

Financial reporting and related matters

To: Audit and Accounts Committee

Meeting Date: 31 October 2024

From: Executive Director for Finance and Resources

Electoral division(s): All

Key decision: No

Forward Plan ref: Not applicable

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 accounts, as well as the position on 2022-23 where limited audit work has been completed. A brief update on the national picture regarding public sector audit is also provided.

Recommendation: The Committee is invited to:

- a) note the report
- b) permit the approach to finalisation of the 2022-23 accounts as set out in section 2.2 of this report, and delegate authority to the Chair of this Committee, and the section 151 officer, as appropriate, to give the necessary approvals on behalf of the Council to this effect

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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 the council's draft accounts for 2023-24, the audit of which has now commenced and is ongoing.
- 1.3 The committee received an update at its last meeting on the proposal from the public sector audit 'system partners' to address the audit backlog through several phases, commencing with a 'reset' of historical audit opinions that have not been issued for years up to and including 2022-23. The council now has just one audit opinion outstanding for that period- 2022-23. The expectation is that, subject to national legislation, external auditors will be invited to disclaim (i.e. not audit) financial statements for 2022-23 (and previous years where these are outstanding for other authorities) if an audit opinion is not given by a forthcoming date.

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. While focussed work with the council started then, work is still ongoing at the time of publication of this report. Further risk assessment work by KPMG following the identification of further relevant systems and processes, and the need for the council to turnaround a large number of queries, has resulted in the main fieldwork taking longer than originally estimated. This partly reflects the changeover in audit firm and their first-year familiarisation approach.
- 2.1.3 At the time of publication, the main audit fieldwork is now well underway. The council is working through, or has completed, some of the largest samples issued by KPMG (including the income and expenditure samples, grants and payroll samples). Several other large samples, particularly on journals, are still to be issued and are dependent on ongoing risk analysis by the auditor. We are working with KPMG on several other queries, including:
 - Ensuring that necessary releases are able to be made by third parties to confirm council bank and investment balances, and shareholdings
 - Financial analytics, including explaining changes between 2022-23 and 2023-24 balances on several key lines

- Fixed assets, particularly queries around depreciation and assets under construction balances.
- Aged debts – evidencing the review and pursuit of debts, and the council's assessment of recoverability of large balances.

2.1.4 Queries between the council and KPMG are managed on a KPMG SharePoint platform, with all queries increasingly recorded there, and the council is uploading responses to bulk queries as we collate information (rather than waiting until whole samples are fully compiled). No material issues have been identified so far.

2.1.5 Alongside this work, KPMG are undertaking their review for the value for money opinion. The statutory deadline for completion of the audit is 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. The Council expects to respond to enquiries by the auditor arising from the objection.

2.1.6 The issue of 2022-23 not being audited means that KPMG do not start 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 in all likelihood the council will receive a modified 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 In July 2023 the council published its draft statement of accounts for 2022-23. The external audit of those accounts, however, has not taken place. We therefore expect that EY will proceed to issuing a disclaimed opinion in late November or early December in accordance with the backstop date. The Council is in liaison with EY and is providing the requisite representation letters to enable this outcome.

2.2.2 There are expected to be hundreds of disclaimed opinions nationally as the result of the backstops, and communications from system leaders and local auditors are expected to distinguish between disclaimed and modified opinions caused by the backstop date and those caused by other factors such as weaknesses in financial reporting or specific material issues in the accounts. For Cambridgeshire, the resourcing decision by the auditor not to prioritise an audit of 2022-23 has now been longstanding and consistently communicated and so we expect the disclaimer to clearly relate to the backstop date rather than weaknesses in financial reporting.

2.2.3 In order to enable finalisation of the accounts on this basis, we are requesting a delegation through this report and will ensure the concluded audit report and disclaimed opinion are provided to all Committee members by circulation and published on the Council's website. We are anticipating that we may receive a draft audit results report prior to the Committee meeting – we will distribute this as an additional Addendum when this is received.

2.2.4 We also expect a finalised value for money opinion to still be given by EY for 2022-23, and there are objections from local electors asking for matters to be declared unlawful or reported in the public interest, that were made to these accounts also.

2.2.5 Section 2.4 provides further context on the national position in relation to disclaimed opinions and reset.

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. 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.

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' (to take 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/~/media/2024/09/Local-Audit-Backlog-Rebuilding-Assurance). 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 commenced broadly on time. 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

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](#)