

# **Audit and Accounts Committee**

## **Annual Report 2013/14**

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### **1. INTRODUCTION**

- 1.1 This is the annual report of the Audit and Accounts Committee, covering meetings held since the last annual report presented to Council in October 2013.
- 1.2 The Audit and Accounts Committee was established in May 2005 and is responsible for:
- Considering and approving the annual Statement of Accounts.
  - Ensuring that the financial management of the Council is adequate and effective.
  - Ensuring that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
  - Reviewing annually the Council's system of internal control and agreeing an Annual Governance Statement.
  - Ensuring that the Council has an adequate and effective Internal Audit function.
- 1.3 The Committee's work involves the consideration of reports from the Council's internal and external auditors and the LGSS Risk Manager, providing challenge, seeking assurances that issues requiring attention are being addressed and monitoring progress. This report focuses on the main conclusions and issues arising from this work.
- 1.4 The Committee has seven members. Six meetings have been held since the last annual report, all in public, with a number of training sessions held prior to the public meeting in respect of a relevant report or issue on the agenda.

### **2. STATEMENT OF ACCOUNTS**

- 2.1 It is a key governance role of the Committee to approve the Statement of Accounts on behalf of the Council. Members considered the draft Statement of Accounts for 2013/14 at their July 2014 meeting. Following the audit of the accounts, the revised version including any adjustments or additional disclosure was approved at the September meeting, at which the Chairman signed off the final accounts on behalf of the Council.

- 2.2 Key features of the 2013/14 Statement of Accounts are detailed below.
- 2.3 **Revenue spending on services:** The Council's net cost of services for 2013/14 was £413.9m. This figure was £2.3m lower than the net expenditure for the year of £416.2m reported to General Purposes Committee in July within the Outturn Integrated Resources and Performance Report. The reason for this is that the Statement of Accounts is prepared on a different accounting basis to those reports presented to members for resource allocation decisions by service. It takes account of charges for capital expenditure, centrally budgeted support service costs and variations in the accounting for retirement benefits.

- 2.4 **Reserves:** The Council's total reserves have decreased to £770.4m by the end of March 2014. This balance comprises £82.6m (10.7%) of 'Usable' reserves, (cash-backed resources that an authority can apply to the provision of services) and £687.8m (89.3%) of 'Unusable' reserves (those that an authority is not able to utilise to provide services).

A proportion of the Council's usable reserves (specifically the General Fund and Earmarked Reserves) provide the organisation with vital flexibility when faced with uncertainty and risk. At 31st March 2014, these reserves stood at £66.4m. Of this balance, the General Fund Reserve comprised £12.3m (2.9% of the net 2013/14 budget) and reserves earmarked for specific purposes totalled £54.1m, including £22.5m under the control of locally managed schools and £4.1m to cover insurance risks.

- 2.5 **Capital spending and finance:** The Council's revised capital budget for the year was £168.2m. Actual capital expenditure financed from capital resources for the year was £106.1m, leaving some £62.1m of the revised capital budget unspent at the year end. However, it must be noted that this is largely due to the timing of spending and does not represent underspends on schemes. Many capital projects span a number of years, so this simply means that expenditure has not occurred as quickly anticipated.
- 2.6 **External borrowing and investment:** Total debt outstanding at the year-end was £382.6m, well within the maximum limit prescribed by the Council's Treasury Management Strategy of £563m. There was a net increase of £5.1m in long term loans in the year and a net decrease of £0.2m in short term loans. New loans were raised to fund capital programme and working capital requirements.

Cash surpluses occurring during the year have been invested in accordance with guidance issued by the government and the Council's agreed Treasury Management Strategy. The primary objective is to ensure that funds are invested prudently, with priority given to security and risk minimisation.

- 2.7 There were a number of significant matters for which adjustments or additional disclosures were required within the accounts:

## **2.8 Academy Conversions**

Since 2010 Central Government has promoted academy schools which have greater autonomy and receive their funding directly from Central Government rather than the through the local authority.

By 31 March 2013, 42 schools had converted to academy status and 15 further schools had converted during 2013-14. All but two of the Cambridgeshire secondary schools are now Academies. Of the two left, one is a Foundation School and the other is a Free School.

Although over 180 schools remain 'grant maintained' by the Council, the conversion of schools in 2013-14 means a sizeable proportion of school spending( assets and workforce) are no longer reported as part of the Council's accounts. Academies produce their own financial statements.

## **2.9 Connecting Cambridgeshire**

The Connecting Cambridgeshire programme is set to improve broadband provision across Cambridgeshire and Peterborough. Its aim is to provide at least 90% of homes and businesses with access to superfast broadband with speeds of at least 24 Mbps and to provide better broadband connectivity for all remaining premises by 2015.

In March 2013 following a competitive selection process Cambridgeshire County Council signed a contract with BT who will contribute £16 million to the £45 million project to roll out superfast broadband over the next 3 years.

The first phase of the broadband roll-out is close to completion with 90 new fibre cabinets going live providing superfast broadband access for over 20,000 premises. The second phase of the roll-out runs from June to September 2014 and will see the programme reach over a third of its final target of 90,000-plus premises.

## **2.10 Waste PFI**

On 17 March 2008, the Council contracted with Ameycespa WM (East) Limited (formerly Donarbon Waste Management Limited) to provide waste treatment and household waste facilities for the County. At the time the contract was signed, the total estimated contract payments were £730m over the 28-year contract period (termination due in 2036). An element of this payment related to financing the construction of a Mechanical Biological Treatment (MBT) plant, with a total cost of £42m. The purpose of the plant was to reduce the waste being sent to landfill and consequently reduce costs to the County Council.

## **2.11 Cambridge Science Park Station**

In November 2012 a public consultation was undertaken on construction of a rail station located in the north of Cambridge. It highlighted that 89% of responses were in favour of the station in principle. The new railway station will provide access to the rail network from the north Cambridge area without the need to travel through the city centre.

It will include connection facilities for public transport, such as the Busway. Therefore it will also make the station accessible for those living in Huntingdon, St Ives, Swavesey and Histon, as well as providing a rapid transport link for the new Northstowe development.

It will give people an opportunity to take the train to the north Cambridge area and avoid driving along the congested A14 and A10 and will provide a much needed link to some of Cambridge's main business areas, including the Science Park, St John's Innovation Centre and Cambridge Business Park. This will make the north Cambridge area an even more attractive place for businesses to grow and locate, helping to boost the local economy.

In December 2013 planning permission for the Cambridge Science Park Station Interchange was granted and £6m was secured from Department for Transport for the advanced delivery of enabling works including the extension of the Busway, cycle improvements on Cowley Road, and other pedestrian and cycle connections.

Following the Council's lead on the development phase of the project, Network Rail and the Department for Transport have now taken over full responsibility for the delivery phase of the scheme including the detailed design and construction of the works on the Chesterton siding site by May 2016. The Council will be delivering the enabling and access works by the end of March 2015.

## **2.12 Cambridge City Deal**

As part of the 2014 Budget in March, Central Government announced their agreement for a Greater Cambridge City Deal, which will deliver a step change in investment capability; a higher rate of growth in jobs and homes with benefits for the whole County and the wider LEP area. The agreements will provide a grant of up to £500 million for new transport schemes. However, only £100 million of funding is initially guaranteed with the remaining funding dependent on the achievement of certain triggers, with two further tranches of funding, in the region of £200m each, becoming available in April 2020 and April 2025. The Deal was signed on 19 June 2014.

The Council worked closely with Cambridge City Council, South Cambridgeshire District Council, Cambridge University and the Greater Cambridge and Greater Peterborough Local Enterprise Partnership (LEP) to negotiate the deal. One result of the announcement will be a changed set of governance structures to pool funding and powers; initially through a joint committee with the intention of moving to a Combined Authority should legislation be changed to allow for this. This will enable the delivery of a more joined-up and efficient approach to the key economic issues facing the region.

## **2.13 Making Assets Count Programme**

The Making Assets Count (MAC) programme is one of the key partnerships in relation to the overarching Capital Strategy, and allows all public sector partners to effectively collaborate on strategic asset management and rationalise the combined operational property estate within the County.

MAC projects include the delivery of a Joint Operations Centre for public sector partners in the south of Cambridgeshire (co-locating highway, ground and housing maintenance, fleet service and vehicle storage operations services) and creation of a public property partnership joint venture to deliver property-related benefits in key market towns.

## **2.14 Public Health Reform**

On 1 April 2013 Public Health staff and services were transferred from primary care trusts (PCTs) to local authorities. The Public Health Service is concerned with understanding the health, wellbeing and care needs of our local communities and ensuring that 'health inequalities' are tackled by improving the health of the poorest members of our community. The primary aims are to ensure action is taken to protect the health of the public; prevent ill-health; promote healthy lifestyles and provide advice on commissioning of health and care services to meet population needs.

To discharge their new public health responsibilities, local authorities were provided with a ringfenced public health grant. For Cambridgeshire in 2013-14 this was worth £21.2 million.

## **2.15 Pensions**

The accounts reflect the underlying commitment that the Council has to pay future retirement benefits for its employees. This information has been compiled by the Fund's actuary in accordance with the International Accounting Standard 19 Employee Benefits (IAS 19 (Revised 2011)).

The triennial formal valuation of the Fund was carried out as at the 31 March 2013. Following this, the estimated pension deficit for the Council, measured on an actuarial basis, has decreased from £440m at 1 April 2013 to £438m at 31 March 2014. Financial assumptions at 31 March 2014 were less favourable than they were at 31 March 2013, resulting in an increase to the value of the Fund's liabilities. However, actual investment return on the Fund's assets during 2013-14 was 7.2%, which was higher than the typical expected asset return at the start of the year. Overall, this combination of higher than expected investment returns, partially offset by worsening financial assumptions, has resulted in a small decrease in the deficit amount. This deficit will be managed by increased employer contributions over the remaining working life of employees, as assessed by the actuary.

## **2.16 LGSS**

LGSS is the shared back office operation created by Northamptonshire County Council (NCC) and Cambridgeshire County Council (CCC) in October 2010. It provides a wide range of strategic, professional, operational and transactional services including Finance, Property, Pensions, Legal, Procurement, Audit, HR, IT and Transactional Financial Services.

It is governed by a Joint Committee with the financial transactions of each shareholder county included in the respective county's statutory accounts. For the financial year 2013-14, LGSS has prepared a separate Annual Report

(Statement of Accounts and Annual Governance Statement) for the first time, which will be audited by the appointed independent auditor of NCC.

The LGSS overall performance for 2013-14 is summarised below:

	2013-14 Budget £000	2013-14 Expenditure £000	2013-14 Variance £000
<b>Northampton Office</b>	14,348	13,344	-1,004
<b>Cambridge Office</b>	11,721	10,716	-1,005
<b>Total</b>	<b>*26,069</b>	<b>24,060</b>	<b>-2,009</b>

\*The 2013-14 budget figure comprises the net LGSS budget of £25,423k plus £646k in respect of a year end insurance recharge

All surpluses and deficits after any retained earnings re-invested by LGSS are shared on a 50:50 arrangement via a notional dividend to each of the host authorities.

### 3. ANNUAL GOVERNANCE STATEMENT (AGS) 2013/14

- 3.1 The AGS summarises the way in which the Council governs its activity, and is a key public document required to be included as part of the Council's annual Statement of Accounts. The Committee considered the AGS at its meeting in June 2014. For the AGS to have its intended benefit in driving good governance, it is important to be open and honest about areas for improvement, whilst also giving a balanced view of the organisation.
- 3.2 The AGS must also identify any 'Significant Governance Issues' defined as those that:
- seriously prejudice or prevent the achievement of a principal objective of the authority.
  - have resulted in the need to seek significant additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
  - have led to a material impact on the financial accounts.
  - the Audit and Accounts Committee advises should be considered significant for this purpose.
  - the Head of Internal Audit reports as significant in the annual opinion on the internal control environment.
  - have attracted significant public interest or have seriously damaged the reputation of the organisation.
  - have resulted in formal action being undertaken by the Chief Financial Officer and / or the Monitoring Officer.
- 3.3 The review of the effectiveness of the Governance Framework has provided a satisfactory level of assurance on the effectiveness of the Council's governance arrangements. One significant area highlighted within the Annual Governance Statement, with implications in 2014/15 and beyond, was the very considerable future challenges associated with a significant reduction in Central Government funding, particularly from 2016/17 onwards. The Council's 5-year Business Plan is reflective of these pressures and will be subject to annual review to ensure

that the extreme financial pressures facing the Council in the latter stages of the Plan can be met whilst continuing to provide effective services to the people of Cambridgeshire.

- 3.4 The Committee agreed the Statement to be consistent with the Committee's own perspective on internal control within the organisation and considered that it sufficiently acknowledged the particular challenges that the Council, along with all other councils, currently faces.

#### **4. REPORTS FROM EXTERNAL AUDITORS**

- 4.1 PricewaterhouseCoopers (PWC) has been the Council's external auditor since 2004/05 and has developed a very constructive working relationship with the Council during its tenure.
- 4.2 Since the Committee's last report to Council, members have considered a number of reports from the external auditors, including:
- Annual Audit Letter.
  - Annual Certification Report – ISA 260 Report to those charged with Governance.
  - Cambridgeshire Annual External Audit Plan 2013/14.
- 4.3 Following the completion of the audit process the Committee has received details of the issues identified by the external auditors, the recommendations made by them and the response from the relevant Council officer(s).

##### **External Audit Plan**

- 4.4 The Committee noted at its January 2014 meeting the Audit Plan for the production of the Statement of Accounts for 2013/14. The External Auditor identified key significant risks relating to the production of these accounts on which they sought to provide assurance during the year. The risks identified included:
- Management override of controls.
  - Fraud in revenue and expenditure recognition.
  - Fixed Asset Accounting.
  - Pensions Bank Investment.
- 4.5 The January 2014 meeting also received and noted the Pension Fund Audit Plan 2013/14 relating to the Pension Fund Statement of Accounts for 2013/14. The Auditor identified risks relating to their audit responsibilities:
- Fraud and management override of financial controls.
  - Pensions Bank investment.

#### **5. REPORTS FROM INTERNAL AUDITORS**

- 5.1 Since the creation of LGSS in October 2010, the Internal Audit Team, led by the Head of LGSS Internal Audit and Risk Management, has reported to the LGSS Director of Law and Governance. The primary role of Internal Audit is to provide assurance on the adequacy of the system of internal control within the Council, and to agree courses of action with managers where internal control requires improvement to ensure risk is effectively managed.

- 5.2 The work of the Internal Audit Service is directed by an assessment of the risk associated with the Council's various activities, to ensure that those areas presenting greatest risk are given highest priority. The Committee agreed the Internal Audit Plan for 2014/15 at its March 2014 meeting. The Internal Audit Plan is co-ordinated with the External Auditor's Audit Plan so that reliance can be placed on each others work and duplication avoided.
- 5.3 During the course of the year, the Committee has closely monitored progress against the objectives and programme of work set out in the Internal Audit Plan for 2013/14 and, from April, the 2014/15 plan.

### **Internal Audit Annual Opinion and Report**

- 5.4 The Head of Internal Audit and Risk Management gives an annual opinion on the adequacy of internal control systems. In July 2014, the Committee considered this opinion and the annual report. The Committee noted that, on the basis of work carried out by Internal Audit during the year, the Head of Internal Audit and Risk Management's opinion was that Substantial / Moderate Assurance could be provided over the Council's governance, risk management and internal control environment, both in relation to the Council's main financial systems and other key business processes. There has been an increase in the proportion of audits where substantial assurance was assigned and a further reduction in the number of limited assurance opinions.
- 5.5 In giving this opinion the Head of Internal Audit and Risk Management noted a number of key points:
- Encouragingly the number of audits resulting in limited assurance opinions has continued to reduce (14% in 2011/12 to 5% of reports issued in 2013/14); with the majority of reviews providing moderate or substantial opinions.
  - During 2013/14 management fully implemented 62% of fundamental and significant recommendations made. The Committee has continued to monitor progress of the implementation outstanding management actions during the course of the year. It was highlighted that the level of implementation was unsatisfactory and that actions were required to address this in 2014/15.
  - In respect of key areas of coverage, the Internal Audit programme of corporate and cross cutting audits included reviews of Service Transformation, Business Planning and Democratic Services and these were found to be subject to a satisfactory level of internal control. Corporate level Budgetary Control arrangements were also reviewed and substantial assurance was provided.
  - Assurance was provided during the year on a number of major projects that the Council is undertaking through an embedded assurance audit approach. This included reviews of the Support for Parenting Project; Project Trinity; Science Park Station; Ely Level Crossing; Economy, Transport and Environment Directorate Transformation; Investing in Highways Transport Solutions; Park and Ride; Connecting Cambridgeshire – Superfast

Broadband and the Transfer of Public Health. Opinions of 'moderate' or 'substantial' assurance were provided for the above reviews.

- The programme of Core Financial Systems work enabled Internal Audit to provide substantial assurance for the majority of key financial systems underpinning the preparation of the accounts. Annual reviews of Payroll and I.T. controls were also undertaken, providing moderate assurance opinions.
- Risk based reviews were undertaken on a broad range of activity with coverage largely driven by the risks identified in the Council's Corporate Risk Register. Work in these areas delivered a range of assurance opinions, the majority being 'moderate' or 'substantial'. Limited assurance opinions were assigned to reviews of Schools Procurement and the Safeguarding of Vulnerable Adults.
- Assurance was also provided on a wide range of Grant Certifications. This included grants relating to Carbon Reduction; the Better Bus Area Fund and the Local Sustainable Transport Fund.

5.6 During the year the Committee has focussed its attention on those internal audit reports for which an opinion of limited or moderate assurance was given, in some instances inviting officers to the Committee to receive assurance on actions being taken to address issues identified.

## **6. RISK MANAGEMENT**

6.1 The Committee has an important role in ensuring that the Council has effective arrangements for the identification, assessment, mitigation, management and monitoring of risk.

6.2 The Committee has continued to receive regular updates of the Corporate Risk Register to ensure effective risk management arrangements are in place. Additionally the Committee now receives details of the profile of service risk registers.

## **7. FRAUD**

7.1 As part of the regular reporting of Internal Audit progress the Committee has received updates on fraud and irregularity investigations. During the year, Internal Audit has provided support to services and schools in the investigation of allegations of fraud, error or non-compliance with Council policies. The outcome from investigations of two of the cases was the referral of findings to Cambridgeshire Police and ongoing support has been provided to the Police in these cases. Following all investigations the Internal Audit team has sought to provide guidance on how existing systems of control can be improved to minimise any future risks of misappropriation or error.

7.2 Internal Audit continues to promote the Council's Anti-Fraud Strategy and is continuing to work with other counter fraud agencies and to explore the opportunities available for partnership working.

## 8. CONCLUSION

- 8.1 The Committee would like to place on record its thanks to the Council officers and the external auditors who have supported its work throughout the year.

Councillor Michael Shellens  
Chairman of the Audit and Accounts Committee

### **Source Documents**

Agenda and reports of the  
Audit and Accounts  
Committee 2013/14

### **Location**

Room 114a  
Shire Hall  
Cambridge

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