

Financial reporting and related matters

To: Audit and Accounts Committee

Meeting Date: 1 December 2023

From: Executive Director for Finance & Resources

Electoral division(s): All

Outcome: The Committee is updated on latest progress with matters related to external audit, including the ongoing audit of 2021-22, historic objections received in 2017 and 2018 and planning for financial reporting for 2023-24, the first year of a new auditor appointment

Recommendation: The Committee is invited to note the report and receive the appended progress report from EY regarding 2021-22

Officer contact:

Name: Tom Kelly
Post: Service Director: Finance & Procurement
Email: tom.kelly@cambridgeshire.gov.uk
Tel: 01223 699241

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 regulatory and risk factors, auditor capacity and technical/accounting standard related issues.
- 1.3 It is understood that DLUHC are proposing to introduce a set of deadlines in statute for the completion of audits relating to financial years 2015-16 to present, after which auditors would provide as much assurance as possible for any years outstanding if necessary limiting their audit opinion on the basis of insufficient, appropriate evidence. 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. Since the last Committee meeting in September there have been no further announcements about this nationally; until the fine details are announced, and given statutory or regulatory force, audit planning is inhibited.

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 with the Council's previous external auditor BDO LLP. Since the last Committee, the Council has continued to request regular updates from BDO. The Executive Director for Finance and Resource has highlighted the Council's experience and current position, as an example, to stakeholders with leadership roles in local government audit.
- 2.1.2 At the end of August, we received an update from BDO reiterating that legal checks on their work on the objections had progressed and been returned to the firm and this led to presenting an individual further query to the Council relating to 2016-17. The Council provided a response to this within 4 working days on 4 September. The most recent written update from BDO on 12 November 2023 was to restate that they are completing pre-existing commitments on audit assignments elsewhere in the public sector and that they expect to be able to attend to the completion of the consideration of the objections after the end of November, as a priority.
- 2.1.3 Our understanding is that once the objections in these years have been determined, the completion and closure of the audits for those years will be certified. 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 Work by the auditor on use of resources for the years 2018-19 – 2021-22

2.2.1 With the determination of objections received by EY as auditor in 2019, 2020, 2021 and 2022 occurring in March 2023, and no further action or appeal on those matters, the auditor has been able to resume wider work on the Council's use of resources which will lead to their value for money opinion for those years.

2.2.2 This work includes sampling of expenditure and review of associated procurement arrangements, further to BDO's findings of weaknesses in this area in 2017-18. EY also consider the Council's financial sustainability (planning and managing resources for the long term), governance (making properly informed decisions and managing risk) and improving economy, efficiency and effectiveness. The Council is responding to enquiries relating to these years and EY will also refer to relevant work by internal audit. We welcome the progression of this part of the audit and are hopeful that in due course it will enable the auditor to issue several years of value for money opinions in quite quick succession.

2.3 Audit of the financial statements for the year ending 31 March 2022

2.3.1 This Committee received a provisional audit results report from EY for 2021-22 at its meeting on 9 February 2023 and a further progress update in September. 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.

2.3.2 EY have provided a progress update (dated 21 November 2023) which is appended to this report. EY have identified a number of findings which mainly relate to views on valuations, particularly related to Property, Plant and Equipment and as such are balance sheet presentation related. The areas outstanding for 2021-22 have further reduced and at the date of drafting this report, the remaining areas to be completed are now limited to:

- Long term debtor – This Land. EY are testing projections contained within the 2022 This Land Business Plan, back to underlying site-specific development appraisals and cashflows. This is thus a valuation matter.
- Vehicles, plant and equipment balance and depreciation. This again is thus a valuation matter that should not impact revenue.
- Cash and VAT debtor – the outstanding queries referenced in EY's audit results report have now been/are about to be concluded.
- Audit closing procedures will need to be finalised upon resolution of the above, for example the letter of representation from the s151 Officer and a reassessment of going concern. No issues are expected from this as it is procedural.

It is anticipated these queries should be straightforward to resolve, although in some cases there are dependencies on third parties or specialists within the finance team in order to complete.

2.4 Planning for accounts production and audit 2023-24

2.4.1 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. We understand KPMG expect to be able to begin attending/observing the Committee very shortly and providing an audit plan in the next quarter. 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.

2.4.2 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 are making arrangements to meet with statutory officers and other senior stakeholders across the Council and have shared their initial client questionnaires and prepared by management requests. These enable further planning, preparations for sampling and risk assessment and are focused on 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.

2.4.4 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 for January, 4 months earlier than 2023).
 - improved quality assurance and data manipulation through implementation of the Council's incoming asset management system, Concerto.
 - componentised assets review – we anticipate it will be possible to simplify some of the data by reducing the number of assets that are valued in components.
 - rolling programme review – bringing forward certain asset valuations in order to more evenly spread the valuation of assets across the five-year cycle
 - there is currently a HM Treasury review of the valuation of non-investment assets for financial reporting purposes concerned with potential reforms to the requirements and acceptable methodologies, reducing audit risk in this area – the Council would welcome this.
- 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.

- 2.5.5 In their progress report at this meeting, EY repeat control observations included in their February report. Officers outlined responses to these observations in our accompanying report at that time. In several areas improvements were made for production of the accounts for 2022-23 and further actions will be taken as part of planning for 2023-24. One example is that a specialist solar valuation was completed in May 2023 (and used within the 2022-23 accounts).
- 2.5.6 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 in the event it is possible to finalise the accounts ahead of the next scheduled Committee date.

3. Significant issues and alignment with ambitions

There are no significant issues or implications for the ambitions:

- 3.1 Net zero carbon emissions for Cambridgeshire by 2045, and our communities and natural environment are supported to adapt and thrive as the climate changes
- 3.2 Travel across the county is safer and more environmentally sustainable
- 3.3 Health inequalities are reduced
- 3.4 People enjoy healthy, safe, and independent lives through timely support that is most suited to their needs
- 3.5 Helping people out of poverty and income inequality
- 3.6 Places and communities prosper because they have a resilient and inclusive economy, access to good quality public services and social justice is prioritised
- 3.7 Children and young people have opportunities to thrive

4. Source documents

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

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

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

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