# Audit and Accounts Committee Minutes

Date: 28th September 2023

Time: 2.00pm – 3.55pm

Place: New Shire Hall, Alconbury Weald

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

Officers: Dawn Cave, Mairead Claydon and Michael Hudson;
Fiona Coates, Tom Kelly and Mark Hodgson (EY) (relevant agenda items only)

## 136. Apologies for Absence and Declarations of Interest

Apologies were received from independent co-optee, Mohammed Hussain, and Councillor McGuire.

Councillors Boden, Sharp and Whelan declared non-pecuniary interests as Members of the Cambridgeshire Pension Fund Committee and Investment Sub-Committee.

## 137. Minutes of the Committee meeting held 28th July 2023 and Action Log

It was resolved unanimously to approve the public minutes of the Committee meeting held 28th July 2023.

In relation to item 133 on the Action Log, the Chair advised that the next meeting of the East of England Audit Committee Group would be held on 11th October, and he planned to raise the Local Authority audit workload issues at that meeting.

The Action Log was noted.

## 138. Petitions and Public Questions

There were no petitions or public questions.

## 139. Ernst and Young Audit Plan for Cambridgeshire Pension Fund 2022-23

The Committee considered the Cambridgeshire Pension Fund External Audit Plan for the year ended 31 March 2023. The Audit Plan identified the key risks and areas of auditor focus, and the Auditor's planned approach to these risk areas. The audit was almost complete, one of the main outstanding items being the Level 3 investments and adjustments. The Annual Report and draft Statement of Accounts had been considered by the Pension Fund Committee at its meeting in July. The final report and accounts would be presented to the next Audit and Accounts Committee meeting.

Introducing the report, the External Auditor, Mark Hodgson of EY, advised that in terms of timelines, the Plan for the Pension Fund audit for 2022-23 year was being presented, acknowledging that the Audit opinion for 2021-22 had not yet been concluded.

In terms of the Audit Plan, Mr Hodgson:

- briefly detailed the audit risks, which were entirely consistent with prior years;
- commented that the Pension Fund's year on year position was very stable;
- advised that Materiality had been set at £42M, which was 1% of the Pension Fund net assets;
- confirmed that the Audit was nearly complete, and it was envisaged that the full audit report would be available to the next Committee's meeting.

Councillor Whelan, speaking as Chair of the Pension Fund Committee, advised that she was happy with the Audit Plan as presented, and commented that there were always challenges around securing a timely valuation of the Level 3 investments.

A Member asked about the historical context for the inclusion of the Cambridge & Counties Bank in the Fund's investment portfolio, and whether this should be replaced with more conventional assets. Mr Hodgson advised that from an audit perspective, private banks were an unusual asset for a Pension Fund to hold, and this asset required its own specialist valuation. Councillor Whelan advised that she had raised concerns about this investment from the commencement of her tenure on the Pension Fund Committee, and this had been identified an area for the Pension Fund Committee to review.

The Chair relayed a question from Mr Hussain, the new independent co-opted Committee Member. Mr Hussain had observed that the Cambridge & Counties Bank's net lending had increased by 6% from 2021 to 2022, and profit before tax had increased by 54%, driven by a material change in the net margin due to higher base rates. He asked if EY would be assessing the reasonableness of the base rates used in the projection of future cashflows, as this would have a significant impact on the overall valuation of the bank? Mr Hodgson advised that inflation rates and interest rates were key assumptions, and would be subject to audit procedures. He also confirmed that it was within the scope of the audit to ask if investments were held in line with the strategy of the Pension Fund at the time they were made, but beyond that requirement, and being reassured that the performance of that asset was being monitored and reviewed, it was not within the External Auditor's remit to assess the appropriateness of an asset. Committee Members were pleased to note that Cambridge & Counties Bank had very positive financial statements, but observed that it was an area of interest for the Pension Fund Committee, in terms of the appropriateness of the asset within the Fund's portfolio, and the fact that the Council had a 50% interest in this asset.

A Member noted that audit differences of more than £2.1M would be reported, along with *"other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Accounts Committee".* It was confirmed that any fraud would be reported back to the Committee, regardless of quantum. The Member suggested that audit differences of a lower level, of that nature, could be reported back to the Committee automatically, as whilst relatively small, such differences could have important governance implications. The External Auditor remarked that reducing the audit difference threshold was possible but had consequences in terms of audit fee. The level set was based on a standard methodology. The Member was surprised at the implication that there were a number of potential audit differences between £210K and £2.1M, and that such an action would therefore lead to an increase in reporting, and hence the audit fee? There was also the question on whether cumulative errors would exceed the £2.1M threshold. Members were reassured by the Executive Director that for the majority of valuations, there was clear third party evidence. It was confirmed that misstatements of any level, and related discussions with the external auditors arising from those misstatements would be reported to Committee by officers.

The External Auditor clarified that the audit methodology was designed to reduce to an acceptable threshold the possibility of cumulative material audit errors: the threshold was set for reporting rather than materiality. The procedures to identify errors would not be different, the testing threshold picks up points that require External Auditor review, but "trivial" errors would not require that review.

In response to a Member question, it was confirmed that the Triennial Valuation on 31st March 2023, whilst impacting on 31/03/22 balances, was mainly a forward looking funding element, and the key issue arising from the Triennial Valuation in terms of the audit related to the assurances provided to Admitted Bodies. The audit risk related to the procedures on IAS19, rather than a Pension Fund risk, because the Triennial Valuation relied on data from the Admitted Bodies. Testing would be carried out at that level, and the costs dispersed back to those Admitted Bodies.

Noting the reference to greater innovation through technology and enhanced assurance and insight, there was a query about how the Pension Fund audit benefitted from those advances, compared to previous years? The External Auditor advised that this wording related primarily to data analytics which were being deployed globally, and had already been used for several years as the relevant transactions were reasonably concise and easy to assess.

It was resolved unanimously to note the Audit Plan 2022-23 and the presentation by Ernst and Young.

## 140. Financial Reporting and related matters

The Committee considered a report which covered 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 2022/23, which were published at the end of July. The report also covered the backlog issues for audit work nationally.

The Committee was disappointed to note that the Objections received in 2017 and 2018 that were with the previous auditor, BDO, had regrettably not yet been determined by BDO. Officers continued to liaise regularly with BDO, and had received a further query from BDO since the July Committee meeting. Members observed that it had been seven months since BDO's national Head of Audit had reassured the Committee that this matter was a top priority for BDO's public sector team. Officers had recently have been advised that BDO's resources had been reallocated to other work. A Member suggested that, subject to officer advice, a view should be taken on whether to report this matter to the Financial Reporting Council

(FRC) given the ongoing, unprofessional way this work was still not concluded. The Executive Director for Finance and Resources advised that with the Committee's support, along with the Chair he would escalate this issue on behalf of the Committee. Another Member observed that the Council could have three auditors with outstanding work because BDO had not completed their work, and there would be knock on effects. It was noted that the BDO delays impacted on both the work of Finance staff and the current External Auditor, EY. The Chair confirmed that with the Executive Director for Finance and Resources, Vice Chair and Councillor Boden, he would write to the FRC expressing their strong disappointment with the performance of BDO. Action required.

The Committee noted that:

- EY had been able to resume work on the Council's use of resources which would lead to their VFM opinion for the years 2018-19, 2019-20, 2020-21 and 2021-22, and planned to report to the next Committee meeting on each of those years, providing the relevant information requested for each of those years was received. The earlier years reflected some of the weaknesses arising from the 2017-18 work. It was confirmed that the Finance, Internal Audit and Commercial and Procurement teams were prioritising responses to queries received from EY;

- Significant progress had been made with the financial statements work for 2021-22. An update from EY was appended to the report, which highlighted some of the main areas outstanding, including work around the long term debtor This Land. In response to a Member question, it was confirmed that the This Land Business Plan indicated an appreciable surplus, and EY were checking the assurances received from that debtor, and testing underlying assumptions such as inflation indices and strategic land sites. The Assets and Procurement Committee was now the shareholder Committee for This Land and would be keeping the performance and governance of This Land under review, including the likelihood of full and timely repayment of loans, acknowledging the risks and sensitivities with this venture;

- As previously advised, EY were not currently in a position to provide timescales for commencing the audit for financial statements 2022-23 for the Council, in common with EY's other local authority clients;

- The inspection period of accounts had concluded. As in previous years, many documents were made available to local objectors as part of that statutory process. Whilst noting that electors' rights were a fundamental democratic entitlement, a Member asked whether the same issues being raised repeatedly by the same individuals could be deemed vexatious? Officers confirmed that considerable internal resources had been focused on servicing inspection requests, and, with the respect to the objections, there appeared, to Council officers, to be a degree of repetition, which was another reason why it would be helpful to have BDO's work on the previous objections concluded, but ultimately it would be for the EY to make a decision on how the latest objections would be progressed, i.e. the approach to consideration of the objections, and this had not yet been determined. A Member noted that as part of the determination of previous objections, provisions had been invoked that required the complainant not to disclose certain information received, and it appeared that stipulation had been infringed. The External Auditor confirmed that such a provision had been included, and EY was considering its position;

- A Member noted the statement in the report that *"unreconciled debtor balance – the Council has been asked to provide further explanation and evidence of system balances, following progress with resolving a VAT debtor balance. Further evidence is being to support the Council's assessment".* He expressed concern about the "system balance<u>s</u>", and asked if there was a wider problem with unreconciled debtor balances, or was it just the VAT issue? Officers confirmed there had been progress with VAT reconciliations, but there were other debtor balances relating to an isolated historic issue stemming from a system migration. Officers briefly outlined the issues, and the Member suggested that the Committee may be interested in looking at this situation in further detail in future, Officers agreed to include a section on this in a future report. Action required;

- With regard to Property, Plant & Equipment assets, and in light of the national issue over Reinforced Autoclaved Aerated Concrete (RAAC), a Member asked how often the relevant policies were reviewed, especially on condition surveys. It was confirmed that the Accounting Policy was reviewed annually, and that officers liaised with valuers when working on the statement of accounts, identifying a sample of properties, which were valued against a range of factors including market position, occupation and condition surveys. It was confirmed that the Council had no schools or any other buildings with RAAC, but whenever such issues arose, officers would consider whether a further valuation was warranted. It was further noted that the componentisation of assets requirement required the Council to split out buildings and assets, where that component element became material, and that was kept under review;

- In response to a Member query, the Executive Director for Finance and Resources advised that he had appeared before the Department for Levelling-up Housing and Communities (DLUHC) Select Committee, and he updated Members on the outcomes from the subsequent consultations. The Council was pushing for a resolution on these matters, as external auditors were only currently completing work on Pension Fund audits due to the capacity within the sector and audit delays. The different options being considered by government including backstop dates for prior years and disclaimer opinions were outlined. The Executive Director for Finance and Resources advocated for the Value for Money opinion having a much higher profile than currently, and gave examples in relation to the Birmingham City Council issues. He also favoured moving away from the requirement to provide accounts by 31st May, as this was unachievable, and a backstop date for the completion of the audit would be more realistic. He concluded by saying a decision was required nationally on a system reset so that there was clarity moving forward. A Member agreed, and commented that auditors were being asked to audit enormous quantities of information which was of little use to users of the accounts. It was noted that HM Treasury, along with the FRC and CIPFA were looking at a number of factors such as valuations and levels of materiality, and if could determine some simplifications would enable capacity and reset within system. The External Auditor acknowledged the Executive Director's comments, the Minister's letter in July had set out two, mutually exclusive objectives. All audit firms had been engaged in dialogue over the summer with FRC and DLUHC. The urgency had been stressed, given the approaching deadlines for commencing audits. Until the guidance was received, external auditors were unable to plan effectively for either 2022-23 or 2023-24.

The Chair concluded that the Committee awaited guidance from government, as all relevant representations had been made. However, the Committee was concerned that the Council should have a set of accounts that have been appropriately assessed.

*(Cllr Sharp left the meeting)*

The Committee noted that there was a consultation running until 10/10/23 from PSAA on fees, based on an 150% uplift. There had been indications that additional funding may be made available from central government to support local authorities.

Members noted that there had been positive opening meetings with KPMG, who would be the Council's new auditor for 2023/24 onwards. KPMG were currently not a supplier in the Local Authority arena, so they did not have the backlog issues experienced by other firms. With caveats on uncertainty on exact timescales, the report set out different categories of enhancements which were being made to processes, and reviewed the points where there had been particular bottlenecks, which focused on fixed asset valuations.

The Chair advised that he had a number of mainly technical questions from Mr Hussain which he would share with officers for a response.

It was resolved unanimously to note the report and the appended progress report from the External Auditor.

## 141. Internal Audit Progress Report

The Committee received a progress report on Internal Audit, for the period to 31st August 2023.

Presenting the report, officers highlighted the following areas:

- the current resourcing issues, including attempts to recruit staff and the procurement of an external provider for internal audit professionals. The contract documentation for the latter should be finalised shortly, with work staring early in October;
- the audit plan for next four quarters. Following the significant refresh to the plan in July, there had only been minor updates to the audit plan;
- that there were currently 70 overdue actions for implementation, including one outstanding action related "Essential" relating to the Public Service Network certification;
- the administration of the Pension Fund Internal Audit had been received from West Northamptonshire Council with Substantial assurance, albeit compliance was based on a single walk through test;
- with regard to the ERP/IT controls, a Good opinion had been given;
- a final Payroll report had been received from WNC, but again, the review was based on single walk through testing. More detail on the Payroll report would be presented to the next meeting.

Discussions were being concluded on the allocation of key financial systems audits for next year among the Lead Authorities. The current proposal was that Cambridgeshire would undertake the Payroll and Pensions audits, North Northamptonshire Council would cover Accounts Payable, and West Northamptonshire Council would cover Income and Debt audits. This Plan would be confirmed by the Lead Authority Board in October. The Chair noted the issues around performance of the West Northamptonshire Council Internal Audit team, in terms of delays and lack of detail in the audit report. Officers outlined the challenges that team was facing.

In terms of delivering audit programme detailed in the report, the Head of Internal Audit and Risk Management was reasonably optimistic, given the support that would be afforded by the external provider. In addition, there were interviews shortly for some principal and senior auditor roles.

The implementation of actions continued to be challenging, especially given the volume of actions, and following up those actions was time consuming for the Internal Audit team. It was confirmed that the implementation of outstanding audit actions was regularly considered at both the Corporate Leadership Team and the Statutory Officers meetings. It was also noted that the largest proportion of outstanding recommendations was in Finance and Resources teams, and the Executive Director of Finance and Resources was tasked with overseeing the clearance of this backlog. The Executive Director remarked that some of the deadlines set previously had been ambitious, and these were being reviewed.

A Member noted that three of the five high level recommendations were for the Public Health service. Officers confirmed that two of those Public Health recommendations specifically related to open book accounting: the Service recognised that it did not currently have the expertise within their team to conduct open book accounting, and this was being addressed, and appropriate support was being secured. The Member expressed concern given the fundamental nature of open book accounting, but was reassured by the measures being undertaken at a senior level to address this lack of capability.

It was resolved unanimously that the comments recorded be adopted on the proposed revised Internal Audit Plan for 2023/24, outlined at Section 6 of the report.

## 142. Annual Report of the Audit and Accounts Committee

The Committee considered the draft Audit and Accounts Committee Annual Report for 2022-23, which summarised the Committee’s annual work programme. The Annual Report would be presented to the December meeting of full Council by the Chair. It gave assurances to full Council and stakeholders that the Committee had fulfilled its responsibilities, set out in paragraph 2.6 of the covering report.

Councillor Boden requested that an additional paragraph be included at 2.4 of the report, stating *“The Committee and its Members conducted the business of the Committee throughout the year in a non-party political manner.”* He felt it was important to recognise this, as it was not the case for all Audit and Accounts Committees, and all Members were working non-politically in the interests of the Council. Members agreed unanimously to include this additional paragraph.

The Chair noted a comment in the External Auditor's progress report that *"We have identified that a number of the matters disclosed under the 'significant governance issues' section (Section 3.2) do not reflect significant governance issues and therefore should be included separately within this Statement, if referred to at all"*. Officers confirmed that the Annual Governance Statement was normally finalised alongside the accounts, and until that point this was technically an active document. The detail that the External Auditor referred to had not yet been communicated to officers.

The Executive Director for Finance and Resources commented that the Annual Governance Statement was one of the Council's most important documents, and it was important that a true and honest Annual Governance Statement was presented to Committee. He highlighted the difficulties experienced by those local authorities which did not prioritise governance and challenging the way decisions were made.

There was a discussion on the wording of the Head of Internal Audit's annual opinion report, and it was noted that wording should not be changed at this stage. However, further context could be provided in the Annual Report. The Chair advised that his presentation to full Council would look forward as well as retrospectively, and would pick up on the recent co-option and the employment of external resources, and any additional pertinent facts which emerged before the Council meeting.

It was resolved unanimously to adopt the proposed amended annual report to Full Council and subsequently to agree any changes required.

## 143. Committee Agenda Plan and Training

The Committee considered the Committee Agenda Plan. The following points were noted:

- It was still uncertain whether the Statement of Accounts would be available for the December meeting;
- The Committee would be updated as soon as any information was available from DHLUC;
- FACT update – Committee and Agenda Plan to be updated.

It was resolved to note the Agenda Plan.