Agenda Item No: 4

Financial Reporting and Related Matters

To:	Audit and Accounts Committee
Meeting Date:	28 November 2025
From:	Executive Director for Finance and Resources
Electoral division(s):	All
Executive summary:	The committee is updated on latest progress with matters related to the external audit of 2024-25's accounts, as well as other matters.
Recommendation:	The committee is invited to:

a) note the report.

b) endorse the approach proposed to adjustments identified so far, set out in Appendix 1.

c) note the audit progress report (Annex A) provided by KPMG.

d) note the draft value for money report (Annex B) provided by KPMG.

e) note the draft pensions audit report (Annex C) provided by KPMG.

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1. Background

1.1 The committee received the council's draft statement of accounts for 2024-25 at its last meeting, following their publication at the end of June.

1.2 Since then, the external audit of those accounts has been commenced by our external auditor KPMG. The audit is progressing well with much of the fieldwork having been completed. At this stage, no material issues have been identified, though a number of smaller items have been identified by the council or the auditor.

1.3 As well as the audit of 2024-25's accounts, the auditor has progressed dealing with the outstanding objection by a local elector to 2023-24's accounts.

2. Main Issues

2.1 2024-25 External Audit

2.1.1 Following this committee receiving the audit plan for 2024-25's audit from KPMG at its June 2025 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 the audit fieldwork taking place through to the end of October, however detailed work has continued into November.

2.1.3 The council has worked on and completed most of the largest samples issued by KPMG (including the income and expenditure samples, grants and payroll samples). The final remaining large sample, on journals, has only recently been issued and is now being worked on.

2.1.4 A major area of the audit that is in progress is the council's accounting for its wholly-owned development company This Land. The council's draft statement of accounts for 2024-25 set out the changes to the company's financing, and the consequent accounting treatment is subject to specialist review by KPMG given its complexity and high profile. The council took advice on its treatment from external advisors as well as drawing on its own internal expertise.

2.1.5 Audit differences identified so far are set out in Appendix 1 alongside the recommended approach to resolving. The council has an approach of adjusting for all identified differences unless they fall into specific categories, and consequently our differences reporting show all items not just material ones. The scenarios in which we would generally not adjust 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 the auditor's finding

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

2.1.5 KPMG have provided a progress report setting out the current position of the audit. This is attached as Annex A. The progress report sets out work to date, any conclusions and differences for the eight key risk areas for the audit.

2.1.6 **Valuation of land and buildings** – the audit to date has identified no matters to report yet, but processes are still underway to fully challenge key assumptions and the valuation calculations. This has involved KPMG liaising directly with the council's contracted valuer.

2.1.7 **Valuation of investment property** – following an audit difference identified in the previous audit, KPMG have focussed on these valuations. They have challenged the appropriateness of valuation methodology, and are in the process of comparing the accuracy of instructions to the valuer, and how the risk is disclosed in the accounts. An audit misstatement has been identified relating to the valuation of two of these properties, with KPMG's specialist valuers having valued some investment property lower than the level used in our accounts. The scale of this is expected to be below materiality, and much lower than in 2023-24.

2.1.8 **Management override of controls** – the design and implementation of key controls have been reviewed and no issues identified so far.

2.1.9 **Valuation of post-retirement benefit obligations** – the processes used in the valuation of pension liabilities have been reviewed, working with the pension fund. Actuarial assumptions used have been independently checked. So far, no issues have been identified.

2.1.10 **Recoverability of the long-term debtor with This Land Group** – as with other accounting judgements and valuations, KPMG have challenged the council's accounting entries relating to any Expected Credit Loss (ECL) for the loans, and the accounting entries for the refinancing of the company that took place at the end of 2024-25.The council has only recently received KPMG's review of this, which we are considering alongside specialist advice. In particular, KPMG are flagging that they believe an ECL provision should have been included in 2023-24's accounts, on the basis in their view that on 31 March 2024 the company was in sufficient difficulty that an ECL could have and should have been calculated and that, while not practical to quantify, this could potentially have been at a material level. In preparing 2024-25's accounts the council did conduct an ECL assessment which is being checked and challenged alongside other accounting entries to ensure they are materially correct. KPMG are also reviewing in detail the treatment of the refinancing, through the recognition of capital expenditure in the form of the capital grant/contribution to the company.

2.1.11 **Adoption of International Financial Reporting Standards (IFRS) 16** – this newly required adoption of an accounting standard relating to lease accounting required significant effort and work to implement accurately. KPMG's work on this area is still ongoing – they have so far reviewed a sample of leases, and are in progress of reviewing the technical treatment of these in the accounts. Any adjustments required at this stage are not expected to be material.

2.1.12 **Accuracy and valuation of Public Finance Initiative (PFI) liabilities** – this area is still under review by a specialist KMPG team.

2.1.13 **Non-capital expenditure is inaccurately recognised as capital expenditure** – work has been mostly completed other than review of some additions to infrastructure assets. So far, no issues have been identified.

2.1.14 Alongside this work, KPMG have undertaken their work on the value for money opinion. The draft value for money findings are attached as annex B. This substantially builds on recommendations given in last year's report, as relatively little time has elapsed since they were made. Nevertheless, the council has already made progress in the areas of risk management, financial pressure projection and company governance. The KPMG findings have been received close to publication and the Council will provide management responses/actions to be embedded in the final report for the next meeting.

2.1.15 The Council produces a detailed financial sustainability assessment to be considered as part of the section 25 statement alongside the draft budget each year at the January Strategy, Resources and Performance Committee. This includes extensive analysis of downside scenarios and the principal risks facing the Council. We are continuously refining the quality of estimates provided and will ensure the auditor's comments in relation to a "perfect storm" scenario are reflected. We are also continuing to engage with the Department for Education regarding reset to the Cambridgeshire safety valve plan for improvements to the dedicated schools grant forecast overspend.

2.1.16 The council is required by current regulations to have final audited accounts for 2024-25 by 27 February 2026 (the 'backstop date') otherwise the auditor is required to give a disclaimed opinion. At this stage we expect an opinion slightly before the backstop date.

2.1.17 The issue of 2022-23 not being audited and the subsequent disclaimed opinion for 2023-24's accounts mean that KPMG do not start with assurances over opening balances in the 2024-25 accounts. This is an issue for any authority who has a year of accounts not audited, and means that we expect to receive a disclaimed opinion for 2024-25 as well, though with more assurance than over 2023-24 due to more detailed work being undertaken. We hope to work back to full assurance and an unmodified audit opinion over the coming years, in line with most other councils.

2.1.18 For future years, the relevant backstop dates for the council are:

- Financial year 2025-26: 31 January 2027
- Financial year 2026-27: 30 November 2027
- Financial year 2027-28: 30 November 2028

2.2 2023-24 Objection

2.2.1 One objection was submitted to the auditor by a local elector for 2023-24's accounts. Within that, the auditor decided to look further into two heads of objection. This area has progressed and we understand that KPMG have consulted on their provisional findings and we would expect a final determination ahead of the next Audit and Accounts Committee meeting.

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 not withstanding 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

Accounts and Audit (Amendment) Regulations 2024

Appendix 1: Adjustments

Type	Item	Impact	Identified by	Notes
Adjusting	Final adjustments omitted	Disclosure only	CCC & KPMG	The Expenditure and Funding Analysis (EFA) and Movement in Reserves Statement were not updated following a late adjustment in relation to lease accounting; as a result, these notes do not tie up to the other core statements. This will be corrected for the final accounts.
Adjusting	CIES comparator	Disclosure only	CCC	Adults Health and Commissioning prior year comparator in the Comprehensive Income and Expenditure Statement was per the 2023-24 accounts rather than being restated to reflect the inclusion of Public Health expenditure & income within this directorate (which was its own separate directorate for 23-24).
Adjusting	MIRS line title	Disclosure only	CCC	The income and expenditure line in MiRS was renamed to 'surplus or deficit on provision of services' in error (this line includes both the surplus/deficit figure and the total comprehensive income and expenditure figure). The title of this line will be reverted back to 'total comprehensive income and expenditure' for the final accounts.
Adjusting	Exit packages	Disclosure only	CCC	The £100k-£150k band in the Exit Packages disclosure note was mistakenly labelled as the £150k-£200k band in error; the total cost of the two exit packages included in this band was still correct.
Adjusting	Improved clarity	Disclosure only	CCC	We will add an additional column in PPE note to specify values relating to Right of Use (leased) assets, similar to the presentational approach for PFI assets.
Adjusting	Leases	~£1.6m	CCC	~£1.6m duplication of assets on lease fixed-asset register & non-lease fixed-asset register, which will be resolved for the final accounts. Work is still ongoing on this area by both CCC & KPMG so further adjustments may be identified.
Adjusting	Long-term liabilities	£0m	CCC	A £77k manual adjustment was made in the draft accounts to split LT liabilities between PFI & non-PFI lease liabilities. This manual adjustment has now been removed, as the split between actual liabilities has been finalised.
Adjusting	Long-term liabilities / PFIs	£0m	CCC	A £10k adjustment journal has been processed to balance the LT liabilities / PFI notes - this has previously been manually adjusted, so there is no change to any figures as a result.

Type	Item	Impact	Identified by	Notes
Adjusting	Narrative report and accounting policies	Disclosure only	KPMG	We will reword various narrative sections, especially those relating to This Land to provide additional clarity to users of the Accounts. This will include describing more clearly the application of Minimum Revenue Provision to This Land costs.
Adjusting	Narrative report and accounting policies (p.168)	Disclosure only	KPMG	CCC's accounting policy on Revenue Expenditure Funded from Capital Under Statute (REFCUS) will be amended to align more closely to the suggested policy in the Code guidance notes.
Non-adjusting	Valuations	£0.5m	CCC	Some asset valuations were indexed in error post-valuation. The impact is immaterial (~£400k) and it is complex to make so many minor adjustments, and so it is not proposed to adjust for this.
Adjusting	Various disclosure notes	Disclosure only	KPMG	We will make various minor updates / changes / additions to various notes to the accounts as suggested by KPMG from their reviews.