

Financial reporting and value for money report

- To: Audit and Accounts Committee
- Meeting Date: 30 May 2024
- From: Executive Director for Finance & Resources
- Electoral division(s): All
- Executive summary: The Committee is updated on latest progress with matters related to external audit. This comprises the conclusion of audits relating to 2018-19 to 2021-22 financial years, 2022-23 accounts and external audit, and progress on the 2023-24 statement of accounts. A brief update on the national picture regarding public sector audit is also provided.
- Recommendation: The Committee is invited to note:
- a) this report and the audit results received from the auditor for 2018-22
 - b) the report from the auditor in the appendix: Interim Value for Money Arrangements Report for the year ended 31 March 2023

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1. Background

- 1.1 This report provides an update on the conclusion of external audits for the financial years from 2018-19 to 2021-22 with the council's external auditors for those years, Ernst & Young LLP (EY), and the obtaining of signed audit certificates. The committee will be aware of the previous issues in reaching a financial statements external audit opinion as well as value for money conclusions.
- 1.2 The committee will also be aware that the 2023-24 statement of accounts are due for completion in draft form for submission to the council's external auditors KPMG by 31 May 2024. This report provides an update on meeting that deadline. The next item on the agenda is the draft audit plan received from KPMG for the main accounts audit for 2023-24.
- 1.3 There continue to be well-publicised and widespread challenges nationally with the timeliness of reaching audited and certified financial statements for local authorities.
- 1.4 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 able to disclaim (i.e. not audit) financial statements for 2022-23 if an audit opinion is not given by a forthcoming date. However, at the time of writing regulations to enact this proposal have yet to be made.

2. Main Issues

2.1 2018-19 to 2021-22 Statement of Accounts

- 2.1.1 In April, EY finalised closing procedures for audits of the four financial years from 2018-19 to 2021-22 and issued audit certificates. The final audit set of accounts and audit reports can be found on the council's website:
www.cambridgeshire.gov.uk/council/finance-and-budget/statement-of-accounts
- 2.1.2 EY issue a value for money opinion alongside the external audit of the financial statements. Following on from the qualified value for money opinion issued by BDO in 2017-18. For 2018-19 and 2019-20, EY have also reached an "except for" opinion regarding value for money. This means that the auditor has concluded that in those years that in all significant respects the Council had in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for:
 - Procurement – inconsistent record keeping leading to a weakness in arrangements for working with partners and third parties
 - Manor Farm tenancy – a former deputy leader of the Council was subsequently found to have breached the Council's Code of Conduct in six areas, and there were associated recommendations for the Council. This issue was taken as evidence of weaknesses in arrangements for informed decisions and allowing for challenge and transparency.
- 2.1.3 For the years 2020-21 and 2021-22, there was a change in the form of national reporting

arrangements for value for money, and EY's narrative conclusions in those years are found in their Auditor's Annual Report, which have now been published (see the link above to the website). EY's reporting for these years includes conclusions in the following areas:

- Financial sustainability: the Council had proper arrangements in place in these years to plan and manage its resources and to continue to deliver services
- Governance: the Council had proper arrangements in place to take informed decisions and properly manage its risks. EY remark on the emergency management arrangements implemented during the pandemic and that the Council was able to illustrate by 2020-21 that it was transparency publishing the findings of an external review into the Manor Farm tenancy matter
- Improving value for money: the Council had proper arrangements in place and was using information about its costs and performance to improve the way it manages and delivers services. Steps had been taken during these years to improve procurement processes.

Receipt of a succession of audit reports and completion certificates in April 2024 is a significant and welcome milestone for the Council. It is also positive that improvements made to procurement arrangements and governance across the Council, after weaknesses identified in the years ending 2018, 2019 and 2020 have been recognised and have led to the overall conclusion there were appropriate arrangements in place. The Council's next annual procurement report will be available for Committee in July.

2.1.4 The Auditor's Annual Report for 2021-22 also confirms the conclusion and unqualified opinion on the financial statements for that year. The Committee has previously considered the findings from the financial statements audit and the adjusted and unadjusted differences as a result of the audit. The final report includes renewed confirmation that the going concern basis for preparation of the financial statements was appropriate as at the date of the finalised accounts (29 April 2024).

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 are therefore expecting that, once a backstop date is confirmed for that year's audits, that EY will not have finished the audit by the date and therefore this year will be disclaimed by them.

2.2.2 We do, however, expect a value for money opinion to still be given by EY, and there are objections from two local electors that have been made to these accounts.

2.3.2 EY have provided an interim report on value for money arrangements in 2022-23 which is attached to this report as an appendix, for the Committee's consideration.

2.3 Statement of accounts for the 2023-24 financial year

2.3.1 KPMG LLP is the appointed auditor to the Council for the five years commencing 1 April 2023. An interim audit covering walkthroughs of key financial systems and risk

assessments has taken place. Contingent on national timelines and local circumstances, KPMG have advised the council of the intended timeframe for the main audit of the council's statement of accounts over the late summer and early autumn of 2024.

- 2.3.2 While we continue to expect the 2022-23 accounts to be disclaimed, the impact of that on audit processes for 2023-24 accounts, particularly looking at opening balances, is not fully known. As well as that uncertainty, the changeover of auditor will likely bring some challenges in terms of adjustment to processes, familiarisation with systems and alternative approaches to risk and code compliance. Nevertheless, the council has responded to all information requests from KPMG, alongside work to deliver 2023-24's accounts and finalise preceding years, to enable the audit capacity allocated to this work is well used and to ensure a smooth start to the main audit.
- 2.3.3 The council is working towards meeting the deadline of 31 May 2024 for publication of the 2023-24 draft statement of accounts. This is a significant undertaking, reducing by nearly two months from the date accounts were delivered in the two preceding years, despite the accounting work getting more complex over time. We have in particular made improvements in ensuring a completed portfolio of property valuations ahead of the start of year-end processes, have made several changes to systems and processes to streamline, and have bolstered capacity focused on the accounts in the finance team on both a permanent and temporary basis.
- 2.3.4 Once the draft accounts are published, a 30-day public inspection period commences. This is an opportunity for interested people or journalists to inspect the accounting records and supporting documents, and for local electors to lodge objections to our accounts with the external auditor. Managing the exercise of these longstanding rights by members of the public is time consuming for the finance team and for affected council services.

3. Significant implications

3.1 Finance implications

This report details progress with financial reporting matters, and the appendix sets out the approach to audit differences.

3.2 Legal implications

The principal governing legislation are the Accounts and Audit Regulations 2015 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

[Council and committee meetings - Cambridgeshire County Council > Meetings \(cmis.uk.com\)](http://cmis.uk.com)

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

[Local Audit Liaison Committee - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

[HM Treasury review of non-investment asset valuations | Local Government Association](#)