

## Financial Reporting and Related Matters

To: Audit and Accounts Committee

Meeting Date: 30 January 2025

From: Executive Director for Finance & Resources

Electoral division(s): All

Key decision: No

Forward Plan ref: N/A

Executive summary: The Committee is updated on latest progress with matters related to external audit. This comprises a progress update on the ongoing audit of 2023-24's accounts, as well as the position with any outstanding matters to report on other financial years.

Recommendation: The Committee is invited to note the report.

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# 1. Background

- 1.1 The committee has previously been updated regarding the conclusion of historic audits for the 2016-17 to 2021-22 financial years which were completed earlier this year. The committee has also been updated extensively about national issues relating particularly to 2022-23 financial statements and the delays in those being audited.
- 1.2 At its last meeting, the committee received an update on the ongoing audit of 2023-24's draft accounts, and on the position of our 2022-23 accounts.
- 1.3 The committee has received several updates recently at its meetings on the national plans to address the local government audit backlog. Since the last meeting, the first in a series of 'backstop dates' (dates by which certain audits must conclude otherwise auditors will be required to disclaim their opinions) has passed, which resulted in the council's 2022-23 accounts receiving a disclaimed audit opinion. Backstop dates for financial years through to 2027-28 have now been set.

# 2. Main Issues

## 2.1 2023-24 External Audit

- 2.1.1 Following this committee receiving the audit plan for 2023-24's audit from KPMG at its May meeting, extensive preparatory work was undertaken by the council and KPMG. This included responses to risk assessment questionnaires, walkthroughs of key systems (including those managed by partner organisations), and meetings with senior officers. This work broadly took place ahead of the main audit fieldwork, with information used to risk assess the council and work out the degree of sample checking of key controls that is needed.
- 2.1.2 The original audit plan envisaged much of the fieldwork taking place in August and September, and while preparatory work started then, much of the fieldwork has taken place over the late Autumn through to January.
- 2.1.3 At the time of publication, most of the main audit fieldwork is complete, with just some areas actively in process between CCC and KPMG set out in 2.1.7 below.
- 2.1.4 Alongside this work, KPMG are undertaking their review for the value for money opinion. The statutory deadline for completion of the audit was 30 November 2024, which will not be achieved, principally as the preceding year is unlikely to have been disclaimed by that date, but we do hope the bulk of the work is concluded by then with only final queries and procedures remaining. A local elector has made objections to the accounts to KPMG under several headings which the auditor must deliberate on in accordance with the Local Audit and Accountability Act 2014. To date, the auditor has ruled out taking further action on several of the heads of objection. The Council has responded to enquiries by the auditor arising from the objection.
- 2.1.5 The appendix to this report includes a listing of the audit differences identified so far that we expect to adjust for. One item has been identified that we are not proposing to adjust for due to immateriality and being correctable in a later year (£10.13 due to a rounding

difference on the unit cost of one of our treasury investments). Further differences may be identified during the course of the audit and by default these are adjusted for unless they meet one of the criteria below, in which case we may propose to this committee that the item is not adjusted for:

- 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 the auditor's finding
- Over-prudence: we would generally not actively adjust if our estimates were more prudent than that required by the auditor

2.1.6 Through the final report on this audit to committee in February we would seek agreement to treatment of audit differences.

2.1.7 Remaining audit work is focussed on:

- Long-term debtors and an assessment of expected credit loss, for which the council is receiving further technical accountancy advice
- Finalising the PPE additions sample
- Valuations of investment properties, with some differences between the council's valuers and KPMG's which are being investigated
- Closing off various minor queries
- Anything coming out of KPMG's quality control and review process

2.1.8 The issue of 2022-23 not being audited means that KPMG has not started this process with assurances over opening balances in the 2023-24 accounts. This is an issue for any authority who has a year of accounts not audited, and means that we expect that the council will receive a disclaimed opinion for 2023-24 as well, and beyond that there may be partly modified or disclaimed opinions specifically regarding prior-year comparators in the accounts. It will not be until sufficient assurance is built up over several years of audits by KPMG that a fully unmodified opinion will be likely.

## **2.2 Audit of the financial statements for the 2022-23 financial year**

2.2.1 On 18 November 2024, EY (the council's auditor for this financial year) issued its final audit completion report. As expected, and previously reported to this committee, EY disclaimed their opinion as a result of not having been able to undertake the necessary audit work by the statutory backstop date of 13 December 2024. This is a position that hundreds of authorities are in nationally.

Despite the disclaimed main audit opinion, the auditor was able to finalise their review of the council's value-for-money arrangements and concluded that the council had proper arrangements in place in 2022-23.

The final audit completion report can be seen on the council's website:

<https://www.cambridgeshire.gov.uk/asset-library/Final-Audit-Completion-Report-to-Those-Charged-with-Governance-18-November-2024.pdf>

## **2.3 2016-17 and 2017-18 fees for additional work by the auditor**

2.3.1 The council's appointed external auditor for these financial years was BDO. Following their certification of the accounts for 2016-17 and 2017-18 in February 2024, BDO have submitted a fee variation request to Public Sector Audit Appointments Ltd (the statutory appointing body for local authority auditors). BDO have set out the work required (at 2017-18 prices) for considering the objections, issuing a value for money opinion and receiving legal advice. There is a statutory basis for the auditor to recover costs for this work from the council. As previously reported to the committee, the council has made representations to PSAA about the appropriateness of the costs and the usefulness of the work completed due to delays. PSAA will make the determination about the final amounts due, but at this stage there is no further update.

## **2.4 Update on national position**

2.4.1 On 9 September 2024, the Government laid in Parliament a statutory instrument, 'The Accounts and Audit (Amendment) Regulations 2024' (which took effect from 30 October 2024), to introduce backstop dates by which point local bodies must publish audited accounts. The Government, on behalf of the Comptroller and Auditor General has also laid a revised 'Code of Audit Practice 2024', that requires auditors to give their opinion in time to enable local bodies to comply with the backstop date. The Financial Reporting Council (FRC) has issued guidance on this matter - [Local Audit Backlog Rebuilding Assurance \(frc.org.uk\)](https://www.frc.org.uk). The 'backstop' dates mean that by specified dates for a given financial year, the audit must be concluded otherwise a disclaimed opinion will be issued. The ministerial statement makes clear that local bodies should not be unfairly judged based on disclaimed opinions caused by the introduction of backstop dates that are beyond their control.

2.4.2 This process is intended to address the historic issue with local authority audits (and for this council would result in a disclaimed 2022-23 opinion). Alongside this, plans to try to address the causes of this issue have been put in place; this includes the new contract for audits commencing in 2023-24 that have allowed for an increased price which should improve the sustainability of the sector. It is encouraging that this council's 2023-24 audit continues to progress well. In addition, government has moved back the deadline for publication of draft accounts for 2024-25 to 2027-28 to 30 June (from 31 May) which is welcome further time for council officers to produce what is a very complex set of accounts, improving accuracy and therefore reducing audit work.

2.4.3 The relevant audit backstop dates for the council are:

- |  |                  |
|--|------------------|
| • Financial years up-to-and-including 2022-23: | 13 December 2024 |
| • Financial year 2023-24:                      | 28 February 2025 |
| • Financial year 2024-25:                      | 27 February 2026 |
| • Financial year 2025-26:                      | 31 January 2027  |

- Financial year 2026-27: 30 November 2027
- Financial year 2027-28: 30 November 2028

2.4.4 The government has recently launched a further consultation “Local audit reform: a strategy for overhauling the local audit system in England”, which covers proposals to further strengthen the local audit system, dealing with issues around capacity, co-ordination and complexity in the current approach. In particular, it proposes the creation of a new Local Audit Office body to have oversight of the whole process (including contract management, setting the code of audit practice and oversight). The consultation can be found here: [Local audit reform: a strategy for overhauling the local audit system in England - GOV.UK](#)

2.4.5 The key points of the consultation are:

- Creation of the Local Audit Office with a remit for system co-ordination, contract management, code of practice, oversight and reporting.
- Review the content and format of local authority accounts, ensuring disclosures are only required where necessary, and taking into account the users of the accounts. Review whether pension fund accounts should be separated from accountable bodies’ accounts.
- Review barriers for entry to the local audit system, and targeted support for council finance teams, audit committees and elected members.
- Mandate at least one independent member on audit committees (the consultation asks for views on whether the chair should be required to be independent).
- Technical changes to further help with the audit backlog, including around infrastructure assets.

2.4.6 The council is considering the proposals and the consultation questions, and is working with sector bodies such as the Society of County Treasurers on joint responses. Generally we would agree that the local audit system needs structural improvements to put it on a long-term footing, after the short-term fix of the back-stop process. We also would welcome meaningful simplification of local authority accounts, and welcome the proposal that users of the accounts should be a key consideration in that process. Independent audit committee members is something this council has already implemented, with the chair remaining an elected councillor.

### 3. Significant implications

#### 3.1 Finance implications

This report details progress with financial reporting matters.

#### 3.2 Legal implications

The principal governing legislation are The Accounts and Audit Regulations 2015, The Accounts and Audit (Amendment) Regulations 2024 and the Local Audit and Accountability Act 2014. 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

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

[Written statements - Written questions, answers and statements - UK Parliament](#)

[Accounts and Audit \(Amendment\) Regulations 2024](#)

[Financial Reporting Council – Accessible Explainer on Rebuilding Assurance](#)

## Appendix 1 – 2023-24 audit differences proposed for adjustment

Category	Identified by	Amount impact on core statements £	Impact on Outturn	Statements & Disclosure Notes	Explanation
Schools	KPMG	10,240,553	nil	BS, ST creditors	An adjustment is required to correct the balance sheet for the impact of the schools closedown being a few days ahead of 31 March to allow time for review and consolidation. The balance sheet will then reflect the school bank balances as at 31/03/2024, and the creditors will no longer include the accrual for payroll costs paid to staff between the schools closedown process and the year-end. School closedown procedures will be amended to address this issue with early closure of school accounts.
Debtors and creditors	CCC	5,144,345	nil	BS, FIs, ST Debtors, ST Creditors	Incorrect splitting of a debtor with HMRC between debtors and creditors in opening balance, and correction required between two different debtor accounts.
Capital	CCC/KPMH	3,736,050	nil	BS, useable reserves	Cumulative impact of capitalised transactions judged not to be eligible under regulations for capitalisation.
Treasury investments	CCC	464,259	nil	CIES (OCI), EFA, note to EFA, BS, MiRS, FIs, unusable reserves, ABAB&FB	Error in starting value used for realised gain calculation. As a non-cash transaction this only affect 'other comprehensive income' and has no reserves impact.
VAT	CCC/KPMG	26,009	26,009	I&E, BS, MiRS, CFS, EFA, note to EFA, financing & investment income & expenditure, expenditure analysis, ST debtors, usable reserves	VAT debtor accrual for two months calculated slightly incorrectly, resulting in a minor understatement of income & expenditure and overstatement of debtors. Due to the nature of VAT accounting, this is a case where we propose to adjust for an immaterial error despite an impact on the outturn, which is balanced off to reserves.
Minor / presentational	CCC	-20,825	nil	Balance sheet, MIRS and CIES; Exp analysis, ABABFB, EFA, FI, ST creditors disclosures	Various small items.
Investment property	CCC	TBC	nil	CIES, Exp Analysis, EFA, note to EFA, Financing & investment income & expenditure	Disclosure only. Investment property rent top-ups not included in investment property income on financing & investment I&E note; investment property expenditure similarly excluded in error.
Donated assets	CCC/KPMG	nil	nil	Cash Flow Statement; PPE, donated assets, capital expenditure and financing disclosures	Donated assets line missing from capital expenditure & financing disclosure (with borrowing requirement therefore overstated), and similar lack of separation in PPE note, with linked impact on cash flow statement.
Finance leases	CCC	nil	nil	Financial instruments	Error in calculation of long-term finance lease liability due to a late adjustment to a dependent item.
Clerical errors	KPMG			PPE and senior remuneration	Correction of years in PPE note and subtotal in remuneration note.