

Audit and Accounts Committee Annual Report 2021-22

To: Audit & Accounts Committee

Meeting Date: 24th November 2022

From: Mairead Claydon, Head of Internal Audit & Risk Management

Outcome: The Audit & Accounts Committee presents an annual report to Full Council, outlining the work the Committee has undertaken throughout the year.

Recommendation: Audit & Accounts Committee are being asked to review and comment on the Annual Report of the Committee in advance of its presentation to Full Council on 13th December 2022.

Audit & Accounts Committee are also being requested to consider and approve the proposal to undertake a review of the Committee's Terms of Reference and a self-assessment of the Committee's effectiveness in line with CIPFA guidance, as set out at Section 4 of the report.

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Audit and Accounts Committee

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1. Introduction

- 1.1 The Audit and Accounts Committee exists to provide independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. Audit and Accounts Committees within Local Authorities are necessary to satisfy the wider statutory requirements for sound financial management as part of best practice so that the Council can meet its duties under the Accounts and Audit Regulations.
- 1.2 The Audit and Accounts Committee plays a vital role in ensuring that the residents of Cambridgeshire County Council are getting good-quality services and value for money, i.e. economy, efficiency and effectiveness.
- 1.3 The Audit and Accounts Committee currently has seven members and met six times in the 2021-22 financial year. Following the local elections in May 2021, a new Committee was formed with a new Chairperson, and an induction and training session for the new Committee was held on 1st June 2021.
- 1.4 Audit & Accounts Committee meetings in 2021/22 were held in public, other than one meeting which was scheduled in addition to the normal Committee calendar, on 18th March 2022. This meeting was held in private session, on the grounds that the agenda contained exempt information under Paragraphs 1, 2 & 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed.
- 1.5 The Committee has been structured around the following responsibilities:
 - Considering and approving the Annual Statement of Accounts;
 - Ensuring that the financial management of the Council is adequate and effective;
 - Ensuring that the Council has a sound system of internal control, which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk;
 - Reviewing annually the Council's system of internal control and agreeing an Annual Governance Statement;
 - Ensuring that the Council has an adequate and effective Internal Audit function.
- 1.6 While outside the core time period covered by this report, it is noted that at their meeting on 22nd July 2022 the Audit & Accounts Committee received a report detailing how independent appointees could be co-opted to the Committee, utilising the existing Constitutional arrangements. The proposed approach would support the Committee's objectives and is in line with the

recent CIPFA position statement on Audit Committees and the emerging national policy direction. The Committee resolved to support the appointment of two independent, apolitical persons to the Committee in line with the proposals in the report. Implementation of this proposal is currently being pursued by the Monitoring Officer and Chief Finance Officer, in consultation with three Members of the Committee.

2. The Committee's relationship with Internal Audit

- 2.1 A key part of the Committee's role is to both challenge and support the Internal Audit service. The Committee has supported a flexible approach from the Internal Audit team, which ensures that planned coverage is continually re-assessed to direct audit resource towards areas of emerging risk, rather than a static plan agreed some months before. The Committee has taken a proactive role in this approach, both by suggesting pieces of work for Internal Audit, contributing ideas towards the detailed brief, and requesting updates from Internal Audit and Council services on implementation of actions.
- 2.2 In May 2022, the previous Head of Internal Audit & Risk Management took on a new position within the Council as Head of Diligence & Best Value, focusing on supporting the Council to achieve best value from its contractual arrangements. The service's Audit Manager was appointed to act up to the post on a temporary basis from May 2022, before obtaining the permanent position in October 2022 following an open recruitment process.
- 2.3 In its role of overseeing the work of Internal Audit, every ordinary meeting of the Audit & Accounts Committee was provided with updates on progress in delivering the agreed Annual Audit Plan. For the 2021/22 financial year, the former Head of Internal Audit produced an Annual Report setting out his annual opinion on the Council's control environment, which was presented to the Committee on 31st May 2022. The annual opinion is summarised as follows:

On the basis of the audit work undertaken by Cambridgeshire's Internal Audit team during the 2021/22 financial year, a satisfactory assurance opinion has been reached.¹ My opinion is derived from an assessment of the range of individual opinions arising from work completed in 2021/22 by the Cambridgeshire Internal Audit team, taking account of the relative materiality of each area under review, and considering management's progress in addressing control weaknesses.

I would particularly highlight the following key pieces of evidence on which my opinion is based:

- *Review of the organisation's Code of Corporate Governance and the evidence supporting the Council's Annual Governance Statement, which demonstrate a sound core of organisational governance;*

¹ A "satisfactory" assurance indicates that the Council's control environment has mainly operated as intended, and that there are some control weaknesses presenting a medium risk to the control environment.

- *The reviews of Key Financial Systems for which Cambridgeshire County Council is the Lead Authority consistently demonstrating a good or moderate assurance across all systems.*
- *The continuing, positive, organisational response to the Covid-19 pandemic, which demonstrated the strength of the Council's business continuity and risk management processes and the ability of senior management to respond effectively to unexpected challenges;*
- *Contract management remains a key area of focus for Cambridgeshire County Council and this has been reflected in the Internal Audit plan and work completed throughout the year. A number of initiatives to improve contract management in key areas are due for implementation during the 22/23 financial year.*

The opinion of satisfactory has reduced from last year's 'strong satisfactory' because of a current known issue with payroll control accounts.

It should be noted that no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.4 The issue referenced in the Head of Audit opinion regarding payroll control accounts is outlined in more detail in the full Annual Internal Audit report. Assurance over the payroll system is currently provided by the Internal Audit team at West Northamptonshire Council under arrangements managed via the Lead Authority Board. In 2022/23, the Audit & Accounts Committee is continuing to receive regular updates on payroll system assurances via Internal Audit.
- 2.5 Following the disaggregation of Cambridgeshire's Internal Audit & Risk Management service from LGSS, the Committee reviewed and approved an updated Internal Audit Charter for the team at its meeting on 7th March 2022.

3. Proactive Work of the Committee

The following section provides a summary of the proactive work undertaken by the Committee over the last year. This aspect of the Committee's work is vital, and has assisted in improving the effectiveness of the Council's overall corporate governance arrangements.

3.1 Corporate Governance

- 3.1.1 The Council's Annual Governance statement is compiled on the basis of the findings of Internal Audit reviews throughout the year, assurance statements

from executive and corporate directors, and input from senior management and members of the Committee. The 2021/22 Annual Governance Statement was reviewed by the Committee on 31st May 2022, prior to final sign-off and inclusion in the Council's annual Statement of Accounts.

3.2 Council Finance and Statement of Accounts

- 3.2.1 Throughout 2021/22, the Committee has maintained its oversight of Council finances, reviewing the quarterly Integrated Finance Monitoring Reports to assess progress in delivering the Council's Business Plan. The Committee regularly inquires and follows-up on areas which have overspends or other issues, and receives reports on specific risk areas. In 2021/22, this included reports on debt management and consultants and interims.

Cambridgeshire County Council Statement of Accounts:

- 3.2.2 The Committee considers and approves the annual Statement of Accounts for Cambridgeshire County Council. During 2021/22, the Committee received and approved the Council's audited financial statements for the year ending 31 March 2021, the third year in which EY has been our appointed external auditor.
- 3.2.3 The draft Statement of Accounts 2020/21 was presented to Committee on 21st July 2021, allowing comment from the Committee prior to their publication. The Committee received a further report on progress with the annual audit of the accounts alongside a provisional audit results report on 7th March 2022, and agreed to delegate the final signing of the accounts to the Chief Finance Officer and the Chair of the Audit & Accounts Committee. The accounts were then signed on 29th July 2022.

Outstanding External Audit Objections & Value for Money Conclusions:

- 3.2.4 The Council's former External Auditors, BDO, had received objections from a local elector in respect of the 2017/18 and 2016/17 Statements of Accounts. As the appointed auditors, BDO were required to look into these objections and determine whether or not they are valid, and to consider any impact of the objections on their Value for Money opinion.
- 3.2.5 On 25th November 2021, the Committee considered a report on work undertaken regarding Value for Money issues by the former auditors, BDO. The report identified weaknesses in the procurement arrangements in place at the Council for the year ended 31st March 2018. On the same date, the Committee received a report from the Council's Section 151 Officer, setting out the Council's response to BDO's findings and highlighting that many aspects of the Council's procurement arrangements had been significantly strengthened since 2018. A further follow-up report on the Council's response to the 2017/18 Value for Money opinion was provided to the Audit & Accounts Committee on 31st May 2022.

- 3.2.6 Although BDO have issued financial statement and value for money opinions for the 2016/17 and 2017/18 financial years, they have yet to determine their response to the outstanding objections, and as such the completion of these audits has yet to be certified.
- 3.2.7 The Committee has been considerably frustrated by the progress in responding to the outstanding objections, and is continuing to pursue the completion of this outstanding work as a matter of priority. This has included the Committee Chair, Chief Finance Officer and Chief Executive engaging directly with BDO about the delayed work and slippages in delivery.
- 3.2.8 The Council's current External Auditors, EY, have commenced their Value for Money work. However, making further progress and reporting on the outcomes of this work is dependent on the conclusion of BDO's work on the 2017/18 objection. This is because EY will follow up on BDO's findings and assess any impact this has on their own Value for Money conclusions.

Pension Fund:

- 3.2.9 The Committee reviews and approves the Cambridgeshire Pension Fund Annual Statement of Accounts, alongside the Annual Report of the Pension Fund. The Fund's audited Statement of Accounts for the year ending 31st March 2021 was presented to the Committee on 28th September 2021 and approved.

3.3 Whistleblowing Referrals

- 3.3.1 The Committee received periodic updates on all referrals received under the Whistleblowing Policy in the quarterly Internal Audit Progress reports throughout 2021/22. In all completed cases, the Committee was satisfied that robust action was taken as appropriate.
- 3.3.2 Audit & Accounts Committee approved an updated version of the Council's Whistleblowing Policy at their meeting on 22nd July 2021.

3.4 Farms Audit

- 3.4.1 On 5th March 2021, the Audit and Accounts Committee received an independent review of the County Council's Internal Audit Investigation into Manor Farm, conducted by Mazars LLP. Due to the nature of the review and legal advice received, this meeting was held in private session; however, the Committee determined that the section of the Mazars report on the County Farm Service process and procedures and the 31 recommendations in the relevant audit should be made public and considered first by the Committee, as these sections did not contain exempt information.
- 3.4.2 At its meeting on 26th March 2021, the Committee received an update from the Assistant Director: Property on the actions being taken in relation to the 31 recommendations. The Committee also agreed that eleven recommendations from Mazars for further action to be considered in relation to financial,

transparency and conduct issues should be referred on for further consideration under other processes. This included a referral to the Constitution & Ethics Committee under the Member's Code of Conduct.

- 3.4.3 The outcome of this was an investigation under the Member's Code of Conduct, which was conducted by Wilkins Chapman LLP solicitors and presented to the Constitution & Ethics Committee on 25th February 2022. Following legal advice, the Constitution & Ethics Committee resolved at that meeting to publish the investigation report.
- 3.4.4 Following on from this conclusion of the Code of Conduct referral to the Constitution & Ethics Committee, the Audit & Accounts Committee considered whether the Mazars LLP report should also be made public in full. On 31st May 2022, the final report of the independent audit firm Mazars, which had been appointed in December 2020 to complete the audit, was released into the public domain, with redactions of personal data in line with legal advice.

3.5 Risk Management

- 3.5.1 Under the Council's Constitution, the Strategy & Resources Committee is responsible for the development and oversight of the Council's risk management strategy and process. The Audit & Accounts Committee also has important functions in relation to risk, including considering the effectiveness of the risk management arrangements and associated control environment and to seek assurances that appropriate action is being taken in response to risk.
- 3.5.2 During 2021/22, the Joint Management Team/Corporate Leadership Team and Directorate Management Teams formally considered risk on a quarterly basis. The Audit & Accounts Committee received updates on the risk management approach adopted via reporting from Internal Audit. At its meeting on 31st May 2022, the Committee also received and reviewed an updated Risk Management Policy and Risk Appetite Statement, following a full review of the policy and procedures.

3.6 This Land Ltd

- 3.6.1 Across several of the headings above, the Committee is cognisant of the oversight activity in relation to This Land (the Council's wholly-owned property development company).
- 3.6.2 The Council's Group Accounts, considered by this Committee, consolidate the This Land financial position. The company's full statutory accounts signed by the component independent auditor are published annually each Autumn. The Chair and Vice-Chair of the Committee have attended a number of shareholder briefings undertaken by This Land during the course of the year, as part of an enhanced engagement and monitoring programme.
- 3.6.3 From the corporate governance perspective, it was reported in the Annual Governance Statement that the Strategy and Resources Committee had

received a detailed report from an external reviewer of This Land in January 2022. Their report has enhanced the wider understanding of the company, and therefore the Council's risk exposure, and is leading to improved controls. There were subsequent progress updates on the implementation of recommendations at the March 2022 and September 2022 Strategy and Resources Committee meetings, this included confirmation from the reviewer that risk management arrangements inside the company have improved detailed and visibility.

- 3.6.4 The County Council's own risk register, received by the Committee, also reflects review of the risks in relation to This Land.

4. Terms of Reference for the Committee

- 4.1 Having been fully reviewed and revised in 2016/17, the Terms of Reference for the Audit & Accounts Committee were reviewed by the Committee in May 2018 and retained with no changes. The Terms of Reference of the Committee were also reviewed at the induction training session for the new Committee, held on 1st June 2021.
- 4.2 As it has been some years since the Committee's Terms of Reference was subject to a formal review, the Committee are planning to undertake a review of their Terms of Reference in 2023.
- 4.3 Linked to this, CIPFA have recently issued an updated Position Statement on Audit Committees in Local Authorities and Police, setting out the Audit Committee practice and principles that local government bodies in the UK should adopt. This has included a set of documents to enable Audit Committees to complete a self-assessment against good practice and to evaluate the impact and effectiveness of the Audit Committee.
- 4.4 It is therefore proposed that the Audit Committee will conduct a self-assessment against the updated CIPFA Position Statement in 2023. This will be undertaken alongside the review of the Committee's Terms of Reference.

Alignment with corporate priorities

- 5.1 Environment and Sustainability
- 5.2 Health and Care
- 5.3 Places and Communities
- 5.4 Children and Young People
- 5.5 Transport

There are no significant implications for these priorities.

6. Significant Implications

6.1 Resource Implications

There are no significant implications within this category.

6.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

6.3 Statutory, Legal and Risk Implications

There are no significant implications within this category.

6.4 Equality and Diversity Implications

There are no significant implications within this category.

6.5 Engagement and Communications Implications

There are no significant implications within this category.

6.6 Localism and Local Member Involvement

There are no significant implications within this category.

6.7 Public Health Implications

There are no significant implications within this category.

6.8 Environment and Climate Change Implications on Priority Areas:

6.8.1 Implication 1: Energy efficient, low carbon buildings. Neutral status

6.8.2 Implication 2: Low carbon transport. Neutral status

6.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management. Neutral status

6.8.4 Implication 4: Waste Management and Tackling Plastic Pollution. Neutral status

6.8.5 Implication 5: Water use, availability and management: Neutral status

6.8.6 Implication 6: Air Pollution. Neutral status

6.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.

Neutral status

Have the resource implications been cleared by Finance? N/A

Name of Financial Officer: Tom Kelly

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement and Commercial? N/A

Name of Officer: Clare Ellis

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or Pathfinder Legal? N/A

Name of Legal Officer: Fiona McMillan

Have the equality and diversity implications been cleared by your EqIA Super User? N/A

Name of Officer: N/A

Have any engagement and communication implications been cleared by Communications? N/A

Name of Officer: Christine Birchall

Have any localism and Local Member involvement issues been cleared by your Service Contact? N/A

Name of Officer: N/A

Have any Public Health implications been cleared by Public Health? N/A

Name of Officer: Kate Parker

6. Source Documents

6.1 Audit and Accounts Committee agendas and minutes.

[Audit and Accounts Committee - Agenda and Minutes](#)