# Audit and Accounts Committee Minutes

Date: 28th July 2023

Time: 2.00pm – 3.37pm

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, Emma Duncan (virtual), Michael Hudson and Stephen Moir;
Stephen Howarth, Tom Kelly and Michelle Parker (relevant agenda items only)

## 129. Apologies for Absence and Declarations of Interest

Apologies were received from Councillor McGuire.

There were no declarations of interest.

## 130. Public Minutes of the Committee meeting held 26th May 2023 and Action Log

It was resolved unanimously to approve the public minutes of the Committee meeting held 26th May 2023, with the following amendment to minute 120: *"It was resolved unanimously ~~to consider if~~ that the draft Annual Governance Statement at Appendix A was consistent with ~~it's~~ the Committee's own perspective on internal control within the Council and the definition of significant governance and control issues given in paragraph 2.3."*

Arising from the Action Log, officers confirmed that they were in regular contact with BDO, who advised that they had submitted the draft determinations to the PSAA in relation to the two objections. The latest update suggested that BDO expected to be in a position where objections would be determined in August, and it was understood that the objector had similarly been updated. The Chief Executive commented that the Council's patience had been exhausted for a considerable time on this issue, and displeasure had been expressed both formally and informally. However, it did feel as if progress was being made, given that PSAA had received BDO's submission.

There had been a number of updates following the agenda publication, which would be circulated to the Committee.

The Action Log was noted.

## 131. Petitions and Public Questions

There were no petitions or public questions.

## 132. Co-option of an Independent Non-Voting Member of the Audit and Accounts Committee

The Committee considered a report on the proposed appointment of an independent non-voting member of the Audit and Accounts Committee.

At the Audit and Accounts Committee meeting in July 2022, Members agreed to seek up to two apolitical, non-voting members. A total of eight applications had been received, of which four were shortlisted. The shortlisted candidates had been interviewed by Councillors Wilson, Gay and Boden, and that panel recommended the appointment of Mohammed Hussain.

The Chair passed on his thanks to Councillors Gay and Boden for their involvement in the interview panel. All four candidates had been impressive in different ways, but the panel unanimously felt that Mr Hussain would provide the best input to the Committee. Mr Hussain was a qualified accountant who currently works for Nationwide.

It was resolved unanimously to accept the recommendation of the interviewing panel and approve the co-option of Mohammed Hussain as an independent non-voting Member of the Audit & Accounts Committee.

## 133. Draft Cambridgeshire County Council Statement of Accounts 2022-23

The draft Cambridgeshire County Council elements of the Council's Statement of Accounts for the year ending 31st March 2023 were presented for the Committee to review and scrutinise prior to external audit. The statutory statement of accounts was required by, and prepared under, the CIPFA Code of Practice 2022-23. The draft accounts and Annual Governance Statement had also been published on the County Council's website when the agenda had been published, as required under the regulations, and this included the Group and Pension Fund accounts. The statutory thirty-day public inspection period had also commenced on that date. The requirement was for the draft version of the Accounts to be formally published by 31st May, but this had not been feasible, as was the case for the majority of Councils nationally.

The comprehensive Income and Expenditure statement showed a relatively healthy position for the Council, albeit that total income being distorted by the inclusion of Pension Fund liability. The Pension Fund liability was recalculated triennially by the Fund's actuary, but also recalculated annually to reflect market fluctuations. It was noted that the Pension Fund position was largely theoretical in terms of the Council's available resources. The Council's current assets and non-current assets had seen an increase in value, with a corresponding increase in usable and non-usable reserves.

The Regulations required the accounts to be audited and fully signed off by 30 September 2023, but this would not be feasible. The national context in terms of local government audits was set out in the report, and officers provided further information about the work by government and the relevant bodies nationally to explore how current local authority audit delays could be resolved, and also the issues around Pensions and Infrastructure valuations. The point had already been made to the Department for Levelling Up, Housing and Communities (DLUHC) that in terms of next year's (2023-24) closedown of accounts, the audit of the 2022-23 would still be taking place. Additionally, the Council would be changing its Auditor, and there would also be significant Code changes, which were likely to be issued between December 2023 and March 2024, making this an incredibly complex process. The Committee would be kept updated on how the team was preparing for early closedown next year, whilst officers continued to lobby for a reasonable and pragmatic closedown date, so that the Council was not technically late with its submission. It was envisaged that the accounts for 2022-23 would be closed, along with the outstanding audits for previous years, before any such changes might be introduced, and officers would continue to work with external auditors on that basis.

Arising from the report:

- a Member asked if there were any material cost overruns to any of the projects that were reported in the accounts presented. Officers advised that all budget monitoring was taken through the Strategy and Resources Committee, and they were not aware of any such cost overruns;

- a Member expressed concern about the CIPFA LASAAC Code and national regulation change process, and the way in which this would be controlled. Officers commented that whilst there were always significant risks in terms of closedowns, and there were a number of issues which could be reviewed e.g. the timing and quality of property valuations and other improvements. It was agreed that regular reports would be provided to the Committee on these issues from September onwards;

- in response to a Member question to the External Auditor on key areas of focus for a reader of the accounts, the External Auditor commented that Pensions and Capital expenditure were always areas of interest, and this linked in with the valuations issue. Additionally, officer remuneration and Member expenses were often subject to scrutiny. It was noted that the Chair of the Pension Fund Committee, Councillor Whelan, had confirmed that she was comfortable with the Pension Fund issues. With regard to Members' remuneration, costs had increased year on year, reflecting changes to the Committee system. On the Capital side some issues were more relevant to management accounts e.g. the 18% capital underspend at year end, which mainly related to schools and energy generation schemes. Officers explained that the narrative report attempted to bridge the gap between the management accounts, which were reviewed throughout the year by the Strategy and Resources Committee, and the financial statements. The Capital programme fed through to the financial statements in the valuations. Similarly it was noted that project underspends were a management accounting issue overseen by the Strategy and Resources Committee. A Member observed that capital underspends needed to be considered in the round, as a significant factor was the impossibility of accurately predicting government grants and interventions in terms of funding and income for capital projects;

- in response to a query on the disposal of old Shire Hall and the operation of New Shire Hall, it was noted that there was no further information to report at this point. However, the old Shire Hall project was at a sensitive and commercially confidential stage, but there could be implications in future e.g. as post balance sheet events;

- noting the core sources of funding identified in the narrative report, which included Council Tax, Business Rates and unringfenced grants, a Member asked about other income e.g. rents from County Farms? Officers explained that the diagram referred to only showed core funding, and services such as County Farms would have their own income and expenditure budget, with an associated net budget contribution or cost;

- noting the reference to an additional £150,000 for the external audit, a Member asked if this primarily related to the objections to accounts, and the significant amount of additional work required by EY resulting from those objections. He also asked if those costs were irrecoverable, commenting that if that was the case, this was not a particularly good use of Council Tax payers' money. Officers advised that the additional fee related to the core underlying PSAA fee for the audit, plus supplementary fees to reflect increased costs for other work the auditor had undertaken, which included responding to objections. Under the relevant regulations, it was confirmed that the Council met those costs;

- a Member reminded the Committee that last year he had asked if the narrative statement could be reduced from over 30 pages to 12 pages, if possible. He noted that the narrative statement for the 2022-23 accounts was significantly shorter, and he thanked officers for their work in reducing the narrative report to an appropriate length, and hoped that this would continue in future years;

- it was confirmed that until the 2022-23 external audit commenced, officers did not anticipate making significant adjustments to the accounts, and the final set would be brought back to Committee. The External Auditor advised that the timescale for the External Audit was still to be determined, but no work would be started before November, including the External Audit Plan. The Executive Director of Finance and Resources commented that the external audit issue needed to be resolved nationally and quickly, not least so that the Council could plan for its workforce: finance staff were often constrained in terms of booking leave, and needed to recall historic issues when responding to queries as part of the external audit. In addition to the potential reputational issues, the delay in the external audit had an impact on the workforce, and greater certainty was required going forward by the relevant agencies. He added that a significant amount of prior year audit work had been completed, and there was nothing in the national debate that prevented our previous and ongoing audits being signed off quickly, enabling the 2022-23 audit to commence. There was also the broader issues of resourcing by audit firms, with NHS audits being prioritised over local authorities;

- a Member commented that from her professional experience, the pressure placed on finance staff was quite intense, as staff had their regular workload in addition to their duties related to preparing the accounts. When there was a big gap between the year end and the actual audit, this put extreme pressure on the workforce. The audit sector was undergoing considerable change, and she asked if there was anything the Committee could do to further influence the national debate? The Executive Director of Finance and Resources suggested that this could be picked up through the East of England Audit Committee Group, which the Chair was a member of, as other authorities were in a similar, if not more difficult, position. The Chair agreed to do this. Action required;

- the Chief Executive reflected the comments from the Executive Director of Finance and Resources and the Member, and commented that as the Head of Paid Service, he had a duty of care towards the finance officers and other staff supporting these processes, and agreed with the points raised about the pressures that those exceptionally busy staff were under as a result of these delays, when they should be taking a well-earned break. He advised that the Association of County Council Chief Executives had also expressed collective concerns, but ultimately this was the responsibility of the government and the other bodies alluded to, to achieve a resolution on this issue, whilst the Committee and senior officers focussed on what was right for Cambridgeshire, the accounts, stewardship of public money, and staff.

The Chair thanked all officers involved for their hard work.

It was resolved unanimously to note and comment on the draft of the Council's Statement of Accounts 2022-23.

## 134. Annual Risk Management Report

The Committee considered the Annual Risk Management Report, which summarised the risk management activity undertaken in 2022-23. Members were asked to consider the effectiveness and adequacy of risk management arrangements. The report had already been considered by the Strategy and Resources Committee.

The Annual Risk Management Report summarised activity for 2022-23, highlighting key changes to the Risk Register, and outlining the introduction of new regular Corporate Leadership Team (CLT) risk assurance meetings, and a new system of risk assurance reviews. The report also detailed the assessment of the Council's risk maturity, which aimed to identify any gaps in current arrangements as well as helping plan and prioritise actions to further enhance and embed effective risk management. Attention was drawn to the action plan appended to the report as a Risk Strategy, which would be reported back to CLT and the Committee at regular intervals. The current Corporate Risk Register and an updated Risk Management policy were also presented for Members' consideration.

The Chief Executive summarised the deep dive that CLT had undertaken in to Risk 2 of the Corporate Risk Register, which related to *the risk of failure of the Council's arrangements to safeguard children and young people*. Since the Corporate Risk Register had last been reviewed in detail, a new Executive Director for Children, Education and Families was now in place, who had undertaken a full review of arrangements and concluded that the evidence suggested the County Council was performing more strongly than had previously been concluded, following the separation of services from Peterborough City Council, which was almost complete. A fuller and more rigorous update would be provided on these issues when the Committee next considered the Corporate Risk Register.

A Member commented that in last 18 months there had been a real improvement in risk management by the Council, which was reflected in the reports presented to Strategy and Resources Committee. However, he noted that of the twelve indicators in Annex A, there was only one where there was any likelihood of a reduction of the level of risk the Council was facing, with all the other risks staying the same or worsening, which was concerning. Additionally he raised a number of specific points within the Audit and Accounts Committee's remit:

- the risk matrices in Appendix A, which indicated the current and likely future level of risk, lacked granularity;

- the potential value of using a non-linear scoring system for consequences, which would give greater weight to probability and RAG ratings.

Officers advised they had committed to reviewing scoring at the upcoming CLT risk and assurance meeting, and would consider how a non-linear system might change CLT's view of risks. They agreed to report back to Committee on the outcome of those CLT discussions.

The Chair noted that the table of maturity of current risk management arrangements identified that 38% of areas were at the 'risk defined' level, which seemed quite high. Officers advised that the risk areas outlined in Annex D were not linked to individual risks on the Corporate Risk Register, but specific aspects of risk management. This Risk Maturity assessment was helpful in developing the strategy and risk enabled process. An internal audit of risk management would be taking place later in the financial year, and after that the Risk Maturity assessment would be repeated, so that changes could be demonstrated.

It was resolved unanimously to:

1. note and comment on the Annual Risk Management Report (Appendix 1) and Corporate Risk Register (Annex A); and the updated Risk Management Policy (Annex B), and Risk Strategy (Annex C);

2. in line with its terms of reference, confirm that the Committee is satisfied with the effectiveness of arrangements for risk management.

## 135. Internal Audit Progress Report

The Committee received a progress report on Internal Audit, for the period to 30th June 2023.

Presenting the report, officers highlighted the following areas:

- those reports with limited assurance, specifically VAT, Purchase Cards and the Local Government Transparency Code;

- significant revisions to the Internal Audit Plan due to resourcing issues. The Audit Plan still provided sufficient coverage, but there was a significant reduction in the number of audit days in both the Core and Flexible plans. These proposals had been considered by both CLT and the Statutory Officer Group, and every effort had been made to maintain a balanced coverage across the Council. Some external resource would also be procured to support the delivery of the Plan in 2023-24, with the objective of being fully resourced in-house by 2024-25. It was noted that the Statutory Officers Group regularly reviewed the Internal Audit Plan, and was content that the risk was balanced, but this would be kept under review;

- progress with the implementation of agreed audit actions. There were two outstanding actions rated "Essential". One related to the PSN certification, which Members had previously considered, and one related to the removal of IT access from officers, interims and contractors out of hours. The IT and Digital Service had indicated that they needed a short extension in order to comply;

- since the report had been published, the Pensions audit from the West Northamptonshire Council (WNC) Internal Audit team had been received, which gave a double "Substantial" opinion. The Payroll audit, also undertaken by the WNC team, was still awaited. There was a discussion on the measures being taken to address this issue going forward, with the key financial audits being shared between the four lead authority partners, resulting in a better rotation of audits as well as reducing the workload.

A Member expressed concern about difficulties with Payroll since the dissolution of LGSS. Whilst he was pleased to note that the proposals for the Payroll internal audit going forward, he asked officers if they were satisfied that the right arrangements were in place for Payroll through the Lead Authority arrangements, in terms of provision of the service itself. The Chief Executive advised that he was aware of operational questions and feedback received about the performance of the Payroll service. The governance had been improved, including strengthened Key Performance Indicator (KPI) reporting. The Payroll service had historically been run in-house by the County Council, and at that time was a successful income generating service had been considered to be one of the highest performing Payroll services in the country. The lateness of the production of the Internal Audit report added to his level of disquiet with the current arrangements. He advised that he was in dialogue with the WNC Chief Executive on a number of shared service issues.

A Member asked what the likely volume of VAT reclaimed would be, what the time limit was for that reclamation, and whether this was limited by statutory limitations or available information. Officers agreed to circulate this information to Committee. Action required.

A Member asked if there was a link between the Internal Audit Plan and risk matrices, and if this could be made explicit. It was confirmed that the Internal Audit team had its own risk matrices system for the purposes of ranking audits, and these were linked to the Corporate Risk Register, usually on an annual basis. More detail on this would be brought back to Committee.

At the invitation of the Chair, the External Auditor commented that whilst it was not his place to comment on the appropriateness of the Internal Plan programme, he flet that the link to the risk matrix was critical, and he was comforted that key financial systems remained part of the plan. In response to a Member question, the External Auditor confirmed that he would be concerned if there was no Internal Audit function at all, as this was a key function and a requirement under the CIPFA Code. However, External Auditors were not permitted to rely on Internal Audit, and could therefore not dictate the content of the Internal Audit Plan.

Noting that the development of the Insurance Strategy was deferred until the end of the year, a Member asked about insurance and risk management, specifically whether there were significant areas of insurance that were not covered, including those areas that were uninsurable, and areas where the Council self-insures. Officers explained that there were policies and procedures in place within the Insurance team, and that the strategy recommended by Internal Audit related to ensuring that a structure approach to service goals and objectives was put in place. The way in which the Council insures was briefly outlined, and the Executive Director of Finance and Resources praised the work of Mark Greenall, the Head of Insurance, and his team, who worked exceptionally hard. There had been an insurance retendering process over the last 18 months, and adequacy of coverage was one area that had been reviewed.

in response to a Member question, officers confirmed there was a recommendation due on This Land (31/08/23), which was detailed in Annex B to the report. The intention was to wait for that recommendation to be implemented, before auditing again. The Executive Director of Finance and Resources advised that the actions set out in the report relating to governance were being led by the Service Director: Legal and Governance, and that he would also be undertaking part of the review. The Service Director for Legal and Governance advised that she was assessing the This Land governance arrangements against the partnerships framework in conjunction with the Service Director: Finance and Procurement and the Head of Diligence and Best Value, and a report would be presented to the Assets and Procurement Committee in due course. Work on the This Land governance was also being picked up through the Statutory Officers' Group.

A Member commented that the reduction of 19% of days concerned her. Whilst appreciating that the marketplace was difficult, it was vital that measures were taken to ensure the right people were recruited. She asked if any alternative action were being considered to address the shortfall and deliver the service? The Chief Executive responded that one option being explored was a co-source arrangement with specialist external capacity. Co-sourcing was a helpful measure to have in place, but he acknowledged that this did not guarantee additional resources would be secured. Secondments from external audit firms were being considered, and recruitment and retention arrangements were being reviewed. Longer term, the team was committed to continuing to "grow its own", having had a great deal of success with graduate trainees in the past. However, graduate trainees were a long term solution, as they would not have the requisite level of expertise initially.

The Head of Internal Audit and Risk Management reassured the Committee that the Internal Audit Plan had been cut to a point where there would still be sufficient assurance for the annual internal audit opinion, and improvements in resourcing were likely by the next financial year. The Member was pleased to note the focus on officer resources rather than a reliance on technology and was reassured by the references to the team "growing its own", and she suggested liaising directly with universities regarding graduates.

The Chair concluded that the Committee still had some concerns about the reductions to the Internal Audit Plan, but was reassured that management were doing everything they could to ensure the team was fully resourced by next year.

It was resolved unanimously to review and comment on the proposed revised Internal Audit Plan for 2023/24, outlined at Section 6 of the report.

## 136. Committee Agenda Plan

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

- the External Audit Plan would not be available in time for the September meeting;

- Committee Members would be contacted via Democratic Services to identify a workshop date for the Review of Effectiveness;

- the date of the February 2024 meeting had changed to 6th February at 2pm;

- implications of any CIPFA LAASAC Code Changes would be a regular report at future meetings, from September onwards.

It was resolved unanimously to note the Agenda Plan.