Agenda Item: 3

AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: 27th March 2018

Time: 2.00 – 5.05 p.m.

Place: KV Room, Shire Hall, Cambridge

Present: Councillors: S Crawford, P Hudson, M McGuire, M Shellens, (Chairman) T Rogers (Vice Chairman), D Wells and J Williams

Apologies: none

Action

68. DECLARATIONS OF INTEREST - none

69. MINUTES OF THE MEETING HELD ON 23RD JANUARY 2018

The minutes of the meeting held on 23RD January 2018 were confirmed as a correct record and were signed by the Chairman.

Matters raised / clarifications requested;

Minute 61 Minute Action Log

a) Cambridgeshire Music Service (page 6 of the agenda papers)

With reference to the Recruitment problems and the update solution provided as set out in the minutes, the Chairman requested that an update progress report to monitor effectiveness be provided to the Committee in the autumn. **Action**

R Sanderson to schedule

b) Audit and Accounts Training Plan – Internal Audit Seminar on providing a case study of a non-contentious Project – (Page 7 of the agenda papers)

This was still to be re-arranged but was likely to be after the summer due to the number of reports scheduled to come forward to the next few meetings. **Action required**

M Kelly / R Sanderson to identify potential date

c) Minute 62 – Closedown Progress Report (page 9)

i) First paragraph at the top of the page stating that a definitive list of the prior period adjustments for the Draft Accounts would be brought to the current meeting. It was clarified that the list was not included in the report later

on the agenda as it had been established that significant estimates would not be required.

ii) Page 9 Budget Holder guidance – It was confirmed that this had been circulated to budget managers in February.

iii) Cambridgeshire Housing and Investment Company (CHIC) - it was confirmed that agreement had been reached that the accounting treatment would be via the creation of separate group accounts.

d) Minute 63. Integrated Resources and Performance report for the period ending 30th November 2017

Page 12 reference to the Levels of Outstanding Debt owed - the most recent report included later on the agenda had been received at General Purposes Committee that morning where this Committee's Chairman's concern on the increased level of unrecovered debt had been echoed by General Purposes Committee. (It had risen from £3m for debt outstanding at 90 days in the previous year to an increased figure of £4.6m at the end of February). This was despite the mitigation measures put in place. It was explained that this was partly the result of staffing challenges at a time when a greater amount of debt was being pursued.

e) Minute 65 Internal Audit Progress Report page 66 - Risk Management Health Check Report. The Chairman wished to be sent the final report when available.

D Wilkinson/ M Kelly to provide Chairman with copy

70. AUDIT AND ACCOUNTS MINUTE ACTION LOG FOR MARCH 2018 COMMITTEE MEETING

Reference was made to two updates provided to the Chairman via separate e-mails. These related to:

Page 18 Item 3 Minute 261 Council Workforce Strategy. A report is to be presented to the May General Purposes Committee and July full Council meeting.

Page 23 Item 10 C) Integrated Resources and Performance Report - Level of Debt Outstanding owed to Council

An e-mail briefing and the original report to General Purposes Committee was sent to the Committee on 26th March. The briefing set out the current level of debt as referred to earlier in the meeting and provided the September 2017 General Purposes Committee Report as background context. The briefing included in that e-mail is included **as Appendix 1 to these minutes** and therefore the

action was completed, with the next update report to be received at the May Committee.

The Minute Action Log was noted.

71. SAFER RECRUITMENT IN SCHOOLS UPDATE

This report updated the Committee regarding monitoring of the leadership of Safeguarding, including safer recruitment in maintained schools.

With reference to education advisor safeguarding reviews, at the time of preparing the report five schools had required a full review scheduled for completion by the end of April. An oral update indicated that four had now been carried out and were 100% compliant.

Key issues highlighted in the report and presentation included:

- No major safeguarding issues had emerged from the reviews, but in one case a return visit had been planned to ensure that recommendations had been followed up. This was an improved position since the last report.

- The School Intervention Service had been using a new more detailed review tool to ensure that safeguarding in schools, including safer recruitment, was effective.

- In the current academic year 46 maintained schools had been inspected by the Office for Standards in Education, Children's Services and Skills **(**OFSTED) with 100% having been judged as effective for safeguarding. This was the best position Cambridgeshire had been in and reflected the continuing proactive work undertaken. The Senior Education Advisor and his team were congratulated for this excellent performance.

- Highlighting that schools reported regularly on any complaints received. None of the safeguarding complaints received during the term were in respect of safer recruitment issues, but related to minor physical non sexual interventions.

- The report provided details on the Leadership of Safeguarding training programme. 500 individuals had now undertaken the training. A gap analysis was being undertaken to establish those schools which had not undertaken the training. The aim was to reach a 100% take-up target.

- The Education Adviser Team has been asked to provide safeguarding reviews and training for a large local Multi Academy Trust which operates over thirty schools. This was being delivered on a traded basis. This is an area being further

pursued as an income generating opportunity due to the excellent reputation of the team. In addition, the in-house service was very competitive as they charged rates half or less than other outside providers.

- Bespoke training on the Leadership of Safeguarding was also being provided on request to governing bodies with details set out in the report.

- It was highlighted that Schools could access nationally accredited safer recruitment training provided by Cambridgeshire Governor Services with details of take up set out in the report.

It was resolved:

To note the report.

72. DEMOGRAPHY AND DEMAND PLANNING PRESENTATION – BUDGETING FOR LOOKED AFTER CHILDREN (LAC)

This presentation had been requested at the last meeting to provide details of the budget setting process following concerns at the continued over-spend in particular areas of children's budgets in recent years. (The presentation is included as **Appendix 2 to these minutes).**

Questions and issues raised / explained included:

- Slide titled 'Demography and demand requirements funded in the Business Plan 2018-23 - In reply to a question there were no standard cost drivers to the different services listed, as they varied depending on the particular service.

- The Chairman suggested that if a large care provider went into administration he would expect there to be cost inflation as new providers would have to come in and take over the service and could dictate a higher charge for providing a similar service.

- Future year budget estimates were calculated on factors such as in-year adjustments made resulting from different trends, adding inflation, demography and demand requirements, and for Looked after Children (LAC), including reductions in placements made out of county. The detail being set out in the presentation slides.

- The trend for the County for LAC was that they were significantly more than those of our statistical neighbours with a particular spike compared with the background

population in 2015 as set out in the top chart on slide 9. The right hand chart showed a continued upward trend between March 2016 - March 2018, which was also reflected in Councils across the Country. The total number of LAC had peaked in Cambridgeshire in December at 703, but had currently plateaued at a lower figure as detailed in the information provided on slide 11. However the full year impact of the upward trend was leading to a significant increase in cost.

- To illustrate the unit costs involved, one of the cases included costs of £2800 a week and another £4,000 per week while one particular high cost residential placement involved costs of £16,000 per week due to the high level staffing costs associated with complex cases involving 1 to 1 staffing ratio required 24 hours a day. Children requiring secure accommodation due to their behaviour challenges often could be estimated to cost at least £9,000 per week. The costs fluctuated on a day to day basis depending on the care needed and, if people exited or joined the system. It illustrated that additional children requiring to be placed into care if assessed as being at risk (and for which Councils were statutorily required to look after) could increase the overall costs to the budget to a significant extent with the Council required to cover the costs.

- Slides 17 to 18 set out the detail of the actions to be taken to address numbers and reduce costs, (the latter being through reducing the use of agency fostering placements and the unit cost of high cost placements). **Action: The Chairman asked a report summarising the proposals scheduled for the Children and Young People's Committee in May should also be circulated to the Audit and Accounts Committee and a short update report provided on the outcomes be submitted to the June Committee for information.**

Lou Williams / Rob Sanderson

- One Member questioned whether there was a case for not closing down children's centres as a factor in reducing the number of LAC. It was indicated that it was not the site of children's centres, many of which were in buildings unfit for purpose, which was important, but rather through specific early help targeting which would be facilitated by the proposed opening of outreach centres.

- One Member asked whether to increase the attractiveness of people volunteering to be foster carers consideration should be given to increasing the allowance paid. In response this was not a key factor as Councils did not pay less than agencies.

- In reply to a query on the reasons for Cambridgeshire being higher than the national average it was explained that this was partly due to the way the services had been configured which had resulted in children at risk being a lower priority and over optimism on how long they could stay in the family environment.

As a summary and as set out on the last slide, LAC was one of the most difficult budgets to manage, being a high risk volatile budget as the day to day potential demand could not be accurately forecast on an individual case level. Currently the number of children in care had stopped rising and the pressures were being managed with the aim to keep costs within the full year funding envelope. The complexity of the dynamics of change however meant that bringing population and placement mix in line might continue to take some time. This also highlighted why this budget was overspent to a higher degree than some other budgets in the Finance and Performance Report included later in in the agenda.

Having congratulated the officers' on an excellent presentation which helped Members understanding of the complexities involved it was agreed as an **Action, that the presentation should be added as an item to a future monthly Member seminar.**

Rob Sanderson/ Dawn Cave/ Lou Williams

73. BDO EXTERNAL AUDIT PLAN FOR YEAR ENDED 31ST MARCH 2018

This report provided details of BDO's 2017-18 External Audit Plan and the identified audit risks relevant to the financial statements and use of resources of Cambridgeshire County Council for the year ended 31st March 2018 and their responses to the risks.

For the financial statements audit, BDO were required to consider significant audit risks that required special attention. For the use of resources audit, the National Audit Office (NAO) had defined the sub-criteria to be considered as part of the risk assessment process in respect of informed decision making; sustainable resource deployment and working with partners and other third parties.

Planning Materiality for the Council had been initially based on 1.75% of prior year gross expenditure (£16,300,000) with the clearly trivial threshold based on 2% of the materiality level at £326,000. These would be revisited when the draft financial statements had been received for audit.

The significant risks identified under financial statements were included under the following headings:

- **Management Override**
- **Revenue recognition**
- **Property, Plant and Equipment evaluation**
- **Related party transactions**
- **Pension liability assumptions** - In reply to a question as to the degree of detail the audit would look at, this would be from information provided by the Council, from discussions with Pensions officers and reviewing the data given to the Actuary and the latter's own reviews.
- **Cash flow statement** - This had been highlighted as some errors had been identified in the previous Audit. Martin Savage from the Close-down Team highlighted that a new member of staff was looking at this statement to ensure its accuracy.

Normal risks included under financial statements were set out under the following headings with particular issues highlighted as shown in the additional text:

- **Senior officer remuneration** – this was identified as an important area to ensure accuracy due to the public interest.
- **Changes in presentation of the Comprehensive Income and Expenditure Statement**
- **Treatment of Revenue Expenditure funded from Capital under statute (REFCUS)** - last year errors had been identified in the Audit and therefore this was to check that going forward the transactions had been completed.
- **Intragroup Transactions** – the same issue as above.
- **City Deal accounting** – this had been a significant piece of audit work last year and External Audit were checking that no changes had been made to the main grant and that its accounting was consistent with the previous year.
- **Provisions and contingent liabilities associated with the guided busway** – its disclosure in the accounts was not significant but needed to be accurately recorded.
- **This Land Group** (formerly Cambridgeshire Housing Investment Company CHIC) – the numbers being transferred were material in relation to the value of the land. The financial statements and group accounts would be reviewed to ensure they were consistent with the requirements of the Code.
- **De-recognition of replaced infrastructure assets –** This would be a re-run of the issues around 'Assets under Construction' that would not be the case as that had been a particular accounting issue.

On the use of resources risks the following headings were included as significant risk areas:

- **Sustainable resource deployment**
- **Informed decision making**

The Chairman indicated that he had spoken to the audit lead to review the use of the word “savings” in the above section.

In respect of fees, these were to be agreed with Management. There was an expectation that the Group Accounts would result in additional audit work, but the disclosures required for them would not amount to the same volume of information as the Council’s single entry accounts. The extent of the audit work required would not be known until they were received.

In response to a question on the engagement timetable, June and July were the main pinchpoints. The planning timetable with the Close-down Team had been designed to deliver as much of the accounts information at a much earlier point to take into account the reduced statutory timetable to review and agree the Accounts.

Other issues raised included:

- Asking whether the implementation of ERP Gold impacted on the audit. The response was that it would not, as the accounts for the year ended 31st March 2018 and ERP Gold was going live in April.

- On a question on how the Actuary’s competence was tested, this was from a review undertaken by PwC of all Actuaries.

It was resolved:

To note the 2017-18 External Audit Plan

74. BDO PENSION FUND PLANNING REPORT FOR THE YEAR ENDING MARCH 2018

This report provided details of BDO’s Planning Report for the year ended 31st March 2018, highlighting key issues relevant to the audit of the financial statements of Cambridgeshire County Council Pension Fund. The report invited the Committee to review and approve the Plan and to consider whether there were any additional risks that should be added. The introduction highlighted that the risk assessment was almost identical to those included in the previous year’s audit.

Planning Materiality for the Pension Fund financial statements had been initially based on 1% of net assets (£28,500,000). Specific materiality had been set at 5% of contributions receivable (£6,272,000) and for other fund balances at 7.5% of the total expenditure. (£9,297,000). The clearly trivial threshold was based

on 2% of the materiality level at £570,000 with the contribution level at £125,000 and the other funding account balances at £185,000.

The significant risks identified under financial statements were included under the following headings:

- Management Override
- Fair value of investments (unquoted investments-excluding Cambridge and Counties Bank)
- Pension liability.

Normal risks included under financial statements were set out under the following headings:

- Revenue Recognition (CCC contributions)
- Fair Value of investments (Cambridgeshire and Counties Bank)
- Consideration of related party transactions - key management personal disclosures

In respect of fees, these were to be agreed with Management.

It was highlighted that the gantt chart was very similar to that of the Council's, with the audit currently on-track, as a large amount of early testing had already been undertaken. The majority of investigations would be undertaken by the end of March. The second audit was to be undertaken later in the week with the final audit scheduled for 4th June. If there were a further revaluation in May, there would need to be a revision on the figures. It was clarified that the December valuation assumptions would be used and if material changes were identified from a later valuation, readjustments would be made. The current officer view was that they did not expect a material change in the period under review.

On a general question regarding the new access pooling operator and how the Pensions Committee could ensure that investments were safe, the expectation was that the operator would provide quarterly update reports to the Pensions Committee in the same way as the current investment managers.

A general question was raised by the Chairman regarding his safeguards if challenged if a Northamptonshire County Council (NCC), Tesco or a Robert Maxwell scenario happened after the main accounts had been approved and given a clean bill of health from Auditors. It was explained that the scenarios he cited were not the same. In the case of NCC, warnings had been provided regarding the use of resources in the two previous accounts audits which were ignored by the Administration at NCC. The current external audit reports highlighted the potential risk areas. In addition, Committee members, while not expected to be technical

experts, undertook an important role in governance and received early warning in the form of Audit Reviews provided in the Internal Audit Progress Report. Safe Recruitment was an area where the Committee had asked for more assurance and was reflected in the update reports provided, the latest having been considered earlier in the meeting. There was also the facility provided whereby the Chairman and Vice-Chairman met privately for briefings with both Internal and External Audit, as well as with Section 151 officer, on issues of concern.

The report was noted.

75. CLOSEDOWN PROGRESS REPORT

This report provided the Committee with an update on progress on Closedown and the progress on the production of both the Pension Fund and the County Council Accounts. It also sought approval of the Accounting Policies for 2017-18 as set out in the appendix to the report.

In respect of the Pension Fund, it was highlighted that BDO had commenced the interim audit on 15th January 2018. The auditors provided the following feedback on their first stage interim audit: "We updated our planning and completed our initial risk assessment as per plan and we do not have anything to report to the Committee……"'.

In terms of preparing the Pension Fund accounts, Officers had sent out Related Party questionnaires to collect information relevant to the necessary disclosures required. At the time of the report's preparation, work to finalise the template accounts was nearing completion, and confidence was expressed by the officers that the timetable would be achieved.

In terms of the County Council Accounts, and as follow up to the previous report, the following tasks were in progress or had been completed with the detail as set out in the report:

- Valuations
- Pensions
- Schools payroll.

One area identified as a potential risk to achieving the reduced timescales had been the lack of resilience due to the reliance in the previous audits on key individuals to meet the majority of key deadlines. As a result, a Closedown Accountant had been recruited to work primarily on the CCC statement of accounts and additional interim support was also being provided.

A number of accounting policy changes were required to be

included within the financial statement, as detailed in section 7 of the report. **Action: It was suggested that future policy changes should be highlighted in the revised accounting policy so that the Committee could clearly see where they were.** In reply it was explained that they related to the following, with page references to the agenda report provided as an oral update:

Jon Lee /Martin Savage

a. Capitalisation of Interest Costs (bottom page 86 and over on page 87)
b. Increasing the De-minimus from £1k - £4k (page 84)
c. Changing the approach on the accounting treatment for Infrastructure asset additions (bottom page 85 and over on top of page 86)

The Chairman asked officers to identify potential areas that could delay the accounts sign off, citing CHIC as one possible area. Regarding CHIC (now known as 'This Land'). It was explained that the agreed approach (Group Accounts) had now been shared with External Audit and was not expected to be an issue. The audit of Cashflow was also expected to be a lot smoother, due to the lessons learnt from the previous audit.

Issues raised by Members in the subsequent discussion included:

- The Vice Chairman seeking an explanation to the text on page 92 regarding Council Tax third bullet reading: "the movement in the impairment provision" It was explained that this was in relation to Council Tax receipts and the provision in the accounts to deal with lower than expected collection.

- There was a request to include a section on Business Rates **Action officers agreed to look into this**

Jon Lee / Martin Savage

- Seeking clarification regarding why all the Council Tax leaflets made reference to a 3% increase in Council Tax when it was 2.99%. It was explained that the districts who produced the leaflets rounded up to make it more understandable. The figures provided in the leaflet were accurate and reflected the 2.99% increase.

It was resolved

To note the report and to note the report and to approve the Accounting Policies to the County Council's Statement of Accounts for 2017-18, subject to the additional change suggested in the discussion.

76. INTEGRATED RESOURCES AND PERFORMANCE REPORT FOR THE PERIOD ENDING 31st JANUARY 2018

The Deputy Section 151 Officer highlighted that the current forecast was that the overall Council budget would be exceeded by just over £4m at year-end. However the February report would show a worsening budget position for Highways Maintenance due to the severe weather conditions requiring additional gritting and emergency repairs.

Issues raised / comments made on the report included:

- welcoming the additional information showing the direction of travel of performance indicators requested by the Committee at the January Committee meeting.

- That it would be useful to see more information on the Transformation Fund Programme. This had also been requested at the Chairman's briefing the previous week and as a result the Chairman had been sent an e-mail that morning from the Business Intelligence Manager providing a link to the regular report going to GPC from the Head of Transformation.

- Welcoming the reduction in days lost through sickness.

- Page 109 - Place and Economy Highway Other – with reference to the Waste budget it was suggested that it would have been useful to have included more details of the figures. In response it was agreed that this had been badly written but was provided in the detailed Place and Economy Finance and Performance report for which a link had been included at the end of the paragraph. **Action: The Deputy Section 151 Officer undertook to provide a more detailed explanation to both General Purposes Committee and this Committee.** **T Kelly**

- Page 110 the Public Health underspend, it was clarified that it was not ringfenced.

- Page 138 Risk Register - The Chairman highlighted that all the review dates had moved to April. It was explained that the next report would include a review of the risk register.

The report was noted

77. DRAFT INTERNAL AUDIT PLAN 2018-19

This report presented the draft 2018-19 Internal Audit Plan attached as Appendix 1 for comment and approval. Internal Audit

coverage was planned so that the focus was on those areas and risks which would most impact the Council's ability to achieve its objectives.

Issues raised included:

- The Chairman, highlighting that there had been a capacity increase from 1550 to 1552 days, asked how sickness and people leaving the service would impact on the proposed Plan. In reply it was indicated that a limited level of sickness had been allowed for in the targets. 5.91 days was the service standard, with a 90% productivity target to deliver audit to the client. It was recognised if vacancies were held for a longer period, this would have an impact, but the Head of Internal Audit highlighted the flexibility of LGSS shared services to reallocate resources.

- In discussion an example was given of the cost of cutting down trees delaying a project, as the estimate required a full tendering exercise to be undertaken which had also subsequently increased the overall cost. There was a request that Internal Audit should review the current contract thresholds as it was suggested some uplift was required. The Internal Audit Risk Manager explained this would be covered under audits already included in the Audit Plan and that compliance testing would highlight some of the issues referred to. **Action: Internal Audit look at lower contract thresholds for reassurance (to ensure greater value for money was being achieved) and also to look at the administrative cost of procurement compliance.** **D Wilkinson / Mairead Kelly**

- Related to the above, reference was made to the overspend on Ely Bypass and whether Internal Audit should look at the procurement process undertaken. The Internal Audit Risk Manager indicated that they were looking at capital projects overspends and significant variations, with Ely Bypass being one of the contracts that would be looked at.

- A question was raised regarding at what stage was it appropriate to review the LGSS business partnership arrangements. In reply it was explained that Sarah Homer the new acting LGSS Chief Executive, had been brought in to review the LGSS model and how it was delivering to partners. The review had an end of May target date. It was confirmed it would include LGSS Law. The Chief Internal Auditor highlighted that the LGSS Joint Committee was the appropriate committee to receive the report. If Members of the Committee had questions, they should direct them through Chief Executive Gillian Beasley, as she was scoping the review.

- The Vice Chairman raised the issue of the effectiveness of scrutiny arrangements. It was explained that formal scrutiny was part of the Cabinet and Scrutiny Model previously operated by the Council before moving back to a Committee system. The Committee system with all party representation was effectively the scrutiny mechanism. It was suggested that this was a discussion to be pursued with his party colleagues and others outside of the meeting.

Having commented on the report,

It was resolved:

To approve the proposed 2018-19 Audit Plan

78. INTERNAL AUDIT PROGRESS REPORT TO 28th FEBRUARY 2018 2017

This report provided an update on the main areas of audit coverage and the key control issues arising for the period 1st January 2018 to 28th February 2018.

Paragraph 1.1 to the main report appendix listed the audit assignments which had reached completion since the previous Committee report. There were no audits completed with only a satisfactory or less assurance rating. Table 2 set out the audit assignments which had reached draft report stage. Further information on work planned and in progress was set out in the Audit Plan attached as Appendix A.

Section 2 - 'Fraud and corruption update' – included:

- Reference to 51 cases suspected theft, fraud, or misuse of funds being referred to Audit as at the end of February 2018,
- The Internal Audit team investigations caseload provided in Table 3.

Outstanding management actions at the end of February 2018 were summarised in Table 5, which included a comparison with the percentage implementation reported at the previous Committee. A summary of the outstanding recommendations, and the progress with implementing them, was provided in Appendix B of the report.

Section 5 'Other Audit Activity' provided an update on:

- Zurich Risk Management Health Check Review Project – Initial feedback from the review was broadly positive, with a number of areas strength identified as well as areas for

development, including the approach to risk appetite and approach to contract risk management.
- A Review of IT security policies.

Concern was expressed by the Committee regarding the number of outstanding recommendations detailed in Appendix B. The offer was again made that if officers required the Committee's support, the Chairman was happy for his name to be used to summon officers to attend at Committee to explain the reasons for delays in implementing agreed recommendations.

It was resolved:

To note the contents of the update report.

79. AUDIT AND ACCOUNTS FORWARD AGENDA PLAN

It was highlighted that as set out the May meeting might still be the meeting to receive the FACT report. There was currently the suggestion that the report should go to another Committee such as Economy and Environment Committee first. The latter suggestion was supported by the Deputy Chairman of Council, stating that it was the relevant service committee. This view on the reporting process was not supported by some of the other Members of the Committee.

As an update, the Chief Internal Auditor indicated that the outside consultants investigation and field work had now been completed but he was not privy to the findings. The next stage would be consultation with key stakeholders to check for factual accuracy. This consultation process period would be weeks rather than months. Following this, a draft report would be issued to the Chief Internal Auditor, the Monitoring Officer Quentin Baker and Chief Executive to have a conversation regarding legal issues and to try to ensure as much of the report would be available in the public domain. The final decision on which Committee should receive the report would be with the Chief Executive in consultation with key Committee Chairmen, which would include Audit and Accounts Committee.

The Forward Plan was noted.

80. DATE OF NEXT MEETING – 2.00 P.M. 29th May 2018

Chairman
29th May 2018