropriate.