Audit and Accounts Committee: Minutes

Date: 29th September 2022

Time: 2.00pm – 3.50pm

Place: New Shire Hall, Alconbury Weald

Present: Councillors C Boden, N Gay (Vice-Chair), A Sharp, S Taylor, A Whelan and G Wilson (Chair)

Officers: Ben Barlow, Dawn Cave, Mairead Claydon, Fiona Coates, Karl Foley, Neil Hunter, Tom Kelly, Fiona McMillan, Stephen Moir and Julian Patmore; Mark Hodgson (EY) *(officers attended for relevant items)*

81. Apologies for Absence and Declarations of Interest

There were no apologies for absence or declarations of interest.

The Chair congratulated Mairead Claydon, who had been confirmed as the Council's Head of Audit and Risk Management.

82. Petitions and Public Questions

There were no petitions or public questions.

83. Public minutes of the Committee meeting held 22nd July 2022

It was resolved unanimously to approve the minutes of the Committee meeting held 22nd July 2022, with the following change:

Item 77 - Draft Cambridgeshire County Council Statement of Accounts 2021/22:

With regard to the last bullet point on the second page of the minutes, the Committee agreed that this be amended to read: "*He suggested that specific mention be made in a future report about those allegations, which references that ~~both~~ the Committee, External Audit <u>and officers</u> were convinced that those allegations were without foundation.*"

84. Committee Action Log

The Action Log was noted.

With regard to action 65 on the Action Log, a detailed response had been received on actions being taken to improve the accuracy of coding of consultancy spend:

The following actions were complete:

- A new Guide to Procuring Consultancy had been produced and marketed widely;
- Updates had been communicated to staff, with key messages about compliance.

The following actions were in progress:

- Improved clarity over language;

- Analysis of Professional Fees and Hired Services Product codes spend;
- The creation of an e-form to cover all consultancy procurements valued over £25,000;
- Investigation into the possibility of a gateway on ERP that asks for confirmation of the various compliance rules;
- Breakdown in the quarterly spend reports to enable the directorate and the person approving the spend to be identifiable, which would be reported to the Corporate Leadership Team (CLT) quarterly on compliance.

With regard to minute 69 from the 31st May 2022 minutes, it was noted that there was a commitment by West Northamptonshire Council to provide a payroll report by 30 September 2022. Officers confirmed that the report had not yet been received, but a preliminary opinion of good assurance had been provided by the West Northamptonshire audit team, and the detailed report should be available at the November meeting. It was confirmed that this related to the 2021/22 payroll report.

85. Ernst and Young Audit Plan for Cambridgeshire Pension Fund 2021-22

The Committee considered the Cambridgeshire Pension Fund External Audit Plan for the year ended 31 March 2022. The Audit Plan identified the key risks and areas of auditor focus, and the Auditor's planned approach to these risk areas. These mainly related to assets which were more difficult to value than listed equities, specifically Level 3 investments and Cambridge & Counties Bank. The other main area was the planned materiality levels, where there were audit differences of £2.2M. Pension officers advised that their approach was to account for anything above or near the materiality levels. Members noted the timelines, and that the audit findings report would be available shortly.

Introducing the report, the External Auditor, Mark Hodgson of EY, drew attention to the risks identified in the Overview section of the report, which were largely consistent with previous years' report. The two main risks identified were the valuation of complex Level 3 investments, and pooled Level 2 investments, which were not as easy to value as listed equities. In addition, Cambridge & Counties Bank was a specialist vehicle requiring specialist valuations.

It was also noted that the date of valuation, 31 March 2022, coincided with a period of significant market volatility following the Ukraine invasion, making those assets harder to value due to unobservable data.

The External Audit process was almost complete, and the results would be presented to the November Committee meeting. Assurances had already been received on the Level 2 and Level 3 valuations. It was expected that a clean audit opinion would be issued.

Arising from the presentation:

- A Member sought reassurance that the issues relating to Cambridge & Counties Bank remained unchanged from previous years, and the extent to which assumptions made in the external valuation were subjective enough to affect materiality. The External Auditor confirmed that the valuation methodology was unchanged, and the valuation was based on expert advice provided by Grant Thornton, who used a market multiple approach, based on a significant number of judgements and estimates which were inherently volatile, and therefore needed reviewing every year;

- A Member asked about the risks associated with the IAS 26 disclosure, which related to the actuarial present value of the retirements benefits. He asked if this was done on the basis of the information available at 31 March, or on what was known at the time the external audit was finally signed off? The External Auditor confirmed that the valuation was as at 31 March, but if in the period of time after that there was any material post balance sheet event, that would be included as a Note to account, and a view taken on whether it was an Adjusting or Non Adjusting Disclosure. It was included as a risk as the whole number could be of interest to a stakeholder or reader of accounts, but it did not have the same materiality as an IAS 19 disclosure would. The Member observed that the numbers involved were potentially very significant, and if the calculation had been done as at 31 March, the assumptions underlining NPV could be very different. The External Auditor commented that interest rates and inflation rates would be the key drivers, and it was based on audited position at 31 March, unless there was a factor to indicate that interpretation at 31 March was incorrect. The Member asked for an update to be provided at the November meeting. Action required;

- A Member asked what proportion of the portfolio was illiquid, and whether the Fund had sufficient liquidity. Officers reassured the Committee that both the cash and funding position of the Fund were both very strong.

Councillor Whelan, speaking as Pension Fund Committee Chair, thanked all officers and auditors for reaching this stage, and acknowledged the enormous challenges that the audit sector was currently facing. In response to a question, the External Auditor confirmed that if there was a non adjusting event, he would expect full disclosure as a note to the accounts, reflecting the position at the date the accounts were signed and authorised.

It was resolved unanimously to note the Cambridgeshire Pension Fund External Audit Plan.

(With the agreement of the Committee, it was agreed to bring forward the section of the Internal Audit Report relating to PSN Certification)

86. Internal Audit Progress Report

Members considered that part of the Internal Audit Report relating to the outstanding 'Essential' recommendation relating to the Council reobtaining its Public Service Network (PSN) certification. The Committee was reminded that at their July meeting, they had been advised that the Council's PSN application would be submitted to the Cabinet Office in August. The application had subsequently been rejected as having too many high severity vulnerabilities, meaning that the Council had not re-achieved its PSN certification. Given the current focus on cyber crime, the Chair had felt that was an important issue for the Committee to explore and understand.

The Head of Operational Services and Security Operations Manager from the Council's Customer & Digital Services were welcomed to the meeting. They advised that the plan was to resubmit the application to the Cabinet Office in November. PSN certification could be granted when there were ten or fewer outstanding high actions which could be resolved within one month. Currently there were two actions that were unable to be resolved within one month. One related to a piece of hardware that it was not possible to upgrade, and which would be decommissioned within nine months. There were numerous outstanding actions on the IT Healthcheck, which were mainly due firstly to the pandemic, specifically IT infrastructure not being in place to enable staff to work from home for an extended period of time, and being able to access and update devices was difficult. A new solution was being rolled out to address this. Secondly there were supply chain issues: new versions of software and Operating Systems was not possible on some of the hardware staff had. That supply chain had been secured and those issues were being addressed. In addition, the focus in 2021 had been on the Data Centre Move, and as a result some 'line of business' systems could not be updated.

The Council was changing the way IT security was dealt with, and a new dedicated Security Operations centre had been established. A health check on both internal and external operations was being implemented. Both the Ukraine War and the China/Taiwan situation remained major threats in terms of IT security. New infrastructure was being introduced to assist with this process over the next six months.

Arising from the presentation, individual Members raised the following questions:

- noting that PSN Certification gave both the Council and Audit & Accounts Committee greater assurance that appropriate IT security systems were in place, asked if there was any negative impact of not having PSN Certification, e.g. in terms of relationships with government or other organisations. It was confirmed that as the Council did not broadcast services, but only consumed services, the connections were still open and the impact of not achieving certification was mainly reputational;

- noting the reference to "reobtaining" PSN certification, asked whether the certification had been granted previously but had subsequently been removed or expired? It was confirmed that the certification had expired;

- Queried if the twenty days allocated for Information Security on the Internal Audit Plan was sufficient. It was noted that PSN certification was not the focus of internal audit, which would be a wider review covering issues such as the adequacy of network vulnerability and scanning, penetration testing, training and insider threat. Additionally, a risk assurance review would take place in the third quarter;

- Asked if officers were confident that the Information Security systems the Council had in place currently were safe from hacking. Officers advised that even if a very high level of resource was allocated to Information Security, they could not offer guarantees that the Council was safe from cyber attacks, but there were many measures and mitigations in place. A key component was mandatory cyber security training for all staff, as a key risk was users clicking on the wrong links. All but one of the outstanding actions relating to PSN certification were internal facing. The Chief Executive advised that PSN certification was just one element of IT security, and a number of other public sector organisations did not achieve recertification annually, and many took a long time to put in place the appropriate remedial actions;

- noted that some other local authorities had reported greater vulnerability over the last 12-18 months in relation to Council issued devices such as mobile phones, and asked how alert officers were to this threat. Officers advised that they were very alert to this threat, explaining that risk related to laptops, mobile phones and all electronic devices, and all Council devices were covered by a service called Intune which provided security against data leakage. NCSC (National Cyber Security Centre) guidance was followed in terms of the way devices were configured, and the Council was also working with the Department for Levelling Up, Housing and Communities (DLUHC) with a view to adopting the Cyber Assessment Framework for Local Government.

The Chair thanked presenting officers.

87. Financial reporting and County Council Audit Plan

The Committee considered the Cambridgeshire County Council provisional External Audit Plan for the year ended 31 March 2022. The report also included an update on several items relating to the Council's financial reporting across several financial years, including the publication of the Council's draft financial statements for 2021/22, which were published at the end of July. The audited accounts for 2020/21 had also been published in July, further to the Committee's delegation. In relation to those accounts, it was noted that the City Deal grant was being recognised on a year by year basis, and there was a limitation of scope qualification relating to infrastructure assets.

Whilst most of the work relating to the objections received in 2017 and 2018 had been concluded by BDO, they had not provided a full statement of reasons confirming the outcome of their consideration. Progress had been made according to the timescales set out following the May committee until mid August, but one of the final stages related to a quality review by a different BDO partner, and this had been delayed due to IT issues. A further legal review and external review by PSAA also needed to be completed.

The Chair commented that the failure to conclude previous years' audits by BDO, despite assurances at previous Committee meetings, was extremely unsatisfactory. The Chief Executive agreed with the Chair, and commented that BDO's performance was nothing short of woeful, and that he would be writing to BDO's managing partner more formally on behalf of the Council, with the Section 151 Officer picking the issue up on behalf of the Committee. Regrettably, the sanctions and contractual controls available to the Council in response to external audit were limited.

Arising from the report, individual Members raised the following points:

- that the Committee had been rigorous on its challenge of the City Deal accounting, and the Member was satisfied with the resolution of that matter;

- commented on the issues around the depreciation of infrastructure assets, which were not unique to Cambridgeshire;

- In relation to the conclusion of the 2020-2021 accounts, and the limitation of scope for infrastructure assets, asked whether the effect of the proposed statutory override would relate to both 2020-2021 and 2021-22? It was confirmed that limitation of scope was a last resort, which was why CIPFA had called on the government to operate a statutory override, which would validate the historic approach taken by local authorities. Statutory override, whilst not being retrospective, meant that any open accounts for years 2020-21, 2021-22 and 2022-23 would be at a Net Book Value level, and effectively remove the derecognition and accumulated depreciation issue. However, it would be constrained to those three financial years. The issue was whether evidence was available to support this International Reporting Standard from its inception in 2010-11. The Council only had the detailed information from 2014 onwards. It was difficult to say what the reporting route would be for 2021-22 at this stage;

- In response to a question on the change of accounting treatment of the City Deal, and whether previous years' accounts should be changed to reflect that, it was confirmed that this point had been considered but it had been concluded that prior year adjustments were not necessary.

The External Auditor advised with regard to City Deal, the need for prior year adjustments was considered as part of the audit, but it had been concluded that on balance, prior year adjustments were not required on the grounds of materiality. The External Auditor also set out, that a review of management motive/rationale for the accounting treatment deployed for the 2015-16 decision could be made – as those officers were no longer employed by the Council. The Committee was reassured that the treatment of the City Deal had no bottom line impact on the Council's ability to deliver services, as this funding was ringfenced.

The County Council accounts had been signed off on 29 July 2022. The Audit Plan for 2021/22 followed a very similar approach as previous years, and the risks were broadly similar to last year. The External Auditor drew Members' attention to two new audit risks this year:

(i) a significant risk around Debtors associated with this This Land, a wholly owned subsidiary. There had been national press coverage regarding This Land and similar Council subsidiaries, and their ability to repay borrowing. This Land's business plan and going concern assumptions needed to be reviewed to establish their ability to repay loans. Discussions would take place with management if there was any need for impairment due to recoverability issues.

(ii) Solar farms had been designated as an inherent risk, as it was valued on the energy prices, which were currently very volatile. There were two solar farms: one which was operational, in Soham (£9.8M)and one at Angle Farm, which was classified as under construction (£17.7M).

The External Auditor also brought the following points to the Committee's attention:

- the risk designation for Covid grants had reduced, from significant to inherent. This was because whilst Covid support was still being received, the likelihood of error was lower;

- the risk had been reduced for City Deal accounting, and a decision had been reached in respect of 2020/21 accounts. There was no expectation that accounting treatment would differ in subsequent years;

- Materiality remained at £19.7M, and any audit differences above £990,000 would be reported;

- there were two full scope audits, i.e. the Council and This Land Ltd. Instructions had been issued to This Land's auditors, RSM, which gave 100% coverage of the group position.

Arising from the presentation, individual Members raised the following points:

- regarding the VFM audits for previous years, a Member asked how this impacted on the current External Auditor in terms of resourcing? The External Auditor agreed that it was difficult to plan for resourcing previous years, and advised that some preparatory work had already been undertaken, but additional resources would be required eventually;

- with regard to This Land and the consolidation in terms of Going Concern, a Member noted that the Council's accounts would need to be signed off by February 2023, whereas the This Land accounts would need to be filed by 31 December 2022. The External Auditor confirmed that This Land had a separate auditor, RSM, and they had to provide certain assurances regarding risks for This Land before EY gave their audit opinion for Council. Once that audit opinion had been given, an updated letter of assurance would be required to cover the intervening period, which would provide sufficient assurance at a Group level;

- asked if any matters had been encountered on the VFM assessments for preceding years that would give cause for concern? In terms of the audit of financial statements, the External Auditor was expecting the audit and testing work to be completed in the first half of December, and an update would be provided to the November Committee meeting, with a full report to the February meeting. The VFM work in respect of 2021/22 was separate to that of preceding years, and completion was dependent on resource availability. The External Auditor would highlight any issues to the Committee once he had had chance to review the preparatory work;

- noting that in December 2021, DLUHC announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for 2021/22 accounts, the External Auditor confirmed this was the date by which accounts and audit regulations state local government bodies should publish their accounts. It was noted that the deadline was not being met by a growing number of authorities each year. On VFM, officers confirmed that they were keen to ensure that these issues were completed as soon as possible, especially on Going Concern, contracts and procurement;

- with regard to This Land having a separate auditor, a Member commented that this type of arrangement was usually inefficient in audit terms, but in this case the independence of having a separate auditor was valuable given the risk identified with regard to that body;

- queried the correction of misstatements that occur after the accounts had been produced, where these were below the materiality level. The Section 151 Officer advised that it was dependent on the nature of the misstatement that arose, and its impact on resources and future years. Going forward, the Member suggested that it would be helpful if a specific policy was developed on misstatements going forward, as it could avoid misunderstandings;

- a Member asked if the description of there being no threats in terms of self interest and 'other' threats was accurate. The External Auditor explained that advocacy, familiarity and intimidation were examples of threats that could arise, but he would review this section. He reassured the Committee that there were no independent threats currently.

It was resolved unanimously to approve the Initial Audit Plan for the 2021/22 draft financial statements.

88. Corporate Risk Register

The Committee considered the Corporate Risk Register, summarising activity over the previous three months. Members' views were sought on the risk management arrangement and the effectiveness of the risk management mitigations in place. It was noted that the Corporate Risk Register would also be considered at the Strategy & Resources Committee meeting on 30th September.

At the Corporate Leadership Team (CLT) meeting on the 22nd August 2022, the corporate risks were reviewed. One of the risks, relating to the Council not having enough budget to deliver agreed short and medium-term corporate objectives, was assessed to be in excess of the Council's risk appetite (rated 'red', in the range 16-25). CLT had also agreed that a potential new corporate risk around Climate Change would be drafted by the Executive Director of Place and Sustainability, although this may be appropriately addressed through climate change triggers in the existing corporate risks. It was also noted that since the last review, the Safeguarding risk had been divided into two (Adults and Children), and a new risk had been added, relating to cyber crime.

Public Health had its own Risk Register, which was presented to the Adults & Health Committee on a regular basis, but not CLT or the Strategy & Resources Committee. It had been agreed that CLT would receive the Public Health Risk Register on a quarterly basis in future, alongside the Corporate Risk Register.

The Chief Executive advised that rather than risks being considered only as a 'business as usual' item at CLT meetings, CLT were also having quarterly risk and assurance meetings. This would be an opportunity for senior managers to review in depth the Corporate Risk Register, and the controls and mitigations in place, embedding a more robust approach to risk management.

Noting Corporate risk 6 - The Council's human resources are not able to meet business need – a Member queried the residual risk scoring of 15, and asked if officers felt that was accurate? The Chief Executive advised that the situation varied between functions, and all employers were struggling nationally, as there were more job vacancies than economically active individuals available. Children's Services Social Care was a particular challenge, and some professional services like finance, procurement and Internal Audit were also struggling to fill vacancies.

In response to a question on Corporate Risk 3, the 'safety valve' process for DSG (dedicated schools grant) and the Council needing to fund high needs deficit, officers advised that the Council was in advanced negotiations with the Department for

Education. If the Council's safety valve application was not considered or failed, this would put the Council in an unviable position, and possible scenarios were outlined.

A Member asked if lack of funding increased the residual likelihood of some other risks increasing, i.e. if there was insufficient money to deliver statutory obligations, this increased the risk level faced? Officers advised that CLT would be reviewing each corporate risk with the risk owner, taking on board Member comments, and consider whether the current economic environment made some risks more likely. The Chair advised that he would be making a comment on this issue at the Strategy & Resources Committee meeting.

It was resolved to note and comment on the Corporate Risk Register.

89. Internal Audit Progress Report

Presenting the remainder of the Internal Audit Progress Report, the Head of Audit advised that the focus of the Internal Audit team had been on Grant audits, and was now moving to School audits, which included twelve school visits. She drew attention to the flexible audit plan and the follow up of agreed audit actions. In the short term, the number of unimplemented actions had increased, as many were due in September, but the number of long term unimplemented actions had reduced. Since the report had been produced, an additional five actions had been closed. Members noted the seven recommendations related to the DSG High Needs Block Audit, which linked in with the Safety Valve work.

Arising from the report:

- A Member sought clarity on school audits, it was confirmed this referred to maintained schools rather than Academies. The Head of Audit agreed to make this clearer in future reports. Action required;

- A Member queried the work undertaken by the Internal Audit team for the Combined Authority (CPCA). It was confirmed that the CPCA received grant monies, and were required to certify to the Department for Transport that that money has been spent in line with the DoT's terms and conditions. Around five days per certification was allocated for this work;

- With regard to Fees and Charges, a Member noted the comment *"Head of Finance has some reasonable concerns as to whether the completion of the exercise will garner any improvements to the current schedules."* He believed that consistency in the way fees and charges were applied had been the intention? The S151 Officer commented that it did appear that there was a difference of opinion in what had been committed to, and he would follow that up, and it was likely that the recent restructuring charges would help resolve on this. Action required.

It was resolved to note the report.

90. Draft Anti-Fraud and Corruption Policy and Draft Anti-Money Laundering Policy

The Committee considered updated Anti-Fraud & Corruption and Anti-Money Laundering policies, which had been considered by both the Council's Corporate Leadership Team and Unions, and had been endorsed without changes.

Introducing the report, the Head of Audit advised that whilst the core of the policies had not changed, they had been revised and refreshed, and were now more reader friendly. These policies would be presented to Strategy & Resources Committee for approval.

Arising from the report, individual Members:

- suggested that email contacts within the report should be generic, and not specific officer emails;

- asked if the Council was registered for money laundering supervision. It was confirmed that the Council is not required to register for supervision and is not subject to Money Laundering regulations. The policy was in the spirit of Best Practice and developed in line with CIPFA guidance;

- discussed the apparent discrepancy between zero tolerance to fraud and corruption against "Police referral wherever appropriate". The Head of Audit explained that the policies set out the main principles, but not the detail on how issues would be dealt with. The decision to refer to the Police would be made by the relevant Director and the Head of Audit, and based on considerations such as the likelihood of prosecution. However, the Council was keen to promote a zero tolerance message;

- In response to a Member comment about the importance of ensuring that staff were all aware of these policies, and that training and refresher training was offered, it was confirmed that there was an e-learning module on fraud prevention, and once the policies were in place there would be promotional campaigns to staff, along with targeted training.

It was resolved to:

review and comment on the draft Anti-Fraud & Corruption Policy and draft Anti-Money Laundering Policy.

91. Annual Whistleblowing report 2021-22

Members considered a report which provided information on Whistleblowing cases received throughout the year, and also on the awareness raising campaign, including the staff whistleblowing survey. The response rate from the survey was consistent with that received in previous years.

A Member noted the statement in the report that *"5% of staff confirmed that they had thought about using the Whistleblowing Policy in the last 12 months".* She asked if this had been followed with a question as to why they had not followed this through? The Head of Audit advised that that question had been asked, but there was no common response or theme. However, those responses had been passed on to the Chief Executive so that he could incorporate this in his review of the Whistleblowing Policy.

Whilst welcoming the report, a Member observed that whilst it was not really statistically significant, there was a slight reduction in terms of confidence which he felt was a potential warning sign. He also noted that the table showing the nature of outcomes from whistleblowing referrals indicated that three-quarters of referrals had had a positive outcome, and highlighting that to staff could be helpful. Officers agreed to incorporate that in the messaging around the Whistleblowing Policy to staff.

The Chief Executive advised that he would be bringing the new Whistleblowing Policy to the November meeting. He commented that there was a challenge around perception and language, as ‘Whistleblowing’ often had negative connotations in media, and noted that the NHS referred to Whistleblowing as “raising concerns”, as it was important to not put people off.

It was resolved to note the report.

92. Audit and Accounts Committee Agenda Plan

Members noted the Committee Agenda Plan, which would be updated to include the following:

- An update on the External Audit Plan at the November meeting;
- The addition of Whistleblowing Policy to the November agenda;
- The regular addition of Corporate Risk Register, at dates to be determined.

The Chair also advised that he had raised the issue of the Independent Advisor to Committee with the Section 151 Officer, and this would be considered by the Independent Remuneration Panel in November, and a further update would be provided at the November Committee. Action required.