Special Meeting of the Audit and Accounts Committee: Minutes

Date: 26 February 2025

Time: 10.00 – 11.10am

Place: New Shire Hall, Alconbury Weald

Present: Councillors D Ambrose Smith, N Gay (Vice-Chair), G Seeff, A Sharp, A Whelan and G Wilson (Chair)

S Brown	KPMG (External auditor)
E Larcombe	KPMG

213. Apologies for Absence and Declarations of Interest

Apologies for absence were received from Councillor C Boden and M Hussain. There were no declarations of interest.

214 Petitions and Public Questions

There were no petitions or public questions.

215. Final Statement of Accounts for 2023/24

The committee considered the financial reporting element of the report first. As expected, an overall disclaimed opinion had been given, with a fuller report provided by the new external auditor. A number of adjustments were proposed as a result of the audit work, and these were set out in full in Appendix 1. KPMG's recommendations in relation to financial reporting and the council's response and actions in reply were reported. A partial adjustment had been made with regard to the valuation of investment property as a result of additional information and findings from the audit work. The council accepted the recommendation to close dormant bank accounts that were no longer needed, and around the completeness of information going to the external valuer. Updates had been added to post balance sheet events section as required.

The KPMG representatives advised that their final report was similar to the earlier version shared with the committee. The audit of significant risk areas had been concluded where this was possible within the constraints of the backstop date, or it had been made clear where certain areas would be disclaimed. The key areas related to the valuation of land, buildings and investment properties. One material difference remained unadjusted, and this would be noted in the audit opinion. The valuation of pensions had been completed, and more detail included in this report on why there was considered to be an increased risk around the recovery of debt in relation to This Land. The Chair clarified that KPMG was comfortable with the non-valuation audit differences proposed for adjustment, and that the letters of representation would be submitted alongside the signed accounts.

Individual Members raised the following points in relation to the financial reporting section of the report:

- sought clarification of the basis for the difference in valuations relating to investment properties, and whether this related to projected yield or cashflow. The KPMG representative advised that the investment properties were externally valued. That valuation was mainly driven by the expectation of rental yield per square footage, and they agreed with this methodology. The difference lay in the assumptions around rental income, which they judged would be lower than the Council's valuation. The Executive Director of Finance and Resources acknowledged that there were always lessons to be learned. However, he must make a decision based on the evidence available to him and at this point in time the evidence he had supported the higher valuation figure following the revisions the Council had accepted. He welcomed the rigorous challenge provided by KPMG and their diligence. The Strategy, Resources and Performance Committee would continue to monitor the council's assets, and the audit process provided an important check and challenge. The Chair clarified that this represented an accounting difference, and it did not make a difference to the amount available to the council to spend. KPMG advised that they could not be seen to be providing a valuation as their role was to audit the valuation provided by the Council. Their challenge was whether the council was comfortable that it had access to suitable market valuations, taking account of all available information. The Chair noted that a further valuation would take place as part of the 2024/25 audit programme which would allow more time to work through any differences in valuations with the auditor, and asked whether this would enable the difference to be resolved. KPMG advised that they were planning to discuss this with management in more detail in the next month to make sure they were comfortable that the council's valuer had access to all the information they should.

  Summing up, the Chair stated that the committee was uncomfortable with the differences in valuation, but accepted that management had fully considered the information available and that a further valuation would take place in time for the 2024/25 accounts and would work towards reconciling those differences.

- the Chair of the Pension Fund Committee confirmed that they were content with the references to pensions contained in the accounts and KPMG's report. They noted that this was always a difficult area as it related to assumptions. They remained concerned about the valuation of the Cambridge and Counties Bank (CCB), but otherwise the findings were as they would expect. It was noted that the CCB valuation figure at 31 March 2024 in the supporting notes section of the report was lower than that given later in the report, and officers undertook to correct this. **Action required.**

- felt that more should be said in relation to the waste private finance initiative (PFI) to reflect a situation where the council would be paying for services it might not receive for the for next 10-12 years. The Service Director: Finance and Procurement stated that there was a potential value for money (VFM) issue around this which was referred to in the financial sustainability section of KPMG's report. The KPMG representatives advised that PFI had been fully disclaimed as they had not undertaken any work on this for the 2023/24 accounts. A full audit of PFI would be undertaken as part of audit for the 2025 financial year which would ensure that its presentation in the accounts reflected expected practice.

- asked whether the council was reliant on schools providing them with information on school balances. The Service Director: Finance and Procurement advised that the schools finance team had full visibility over school banking, and part of the team's role was to look at schools' cashflow. In order to close the accounts more quickly schools' balances had been calculated several days before the financial year end, so a non-material adjustment was required to correct the balance sheet to reflect final school bank balances at 31 March 2025. Schools' financial sustainability was a separate issue which was being kept under close review both by management and also reported to the Cambridgeshire Schools Forum.

The committee moved on to consider the value for money (VFM) element of the report which looked at the arrangements in place to secure economy, efficiency and effectiveness through a focus on three key areas:

i. Financial sustainability
Significant risks were identified around the delivery of the council's medium-term savings programme and the aggregate impact of specific financial pressures, with a recommendation that the medium-term financial plan was fully stress tested.

ii. Governance
KPMG recognised that there was a risk management process in place, with risk registers in operation across council. Significant risks were identified in relation to the risk processes around the dedicated schools grant (DSG) and governance processes around council-owned companies. The DSG position had worsened during 2023/24, and management had identified that additional work and planning around this was needed. This was raised as a significant weakness because the required level of oversight and actions were not evident during the period being audited, but KPMG acknowledged that work was now in hand to address this. All the recommendations around this had been accepted by management.

iii. Improving economy, efficiency and effectiveness
KPMG was aware of the historical issues around governance in relation to This Land and the work now being done to strengthen this, but these measures had not been in place during the period covered by the 2023/24 audit. This Land was a complex commercial entity, and the council would not necessarily have the right level of expertise in-house to provide the required oversight and challenge. This was identified as a significant weakness, and management had accepted the recommendations made around this. The Internal Audit findings around procurement tender waiver compliance and the actions taken in response had been reviewed and KPMG was comfortable that an appropriate action plan was in place.

The Service Director: Finance and Procurement stated this represented a more detailed report on VFM than the committee had received for some time. He welcomed a build-up of assurance around the procurement position and highlighted the work done to review the council's reserves and extremis scenarios, which was being monitored by the Strategy, Resources and Performance Committee. The Service Director: Legal and Governance stated that work was in hand to further strengthen the governance arrangements around This Land, and this would be discussed further with KPMG.

The Head of Internal Audit and Risk Management confirmed that she was comfortable with the external audit actions which had been proposed and agreed.

The Chief Executive welcomed the detailed report and scrutiny provided by the new external auditors. However, it would have been helpful to have more detail around the findings on governance, and especially risk management. He had offered to provide his views via an interview, but this had not been taken up and he felt that the information around governance did not fully reflect the council's arrangements in relation to corporate risk management. KPMG apologised and undertook to rectify this during the next audit period.

The Chair asked whether the Children and Young People (CYP) Committee was aware of the issues raised by the external auditor in relation to the dedicated schools grant (DSG). The Executive Director of Finance and Resources shared his understanding that the Executive Director for Children, Education and Families had provided this information to CYP members. The Audit and Accounts Committee would be receiving the Children, Education and Families Directorate assurance report in June.

The Chair queried whether the arrows used in the summary of findings should point downwards to indicate a worsening position. KPMG replied that this presentation reflected the approach across KPMG to conveying heightened risk. **Action required**

Summing up, the Chair thanked KPMG for the thorough assessment which had been undertaken.

It was resolved unanimously to:

a) agree the treatment of audit differences, as set out in section 2.3.

b) review and endorse the updated 2023-24 statement of accounts, provided as Appendix 2 to this report, and agree that the Chair of the Audit and Accounts Committee signs the final statement of accounts.

c) authorise the Executive Director of Finance and Resources to provide a letter of representation to KPMG.

[Chair]