



Summary Report to the Audit and Accounts Committee- Draft

Cambridgeshire County Council

Summary year end report for the year ended 31 March 2024

January 2025

Introduction

To the Audit and Accounts Committee of Cambridgeshire County Council

We are pleased to have the opportunity to meet with you in January to discuss the results of our audit of Cambridgeshire County Council as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan, presented on 30 May 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

The engagement team

We expect to be in a position to sign our audit opinion on the approval of the financial statements and auditor's representation letter by the 28th of February 2025, provided that outstanding matters are satisfactorily resolved.

We will present a detailed final report on our findings to the February Audit and Accounts Committee.

We will be issuing a disclaimer audit opinion for the reasons outlined on page 4.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,

Sarah Brown

Partner

30 January 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.



Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Cambridgeshire County Council (the 'Council/Authority'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit and Accounts Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit to date. We are still concluding in a number of areas and a more detailed report will be provided to the February Committee meeting.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit and implications of the statutory backstop

Page 4 'Our audit and the implications of the statutory backstop' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements.

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 6 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

This report is addressed to Cambridgeshire County (the Council). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



Our audit and the implications of the statutory backstop



Measures to resolve the backlog

The Government has introduced measures to resolve the local government financial reporting and audit backlog. Amendments have been made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which have allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For Cambridgeshire County this has resulted in a disclaimed audit opinion for the financial year 2022/23.

Those same amendments to the Accounts and Audit Regulations require the Council to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, as auditors we are required to provide our audit report on those financial statements in sufficient time to enable the Council to publish its audited financial statements by this date, irrespective of if the audit is complete or not.

The Appendix 'Local Audit - Reset and Recovery' provides more detailed information regarding this. The appendix also provides more detail on the implication of this in future audits, in respect of rebuilding assurance.

Impact on our audit of the financial statements

The impact of the above means that for the financial year 2023/24 we have not been able to obtain sufficient appropriate audit evidence in respect of the 2023/24 opening balances and the comparatives balances relating to 2022/23. The work we have performed in 2023/24 is explained on the next page.

As explained in the previously referenced appendix, the level of rebuilding assurance has been limited in 2023/24 as we have determined that there is insufficient time to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this is pervasive to the financial statements as a whole.

As a result of the above and irrespective of the level of work completed on 2023/24 balances, we intend to issue a disclaimer opinion on the financial statements.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further details will also be available in our Auditor's Annual Report for 2023/24 to be presented at the February Audit and Accounts Committee..

Our audit and the implications of the statutory backstop



Work completed in 2023/24

Our audit plan, presented to you on 30 May 2024 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks, in the pages overleaf, identifying the work we have and have not been able to complete.

Although we are disclaiming our audit opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2023/24 we have completed our planning and risk assessment work and have performed audit procedures over the majority of account balances. We have however been unable to conclude in a number of areas.

We expect to be able to report that we have completed our planned work over the following Significant risks:

- Valuation of land and buildings
- Valuation of investment properties
- Valuation of post retirement benefit obligations
- We expect to be able to report that we have completed our planned work over the following Other areas:
 - Compliance with laws and regulations
- We have been unable to complete our work on the following key areas:
 - Opening balances
 - Movements in usable and unusable reserves for the year ended 31 March 2024
- Work associated with the following Significant risks and Other risk areas:
 - Management override of controls
 - Recoverability of This Land debtor
 - Non-capital expenditure classification
 - Accuracy and valuation of PFI liabilities



Our audit findings

We have set out below the status of our work and key findings from the work we were able to perform before the backstop date. On page 4 we have discussed the reasons for the disclaimer audit opinion.

Significant audit risks	Our high level summary findings to date
Management override of controls	Due to the pervasive nature of management override of controls we have been unable to conclude on this area due to other areas of the audit having not been finalised. However, no evidence of management override of controls has been identified as part of the procedures that we have carried out
Valuation of land and buildings	As a result of our work over the Valuation of Land and buildings we have identified a number of proposed audit adjustments. These adjustments have been assessed as material to the users of the accounts and it is our understanding that these will be corrected by management in the final version of the accounts.
Valuation of investment property	As a result of our work over the Valuation of investment property we have identified a number of adjustments. These adjustments have been assessed as material to the users of the accounts and it is our understanding that these will be corrected by management in the final version of the accounts.
Valuation of post retirement benefit obligations	Our work over the pensions balance has been completed, pending final review. The work over the disclosures in the accounts is still ongoing, though expected to be concluded shortly and two disclosure recommendations have been identified to date. The assumptions used in the estimate of the pension liability have been assessed as balanced.
This Land debtor	Following review of This Land's financial position and performance against business plan we have reassessed that the risk of material misstatement could be significant. We are not expecting to be able to conclude by the backstop date as management are working through their assessment of Expected Credit Loss, alongside changes to the business plan, which is a complex area.
Other audit risks	Our high level summary findings to date
Non capital expenditure classification	As part of our work over capital additions during the period we identified an error whereby expenditure had been capitalised incorrectly. This resulted in a proposed non-material audit adjustment. Due to the timing of the backstop, we have been unable to perform the additional work required, a result of this error, to allow us to conclude on this Other audit risk.
Compliance with laws and regulations	We are waiting on management to provide us with the details of how they are providing for and disclosing the impacts of pleading guilty to the HSE prosecution from the historic offences arising from the operation of the guided Busway. We are not expecting the provision to be material.

We will provide details of control deficiencies and adjusted and unadjusted audit errors in our final report to be issued to the February Committee meeting.





Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 30 May 2024, other than as follows (excluding the implications of the statutory backstop which are dealt with on page 4-5):

Risk	Risk change	Effect on audit strategy and plan
Recoverability of Long-Term Debtor with This Land Group	<p>Risk increased to Significant following our review of This Land's financial position and performance against business plan. We consider there to be an increased risk of credit loss as a result of the declining financial position.</p> <p>It is important to that it is not appropriate to only use historic information. Forward looking information must be incorporated when it is reasonable and supportable, and available without undue cost or effort.</p>	<p>We are not expecting to be able to conclude by the backstop date as management have not concluded their assessment of Expected Credit Loss. We have had a number of discussions with management and are aware that the This Land business plan is in the process of being updated and not yet approved by the Council. We understand that accounting advice has been sought, but not yet finalised or audited.</p>

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Cambridgeshire County Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

During our audit we identified changes in risks of material misstatement as highlighted on the graph.

In our final audit findings report we will provide detailed slides to summarise our findings against each Significant and Other audit risk.

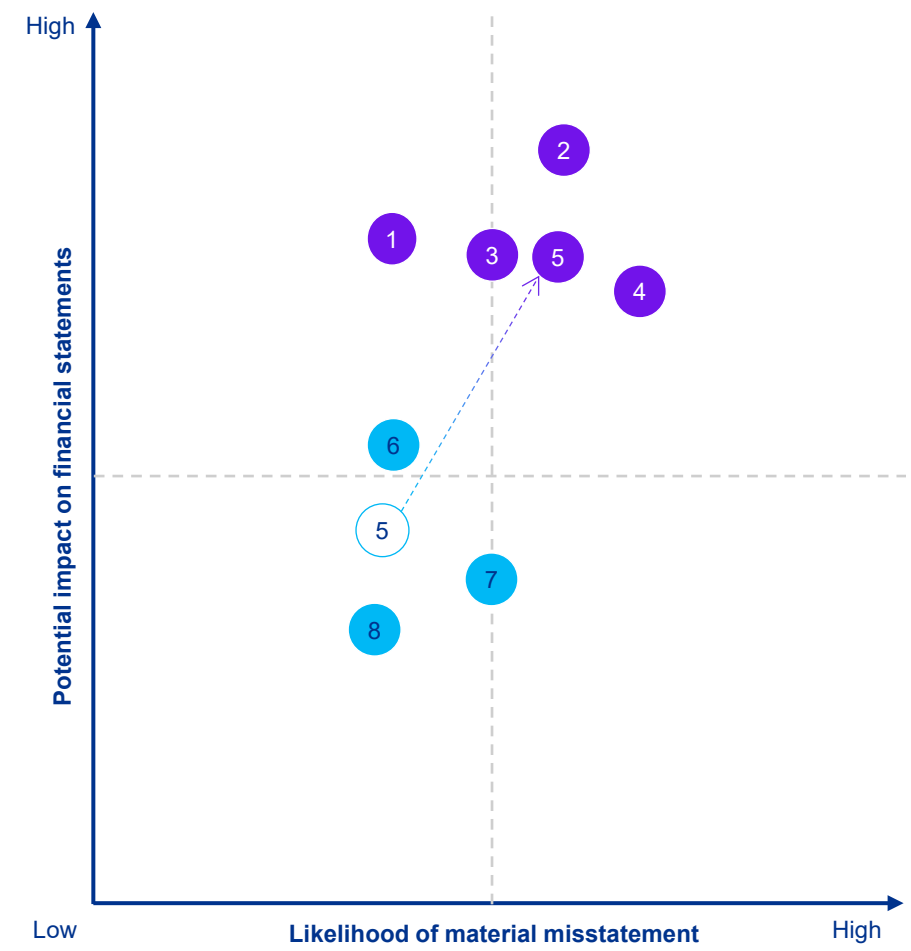
Significant risks

1. Valuation of land and buildings
2. Valuation of investment property
3. Management override of controls
4. Valuation of post retirement benefit obligations
5. This Land

Other audit risks

6. Non capital expenditure classification
7. Compliance with laws and regulations
8. Accuracy and valuation of PFI liabilities

- # Significant risk
- # Other Audit Risk
- 5 Previously assessed risk





Value for money

Value for money



We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources irrespective of the statutory backstop as explained on page 4.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We will prepare our Auditor's Annual Report and a copy of the report will be included within the papers for the February Committee alongside our final version of this report. The Annual Auditor's Report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

We note that our Value for Money procedures are still ongoing and will be reporting to you at the February Committee. To date we have identified the following Value for Money findings, some of which may develop into a Risk of Significant Weakness/ Significant Weakness:

- The Designated School's Grant (DSG) Deficit - This is being considered with regard to Financial Sustainability and Governance, as a result of the growing deficit and need to revise the recovery plan.
- This Land – This is being considered in relation to all three VFM domains in relation to the financial performance of This Land and its ability to meet future debt repayments, progress against past known governance weaknesses and the ability of the Council to provide effective oversight and challenge a complex commercial company.
- Investment in the North Angle Solar farm – This is being considered with regard to Financial Sustainability and Governance due to project overruns and overspends.
- HSE Busway – This is being considered against Governance as a result of the Council pleading guilty to the HSE prosecution during the period.
- Waste PFI – This is being considered against Financial Sustainability as a result of increasingly unfavourable costs.
- Risk identification – This is being considered against Governance, pending discussion with management

Local Audit – reset and recovery



Local Audit - Reset and Recovery



Background

It has been widely reported the level of delays in Local audit had grown to an unacceptable level. As a result, Central Government has been working with the Financial Reporting Council (FRC), as incoming shadow system leader and other system partners to develop proposals to address issues in the local audit. These consist of three stages:

Phase 1: **Reset** involving clearing backlog of historical audit opinions.

Phase 2: **Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycle.

Phase 3: **Reform** involving address systemic challenge in the local audit system and embedding timely financial reporting and audit.

Implementation of Reset and Recovery

The Accounts and Audit (Amendment) Regulations 2024, introduced backstop dates by which local bodies must publish audited accounts and the NAO have also issued the revised 'Code of Audit Practice 2024' [Code of Audit Practice](#) that requires auditors to give an opinion in time to enable local bodies to comply with the backstop date. The table overleaf identifies the backstop dates and the status of your audits where impacted.

The NAO has also published Local Audit Rest And Recovery Implementation Guidance (LARRIGs), which have been prepared and published with the endorsement of the FRC and are intended to support auditors in meeting their requirements under the Act <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors>



Local Audit - Reset and Recovery

Financial year	Date
Up to 2022/23	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Recovery period and audit work

The implication of receiving a disclaimed audit opinion for the financial year 2022/23 means that for the financial year 2023/24 we have not been able to rely on the opening balances from 2022/23.

To obtain sufficient appropriate audit evidence over opening balances, auditing standards identify two approaches. One of those is to use the working papers and other information available on the prior year audit file, which as noted above has not been possible as the outgoing auditor has not been able to complete their audit. An alternative approach is the performance of specific audit procedures to obtain evidence regarding opening balances.

The LARRIGs, in particular LARRIG 05 *Rebuilding assurance following a disclaimed audit opinion*, was only finally published in September 2024 and further guidance, mentioned in the LARRIG in the format of a case study was only released in December 2024.

We also note there is an ongoing sector wide process, convened by the Financial Reporting Council (FRC) with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances. This, along with the backstop date for 2022/23 being only 2 months prior to that of the 2023/24 period, has limited the extent of building back assurance that has been possible in 2023/24.

During our audit of 2023/24 we have completed certain work on the closing balances for 2023/24 and in year transactions (see pages 4 to 5) and this will contribute to rebuilding assurance.

The table overleaf identifies an indicative pathway to returning to an unmodified opinion. However, it must be noted this is only an indicative pathway and the speed of progress will depend on a range of factors including the level of work required to provide assurance on opening balances, in particular PPE balances and reserves balances.



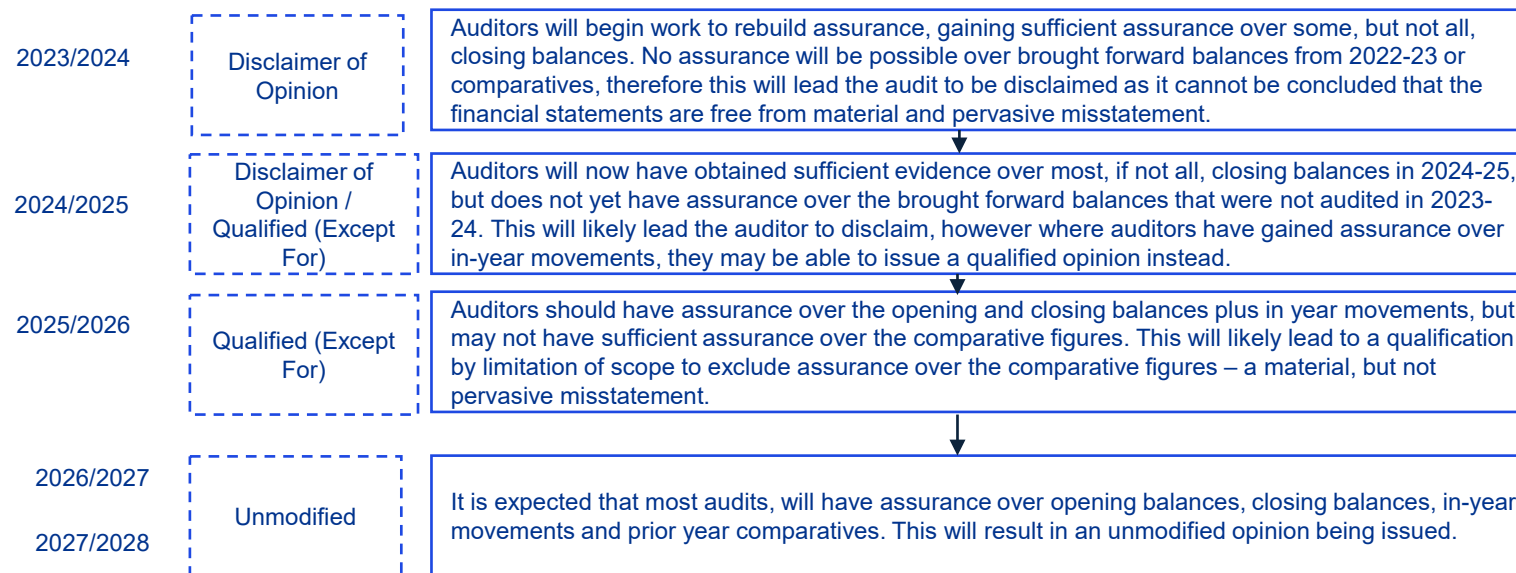
Local Audit – Reset and Recovery

Rebuilding assurance

Given the importance and complexity of reserves balances and management, a detailed risk assessment will be undertaken to understand the level of work required to obtain sufficient appropriate audit evidence on the reserves balances. As noted on the previous page, there is an ongoing sector wide process with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances.

We note there may be other factors which impact on the speed of this work – such as the support provided by the audited entity and availability and quality of audit evidence. Where such support is not provided and the availability and quality of audit evidence is not present this will significantly impact on the time taken to build back assurance and the likely cost of such a process in terms of audit fees. We note the challenges identified on page 5 regarding this year’s audit. As we complete our debrief with management, we can discuss how assurance can be gained on individual account balances and ultimately lead to a position that unmodified opinions can be issued in future years.

Indicative pathway based is reproduced from the LARRIGs





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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