

Financial reporting and related matters update

To: Audit & Accounts Committee

Meeting Date: 26 January 2021

From: Deputy Chief Executive & Chief Finance Officer

Electoral division(s): All

Forward Plan ref: Not applicable

Key decision: No

Outcome: That the Committee is appraised of the progress with the Statement of Accounts for the year ending 31 March 2020, preparations for the year-end process for 2020-21, national updates and context and other connected matters.

Recommendation: Audit and Accounts Committee is invited to note this report.

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1. Background and national updates

- 1.1 A year ago, the resourcing and management for producing the Council's statutory accounts was reformed. At that time, we reported to the Committee on the difficulties experienced in 2018-19, the consequences of leaving the shared LGSS arrangements, and issues arising from changeover of financial system and auditor, setting that in the context of wider challenges nationally for local audit and the Council's plans to respond and improve its own position. We are now at the transition point between completion of the 2019-20 accounts and fully commencing the process for 2020-21. Much has been achieved and improvement continues, but, as we set out a year ago, the necessary enhancements to annual processes will take several iterations. This report gives further details on the current position, and identifies where shorter and longer term gains are being pursued.
- 1.2 In September, we updated the Committee on the findings of the Redmond Review in to local authority financial reporting and external audit. That review had been launched, amongst other reasons, in recognition of the challenges facing the sector and audit firms in delivering quality and code compliant audit, constrained by fee levels and tighter time constraints. In 2019, there had been widespread fee-overruns, delays and non-compliance with published timescales. Timescales were significantly relaxed in 2020, in recognition of the pandemic, however there continues to be a large number of Councils, including Cambridgeshire, struggling to accord.
- 1.3 The Ministry of Housing, Communities & Local Government has now published its response to the Redmond review (see link in source documents). Briefly stated, this is as follows:
- Market Stability – the MHCLG largely agreed with Redmond's recommendations: engaging with stakeholders to boost the skills and capacity of audit firms to undertake local audit, investing £15m in 2021-22 via local government reflecting a linked increase in audit fees and extending the deadline for audited accounts for two further years.
 - Systems Leadership – MHCLG is continuing to consider these recommendations which relate to the roles of PSAA Ltd (the audit contract holder), CIPFA (the accounts codifier), ICAEW / FRC (audit regulator), National Audit Office (the audit codifier) and central government. Redmond had suggested the creation of a new body, but MHCLG is concerned about the risk of re-creating the Audit Commission
 - Governance and local audit findings – MHCLG agreed with recommendations, subject to sector liaison and any necessary changes to statute, relating to reliance on internal audit work by external audit, working with other inspectorates, the composition and skill-sets of audit committees and reporting to the Full Council.
 - Transparency to the public – MHCLG will look to CIPFA to consider a new standardised statement of service information and costs to be produced, and whether this may lead to scope to simplify local authority accounts.

Other recommendations related to smaller bodies.

- 1.4 The Audit & Accounts regulations for the coming year have not yet been laid before Parliament, and it remains to be seen the pace at which these reforms come forward. An

additional national development in December, was that the CIPFA/LASAAC Board further deferred the implementation of IFRS 16 *Leases* for local government until 1 April 2022, providing further preparation time for this important development.

2. Statement of Accounts 2019-20 progress

- 2.1 At the meeting of this Committee on 24 November 2020, the Cambridgeshire County Council Statement of Accounts were considered ahead of finalisation, alongside the draft findings from the external auditor for 2019-20. The Committee delegated responsibility to the Chairman of the Audit & Accounts Committee and the Chief Finance Officer to approve and sign the final accounts, taking account of the matters outstanding. As at 18 January 2021, progress continues with those remaining audit procedures but it has not yet been possible to promulgate the finalised Accounts with signatures.
- 2.2 The areas identified at the last meeting as outstanding, and the current status are summarised as follows:
- Going concern – the Council's input has been completed, and we understand that EY's procedures and review are also concluded.
 - Cash and Cash equivalents – the Council's input has been completed, undergoing final audit checks by EY
 - Borrowings – the Council's input has been completed, undergoing final audit checks by EY
 - Payroll – after resolving remaining follow-up queries from EY, this is to undergoing final audit checks by EY
 - Group consolidation – all information and input received from the subsidiary auditor (RSM UK Audit). The Council is agreeing with EY a remaining adjustment to the group accounts
 - Property, Plant and Equipment – this has been the most complex and high-value area, see further details below.

The progress made has enabled us to move to the final stages of the audit, which will include checks for unrecorded liabilities up to the date of the signature, and closing procedures (subsequent events review, the Council's management representation letter).

- 2.3 As we have progressed through the management review stage at EY since the last Committee this has identified areas requiring further testing by audit. An additional payables sample was selected and a difference requiring an adjustment for grant treatment has been identified.
- 2.4 As set out in the November report, the most complex remaining area has been property, plant and equipment valuations. Section 4.4 of that report set out the issues in this area requiring continuous improvement, and some of these are addressed further in the next section. The most significant items which have been / are being worked through with EY since November in this area are as follows:

- Investment properties – EY queried the timing of first re-valuation, CCC's valuer's approach to assessing the stabilised income / yield for student accommodation, and the erroneous inclusion of certain acquisitions costs (taxes) etc. in a valuation. An appropriate value for these assets is now agreed at March 2020.
- Solar Farm – Further specialist input and commentary was required in relation to the value of the solar farm.
- Operational assets in Cambridge City – following initial queries and follow-up EY concluded that the Council's value was within an acceptable range
- Valuation method (specific operational assets) – EY identified a small number of queries relating to land area for valuation approach for specific assets. These have required additional evidence and input from the Council's valuer
- Shire Hall car park – EY raised detailed queries around the valuation methodology for car parking attached to the Shire Hall campus, requiring engagement from the Council's valuer.
- Schools – Since November EY reported to us one instance where a school value was incorrect due to an error in pupil numbers, following similar issues earlier in the audit. Most significantly, EY detected an issue throughout a large number of school valuations where separation is required between developed and undeveloped land (playing fields etc). This has required re-calculation and agreement between the Council and its valuers, ahead of resubmission to EY.

A number of these areas require valuation adjustments to the accounts. The last of these items is of the highest value. The nature of property, plant and equipment valuations impact on the balance sheet means that this adjustment will feed through to a number of places within the accounts.

- 2.5 Notwithstanding that completion of the audit is ongoing, we are close to finalising the accounts. Both the auditor and the Council will ensure completion of the process according to professional and quality standards, recognising that this has had an impact on delivery according to the nationally published timescales. The Committee will receive an updated audit findings report from EY in due course. There are no new or arising issues identified since November which are in dispute with the auditor in terms of accounting treatment, or which lead to a material variation in the useable funds available to the local authority.
- 2.6 Work by the auditor on the value for money opinion for 2019-20 (or 2018-19) has not yet substantively commenced by EY, although there will be some overlap in content with the going concern assessment. Progress with this is contingent on the predecessor auditor, BDO, reporting on the value for money opinion for 2017-18. It is understood that BDO have communicated with Chief Executive and Deputy Chief Executive in recent weeks explaining the methodology and latest developments, and now expect to present an update or results to the March meeting of this Committee.

3. Preparations for Statement of Accounts 2020-21

- 3.1 The corporate finance team convenes regularly to review progress with scheduled and targeted areas for delivery of the Statement of Accounts in 2020-21, cognisant of the areas for improvement identified in recent years. We have listed below a number of areas being progressed and the current status.

Description	Current status	Delivery expectation for 2020/21 accounts
Continued refinement of ERP Gold fixed asset register settings and general ledger coding	Plan in place; work to commence January 2021.	Some improvements require discussion with software provider, so will not be implemented for 2020/21. However, some improvements will be made, which will positively impact the production of the SoA and audit ease.
Review private finance initiative accounting models and build in appropriate inflation assumptions.	To commence in February 2021.	This will be completed for 2020/21.
Early consideration of potential expenditure accruals based on purchase orders.	First review to be issued to Finance Business Partners by 21 January 2021.	Updated data will be provided to FBPs on a monthly basis, reducing time taken for list of expenditure accruals to be collated for 2020/21 accounts.
Continuous updating and reconciliation of a centralised grant register.	Centralised register populated and reconciled; requires further update and reconciliation through Q4.	This will be completed for 2020/21. The grant position is much more complex than normal due to the additional sums granted by a number of government departments, with a variety of conditions, due to the pandemic.
Improved process for accounting for insurance transactions, provisions and reserves.	Proposed amended process has been produced; final review and agreement required.	This will be completed for 2020/21.
Record capital grants and capital contributions on separate account codes to aid reconciliation and audit of capital grants.	To be undertaken as part of closedown process for 20/21.	This will be completed for 2020/21.
Review and formalise process for property valuations, particularly the roles and responsibilities of Property and Finance teams.	Initial discussion held, and follow-up meeting to be arranged for late January 2021.	Progress will be made for 2020/21, but it is likely that further progress will be need to be made for 2021/22 also.

Obtaining payroll audit data in a more timely manner.	Draft plan in place; discussion with payroll to be arranged for February 2021.	Full gathering of known audit data requirements prior to commencement of the audit engagement may not be achieved for 20/21, but the necessary processes will begin to be put in place with full achievement for 21/22.
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- 3.2 It is intended that the remaining matters from 2019-20 can be addressed as swiftly as possible, such that full attention can be given to the next year. Although there are now no major changes in accounting standards being implemented for the coming year-end, two developments do present additional complications for the Council. Firstly, the Council changed banking provider during the course of the year. This was a complex project, completed largely smoothly, but is likely there will be additional audit procedures and reconciliations required as a result. Secondly, the Strategic Finance Manager who is responsible for corporate finance and has significant experience of fixed asset accounting for Cambridgeshire is away on parental leave until Summer 2021. This post is being covered by an experienced chartered public finance accountant and senior manager already employed by the Council with a view to mitigating the impact.
- 3.3 As can be seen from the table above and analysis of the remaining issues relating to property valuation, some of the issues relating to the Council's assets and property are complex and will require sustained enhancements over a number of years in order to improve the quality and timeliness of accounting information. At the November meeting of this Committee, an update specifically on the property asset database was requested. The Assistant Director: Property, has provided the following information.

Property Asset Database

- 3.4 The Property team is currently using a system called K2. As a result of the various changes to the CCC property function and related processes in recent years this system has not been able to provide the level of functionality required. A decision was made in November 2019 not to update this system or its data any further. A proposal was made to acquire a new system in early 2020. With the arrival of a new permanent Assistant Director Property the procurement of a new property asset database was incorporated into the wider Service Improvement Plan. The Plan was to conduct a re-procurement exercise for the database to ensure that any new system would fit with the proposed improvement to the service and encompass the entire estate (operational, rural, investment etc), and potentially deliver enhanced property management across the service.
- 3.5 This process was due to commence during the Summer 2020 but due to non-availability of key staff due to the pressures of the pandemic this was put on hold. The process has been restarted with soft market testing due to commence in February 2021. Once this is complete a full procurement process will be initiated and expected to take 6-9 months and be completed at the end of 2021. Implementation of the system will then take a further 6 months with the system planned to be fully operational by the summer of 2022. This is dependent upon approval of the business case for the new system and provision of funding and staffing.

4. Significant Implications

- 4.1 Resource Implications
- 4.2 Procurement/Contractual/Council Contract Procedure Rules Implications
- 4.3 Statutory, Legal and Risk Implications
- 4.4 Equality and Diversity Implications
- 4.5 Engagement and Communications Implications
- 4.6 Localism and Local Member Involvement
- 4.7 Public Health Implications

This report refers to the progress being made with the Statement of Accounts in the context of the relevant regulations and statutory framework. There are no other significant implications.

5. Source documents

- 5.1 November 2020 report to this Committee
[Document.ashx \(cmis.uk.com\)](#)
- 5.2 MHCLG response to the Redmond Review
[Local authority financial reporting and external audit: government response to the Redmond review - GOV.UK \(www.gov.uk\)](#)