Audit and Accounts Committee: Minutes

Date: 28th September 2021

Time: 2:00 – 4.15pm

Place: New Shire Hall, Alconbury Weald

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

Officers: Dawn Cave, Neil Hunter, Tom Kelly, Stephen Howarth, Mark Hodgson (EY), Fiona Coates, Janet Atkin, Fiona Macmillan, Ben Barlow

19. Apologies for Absence and Declarations of Interest

There were no apologies for absence.

Councillors Whelan declared interest as Chair of Pension Fund Committee in relation to the two Pension items. It was noted that Councillors Boden and Sharp were also members of the Pension Fund Committee

Councillor Boden declared a non-statutory interest as a member of the Audit Registration Committee of the Institute of Chartered Accountants of England and Wales (ICAEW), but advised that he managed that potential conflict by having no part in the appointment of the Council or Pension Fund's external auditors, and was not conflicted.

20. Petitions and Public Questions

There was one public question from Mr Mike Mason. Mr Mason's question and the officer response is included at Appendix 1 to these minutes

21. Public minutes of the Committee meetings held 13th and 22nd July 2021

A correction was noted to the final page of the public minutes of the Committee meeting held 13th July (first line under item 11):

"A report was considered regarding what further material relating to the Farms Audit *should be published"*

It was resolved unanimously to approve the minutes of the Committee meetings held 13th and 22nd July 2021.

22. Committee Action Log

It was noted that there were a number of late updates to the Action Log, and it was agreed that these would be circulated to the Committee. These are appended to these minutes at appendix 2.

With regard to the This Land accounts, it was confirmed that the accounts had been submitted to Companies House and should shortly be visible on the Companies House website. This Land had provided the accounts to Strategy & Resources Committee Members ahead of their shareholder meeting on 30/09/21.

There was a query on progress with BDO on the Value For Money opinions. The Chief Finance Officer advised that along with the Monitoring Officer and Chief Executive, he would be meeting with the BDO Lead Audit Partner on 29/09/21, and would update the Chair on the outcome of that meeting.

The Action Log was noted.

23. Consultants Report September 2021

The Assistant Director: HR Services presented an update on the use of consultants and agency workers in Quarter 4 2020-2021 (January to March 2021) and Quarter 1 2021-2022 (April to June 2021). The background to this information being provided to the Committee was noted, and Members also noted the definitions used for both consultants and agency workers, and the circumstances in which engaging consultants and agency workers was appropriate.

Spending on agency workers in each quarter had increased when compared to the same quarters of the previous financial years, and the reasons for this were noted, which included care staff to cover sickness absence due to Covid-19, and ongoing recruitment issues, particularly in Children’s Social Work, which was a situation being reflected nationally. Expenditure on consultants was not significant for a Council the size of Cambridgeshire.

Arising from the report:

- A Member suggested that it would be useful for this information, appropriately broken down, to be shared with the CYP and Adults Service Committees, so that they were aware of expenditure in this area;

- It was clarified that ‘Opus’ was previously Opus LGSS, but was now Opus People Solutions (East) Ltd, and remained a joint venture between Cambridgeshire County Council and respective Northamptonshire Councils;

- A Member queried whether there were any off-payroll implications relating to the engagement of consultants. Officers confirmed that all agency workers were taxed under PAYE, and that an IR35 assessment took place when consultants were engaged.

Noting that agency staff had been appointed to cover Covid-19 sickness, a Member asked if there had been any appreciable budget pressure arising from this situation. Officers confirmed that there was no material pressure as a result.

On a related matter, the Chair commented that on a recent visit to the Amey site in Waterbeach, it emerged that most staff were employed on zero hours contracts through agencies, and he asked what influence, if any, the County Council has over the use of zero hours contracts on this commissioned contract, and also on our care contracts. The Assistant Director: HR Services agreed to check with officers responsible for those services and report back to the Chair. Action required.

The Committee resolved unanimously to note the current data on the use of consultants and agency workers.

24. Cambridgeshire Pension Fund External Audit Plan 2020/21

The Committee considered the Cambridgeshire Pension Fund provisional External Audit Plan for the year ended 31 March 2021. It was noted that this had been considered by the Pension Fund Committee in July 2021.

Introducing the report, the External Auditor, Mark Hodgson of EY, drew attention to the risks identified in the Overview section of the report, which were consistent with the designation from the previous year. Members noted the definitions of the terms “Fraud risk”, “Significant risk” and “Inherent risk”. The two main risks identified were Cambridge & Counties Bank, a specialist vehicle requiring specialist valuations; and Level 3 valuations because they were deemed to be hard to value assets, because they were not quoted on any stock exchange.

It was noted that at the planning stage, a materiality level of £30M had been set, with anything above £1.5M being reported to Committee.

Arising from the presentation:

- A Member asked how EY was progressing it terms of the timescales set out in the report. It was noted that a number of audits had to be deferred because the relevant paperwork had not been ready. The County Council audit needed to be completed before the Pensions Audit could be finalised;

- A Member asked about risk associated with the distance from the triennial valuation. The External Auditor advised that last year, significant detailed testing relating to the last full valuation had been carried out, looking at the detail provided to the actuary. The External Auditor had been comfortable with that evaluation at that stage. The audit of financial statements of the Pension Fund was based on asset valuations quoted at 31st March, the actual liabilities being a disclosure note under IAS 26, but reassurance had been provided regarding the inputs and whether there been any significant variance in those input figures. Procedures were therefore built in, but it was reiterated that audit of financial statements was primarily based on actual figures as 31st March;

- In response to a question on whether post balance sheet events were taken into consideration, the External Auditor advised that they were, to the extent that they would impact on the reported financial position as at 31st March 2021;

- Officers confirmed that they were happy with the Plan. With regard to risk related to the valuation period, within the Pension Scheme, the IAS 19 and FRS 102 accounting standards were met, which were effectively a valuation of each employer within the Fund, and that was undertaken yearly, and provided additional reassurance.

Councillor Whelan confirmed that she was happy with the Audit Plan as Chair of Pension Fund Committee.

A Member observed that although the pension scheme had changed from final salary to career average, it appeared to be very stable, and he asked the External Auditor if that view was correct. He also asked if the scheme was backed by public money. The External Auditor advised that all Local Government Pension Schemes (LGPS) were considered stable in both position and outlook. In terms of the Cambridgeshire Fund specifically, the Fund was in a particularly good position, being over 100% funded, i.e. all liabilities were funded. LGPS Funds were not backed by public money, but were effectively self-funded in perpetuity.

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

25. Cambridgeshire Pension Fund Annual Report and Statement of Accounts 2020-21

The Committee considered the Pension Fund's audited Statement of Accounts. Introducing the report, officers commented that all requirements and deadlines for the audit had been met. The External Auditor had confirmed that the financial statements were in line with CIFPA guidance, gave a true and fair view of the Pension Fund's financial position as at 31st March 2021, and were free from material error, with no unadjusted corrections. In conclusion, the Pensions team was very pleased that a very positive audit had been completed.

The External Auditor advised that the materiality levels had been updated to £38.5M based on net asset values as at 31st March 2021, reflecting the rebounding equity market. In terms of the status of the audit, it was complete with the exception of the formal close procedures, i.e. being signed off once the County Council external audit was complete.

Members noted:

- Key audit assurances were gained against risks identified under the Audit Plan and there were no significant matters to report;
- There were no uncorrected audit differences;
- There was only one corrected audit difference above the materiality threshold of £1.9m which related to changes in value of Level 3 assets, resulting from a timing difference from when the actual values were reviewed;
- The disclosure note around Going Concern met the External Audit team's expectations.

Combined, the above points would enable the External Auditor to give an unqualified audit opinion to be issued at the appropriate point in time. The External Auditor concluded that it had been a very smooth process and he had been well supported by Pension Fund officers throughout the Audit process.

Speaking as the Pension Fund Committee Chair, Councillor Whelan thanked officers, the External Auditor and the previous Committee for all their hard work on these matters, which had been challenging, given the circumstances over the previous 18 months. It was very pleasing to have a clear audit report and strong financial position.

Another Member emphasised the good position of the Pension Fund, which was far better than had been expected, and he was impressed with the way the Pension Fund was being administered. He commented that it was one of the strongest sets of pension accounts he had seen for a very long time, and he endorsed the Pension Fund Committee Chair's comments, congratulating all those involved in the production of a very positive report.

A Member asked if there were any concerns about the Pension Fund was being run by West Northamptonshire Council, given the insolvency and subsequent abolition of Northamptonshire County Council in recent years. Councillor Whelan commented that in her experience, the Pensions team all demonstrated the ability to deliver exactly what was asked of them, and always provided concise responses to queries. In addition, savings could be achieved by sharing the administration of the Pension Fund with the Northamptonshire Pension Fund. Another Member commented that under the new arrangements, with the establishment of two new unitary authorities in Northamptonshire, those authorities were some of the most heavily scrutinised and scrupulous in the country, and the history of Northamptonshire County Council should not reflect negatively on those new authorities.

A Member asked if the External Auditor reviewed the investment policies of the Pension Fund. The External Auditor commented that it was the responsibility of the Pension Fund Committee to set its investment strategy, the External Audit process ensured that there was a strategy in place, and that investments were aligned with that strategy, but did not consider, for example, if the investments selected provided the best yield. Councillor Whelan commented that the current direction of the Investment Strategy was to look at more stable returns, not necessarily investing in areas of the highest returns, as these also entailed the greatest risk, given that the Fund was more than 100% funded.

A Member observed that the proportion of fixed income was quite low compared to equities, and he asked if that was not a risk factor given increasing inflation rates, which may result in a reduction in the value of the Fund, given the heavier weighting to equities. Councillor Whelan advised that a significant proportion of listed equities were hedged, minimising the down risk, at the expense of the up risk. Officers added that asset allocation was considered at every Investment Sub-Committee meeting, that asset allocation was in line with other Pension Funds, and that advice was taken on the Investment Strategy from professional investment consultants.

As Chair of Pension Fund Committee, Councillor Whelan chose to abstain from voting on this item.

It was resolved by a majority to:

1. Approve the Final Statement of Accounts and note the Annual Report of the Pension Fund for the 2020/21 financial year.

2. Note the findings of external audit documented in the ISA260.

26. Cambridgeshire County Council – 2020-21 External Audit Plan

The Committee considered the Cambridgeshire County Council provisional External Audit Plan for the year ended 31 March 2021.

Introducing the report, the External Auditor advised that the fraud risks were the same as those identified in the previous year, and were standard across the local government sector. He further advised:

- A new significant risk for local authorities was “accounting for grants including Covid-19 related Government grants”, on the basis that this involved significant sums with various conditions, and was a matter of considerable public scrutiny. It was confirmed that City Deal funding would be included as part of the External Audit review this year;

- “Property, Plant and equipment” remained a significant balance in the Council’s accounts and therefore an area of heightened risk, as material audit differences were identified in 2019-20, so audit assurance was required in that area;

- A new inherent risk area of “Group Consolidation” was identified, as there had been some issues with the consolidation of the This Land Group in 2019-20;

- In terms of materiality, all uncorrected misstatements greater than £1M would be reported, although this level may be updated on receipt of the draft accounts;

- There were changes in arrangements this year for VFM risks, with a national change to “negative reporting”, and the requirement for the External Auditor to issue a separate audit commentary in a new Auditor’s Annual Report;

- Draft financial statements had already been made available to the External Auditor.

Commenting on the Plan, the Chief Finance Officer said that he was happy with the Plan and it was good to have some samples available in advance, although the 6-7 week timescale to complete the audit would be challenging.

Arising from the presentation:

- In response to a Member question regarding the consolidation of the This Land Group accounts, it was noted that there had been some issues regarding the spreadsheet that added the two sets of accounts together, but these had been addressed by This Land’s external auditors, RSM. It was anticipated that the alignment of reporting would ensure the process and issues with the This Land auditors were satisfactorily addressed;

- Noting the materiality level of £1M, a Member asked if only issues over that threshold would be brought to Members’ attention. It was confirmed that any significant process issue below that £1M threshold would be brought to the Committee’s attention, and that nothing was absolute in audit terms;

- A Member asked if the External Audit team would highlight matters to the Internal Audit team if an area was identified in sampling which they felt required further review. The External Auditor confirmed that any control deficiency areas identified as part of the External Audit process would be raised with the Internal Audit team;

- A Member asked how forward looking the Going Concern assessment was, noting that the Challenge Review had identified the high levels of savings required in the future. In terms of "Going concern", it was confirmed that savings do play a key role, and it was anticipated that the level of reserves maintained would remain well above the minimum level set;

- The External Auditor advised that with regard to PFI, only concern would be accounting models, there was no retrospective evaluation of VFM considerations;

- Asked whether it was anticipated that the outcome of the audit would be ready for the next Committee meeting on 25th November, or whether an additional Committee meeting would need to be arranged to consider the audited accounts. The External Auditor felt that the 25th November meeting was realistic at this stage, but would take a view nearer the date, in consultation with the Chief Finance Officer;

- In response to a question on the Materiality threshold, it was confirmed that reducing this below £1M would require a longer audit timescale and additional resources;

- In relation to the sample size of the audit software EY used, it was confirmed that there was no fixed limit, and that data analytics were used, with materiality thresholds driving key item thresholds, with a proportion of lower items taken – much depended on balance and how that balance was structured;

- The External Auditor outlined the standard process for dealing with objections: (1) objection lodged within time window (2) clarify if the objector is on the electoral roll (3) establish whether the objection is valid. An objection had been received and acknowledged, but it had not yet been determined whether it was valid. It was confirmed that repeat topics were not considered under objections.

Members confirmed that they understood the materiality and reporting levels as set out by the External Auditor.

It was resolved unanimously to note the Cambridgeshire County Council External Audit Plan.

27. Internal Audit Progress Report

The Committee received a progress report on Internal Audit, for the period to 31st August 2021. Members were reminded that the role of Internal Audit was to provide both the Committee and management with independent assurance on the effectiveness of the controls in place to ensure that the Council's objectives were achieved. Internal Audit coverage was planned so that the focus was upon those areas and risks which will most impact upon the Council's ability to achieve these objectives.

Presenting the report, the Head of Internal Audit highlighted:

- That the covering report provided greater detail than the previous report, as requested by Committee at their July meeting. Members welcomed the more detailed content;

- The list of outstanding recommendations, including 26 recommendations arising from the Major Infrastructure Delivery (MID) review that became due on 30th June 2021. The revised date for full implementation has been updated by the service to 30th September 2021;

- Appendix C to the report, which provided greater detail on the National Fraud Initiative (NFI) and progress against those actions;

- An update on the open book exercise on the Highways Contract. Work continued with some success in completing the first tranche of work for the year ended April 2020;

- In July 2021, the Committee had been advised that the Payroll report had not been completed on schedule by Milton Keynes Internal Audit colleagues. This had still not been undertaken, so the Cambridgeshire Internal Audit team completed a piece of work on Payroll Analytics to review any trends, patterns or significant variances within full time equivalent (FTE) averages. No significant variances or anomalies had been identified.

Arising from the report:

- A Member expressed concern regarding the Milton Keynes issue. The Head of Internal Audit explained that when Milton Keynes had joined LGSS, the auditing of key financial systems had been shared out among the three authorities' Internal Audit teams. It had been anticipated that that arrangement would continue, as it was a sensible use of resources. It was confirmed that West Northamptonshire Council was the lead authority on Payroll, and the operational managers remained the same as under LGSS;

- A Member noted the discrepancy of over £63K relating to pension paid to a deceased person, and that not all of areas with high or medium risk had been checked against the data provided. A Member asked if these were checked in order of risk, and how seriously the Committee should consider this. It was confirmed that this was a collective debt i.e. the £63K did not relate to one case, and that other cases had been highlighted to Pensions for follow up;

- Noting the outstanding recommendations over three months old, a Member asked what impact this was having on the Internal Audit team's resources going forward. Officers confirmed that this mainly related to seeking an update from the manager on whether the actions had been carried out – time had to be given for actions to be implemented and embedded. There was no significant resource implication for the Internal Audit team in terms of this process;

- A Member noted two investigations relating to the alleged misuse of Direct Payments. He asked if this had been revealed as a result of an audit or whistleblowing, if it constituted fraud, and whether the Police should be involved. It was confirmed that where a Direct Payment was not being used strictly in accordance with the Care Plan, the Internal Audit team helped the relevant service by identifying what action could be taken. It was confirmed that such cases could arise from an audit, whistleblowing, or the Service approaching Internal Audit for support. Officers were unable to comment in detail as this was an ongoing case;

- Queried the contract with Pathfinder Legal Services Ltd for 70 days of work, and asked how this would impact upon Internal Audit resources. It was confirmed that there would be an impact and the team would need to seek additional resources, but the income from that contract would cover those resources;

- Discussed how Internal Audit would assess VFM, using the example of block contracts in Adults and Older People's Services. Officers advised that a key question in the Internal Audit assessment would be whether the governance processes were effective and proportionate, i.e. whether the right amount of money was spent on achieving outcomes, whilst VFM could be more nebulous;

- A Member commented that it was generally taken for granted that there were sufficient resources made available by the Council to ensure audit work undertaken. This was not an issue from Cambridgeshire but he was aware that this had been highlighted as a potential issue for an authority further afield. The Chief Finance Officer confirmed that the dedicated finance resource had been reviewed and increased, and noted the connection to wider resourcing issues such as the Redmond review in addition to ensuring a well resourced and smooth audit process. The Member was reassured by the response given, but responded that it was a consideration for the Committee to bear in mind going forward.

It was resolved unanimously to note and comment on the report.

28. Internal Audit Risk and Assurance ratings

The Committee considered a report on Internal Audit Risk and Assurance ratings. The report set out the current risk ratings system of Essential, Important and Standard, and the proposed change to Essential, High, Medium and Low. Members also noted that a minor rewording control environment and compliance assurance, changing "satisfactory" to "moderate", whilst leaving the other assurance levels (Substantial, Good, Limited and No) the same.

The proposed changes in terminology had been initiated by both the move to closer working with Peterborough, a desire for clearer terminology, and also Member discussion on this issue at recent meetings.

A number of Members welcomed the proposed changes. One Member queried the "Advisory" risk rating. Officers advised that "Advisory" was seldom used. If the Internal Audit view was that an action needed to be completed that would benefit the Service, it would probably be given a higher rating.

All Members confirmed that they were happy with the proposed changes.

It was resolved unanimously to note and comment on the report.

29. Integrated Finance Monitoring Report for the period ending 31 July 2021

The Committee considered a report setting out the key exceptions in the latest report on the current financial position of the Council, as report to the recent meeting of the Strategy & Resources Committee. There was a £0.923M increase in the forecast revenue underspend (0.2%) compared to the previous month, and a £1M decrease in the forecast capital year end expenditure compared to the previous month (0.6%).

The Chair reminded the Committee that its role with respect to these reports was to provide independent scrutiny in relation to the delivery of the Council's Business Plan. However, he was slightly sceptical as to the additional value the Committee could provide through its consideration of these reports. Other Members agreed, and commented that the Audit and Accounts Committee essentially provided a "third line" of defence, and it was unlikely that issues of concern would not have been picked up by either officers or members of the Strategy & Resources Committee. In discussion, it was suggested that a more appropriate approach could be Councillors seeing Audit & Accounts Committee as a body where they could refer relevant issues of concern. The Chair suggested that the Committee should continue to receive these reports for the remainder of the financial year and then move to the approach suggested.

With regard to the savings tracker, it was noted that savings were carefully being reviewed to ascertain whether the significant savings required were taking place, and where they were not, to put mitigations in place in a timely fashion.

It was resolved unanimously to:

1. To note and comment on the report. In doing so, members may wish to focus on the key summaries and exceptions in the revenue and capital position set out in section 2, 3.3, and 8.3 2 of the report;

2. To note the recommendations that were made to Strategy & Resources Committee (S&R):
   a) Note the additional £292k extended rights to free home to school travel grant for 2021-22, as set out in section 6.1;
   b) Note the allocation by CCC of £109k for biodiversity activities as set out in section 6.2;
   c) Approve the debt write-offs of £71,737 and £27,253 relating to the estates of service users where there is now no prospect of debts being recovered, as set out in section 7.2;
   d) Approve the -£4.2m revised phasing of the capital programme variations budgets as set out in section 8.6;
   e) Note the additional £0.4m grant funding awarded for the Papworth to Cambourne cycling scheme as set out in section 8.6;
   f) Note the receipt of £21.955m as the local transport capital grant allocation for 2021/22 and its application towards the spending plans set for the 2021/22 budget, as set out in section 8.7;
   g) Approve additional prudential borrowing of £432k in 2021/22 for the Building Maintenance scheme as set out in section 8.8;
   h) Note and comment on the Transformation Fund Monitoring Report as set out in Appendix 4;

i) Note and comment on the Finance Monitoring Report for Corporate Services (appendix 5);
j) Delegate authority to the Chief Finance Officer, in consultation with the Chair and Vice-Chair, to progress and/or settle litigation in relation to a property in Fenland… [set out separately to S&R committee], including a potential debt write-off exceeding the normal officer threshold.
k) Approve additional prudential borrowing in 2021/22 for the Waterbeach Waste Treatment Facilities scheme.

30. Agenda Plan

A Member asked when Manor Farm would be reconsidered by the Committee, and recommended that in the interests of transparency, the report into Manor Farm should be published as soon as practicable, subject to any ongoing issues and necessary redactions. It was agreed that an update would be provided to the November Committee meeting and a further report scheduled for the January 2022 meeting.

Further to the earlier discussion regarding the timing of the final accounts being considered by the Committee, and whether this would be at the November Committee or an additional meeting, the Chief Finance Officer agreed that he would review this with the External Auditor and the appropriate arrangements would be made in due course.

APPENDIX 1 – Transcript of Public Question from Mr Mason

The question which has been circulated to Members is about the failure of the Council and their appointed auditors to comply with the requirements of the Local Audit Accountability Act 2014, with particular respect to compliance under Sections 25-27, namely public rights. In the question I have referred to a number of misstatements in the current draft accounts, and to similar complaints made in previous objections in 2017 and 2018. These earlier objections have yet to be addressed by the former auditors BDO, some four years after they were advised. I should add here that in the intervening years I have been circulating other correspondence with the Council and with BDO to further explain those objections. In September last year, the former auditor, Lisa Clampin of BDO, indicated in an email that she would let me have her final determination of the objection, and statement of reasons, December last year. This did not happen, and I have explained that on the paper that I have submitted in the formal question. The basis of the problem with the accounts is the method of accounting for grant for other bodies which has been received by the Council from MHCLG and I am questioning the methods used in assessing how that grant is accounted for in the Council's statement of accounts. Basically, I am saying, in the question, that you cannot account for money which is not yet received and you cannot put that money into reserves because it simply has not arrived in the Council's accounts. This is the nature of the grant which is payable on to the Greater Cambridge Partnership, and it is payable in yearly tranches, and you cannot account for that money all in one year. The way in which this is done in the statement of accounts is in my view is incorrect, and I am asking the Committee to give consideration of that and discuss it with the Chief Finance Officer, because in my view the final accounts need to be corrected, it is my view that £160M has been overstated, and that is a considerable amount of money.

Response from officers:

I can confirm that we have maintained the treatment of GCP funding consistently from year to year. We have received this grant for several years, and the financial statements have been signed off in each of those years.

In presenting the draft accounts, our view is that this treatment is in accordance with the CIPFA Code of Practice on Local Authority Accounting, which states that grants shall be recognised when two conditions are met:

1. Reasonable assurance that a grant will be received
2. Reasonable assurance that the authority will comply with any conditions relating to initial recognition of a grant (as opposed to restrictions governing how the grant will be spent)

The Council does not have to have received the cash for the funding to be recognised. As some of the money is yet to be received, the council also recognised a short- and long-term debtor in relation to the tranches of funding it has not yet received.

While the recognition of the full grant does increase the usable reserves figure in the accounts, the statement of accounts does make clear on page 79 that usable reserves consist of several categories of reserve and that the whole value is not available to spend on general activities. The future tranches of GCP grant are recognised specifically in the Capital Grants and Contributions Unapplied Reserve within the usable reserves total. This reserve is only available to fund eligible capital expenditure.

Chair’s response:

As we are towards the beginning of this tranche of Greater Cambridgeshire Partnership funding, the impact of the financial statements and in particular debtors is especially noticeable as you have indicated, and the Committee discussed this when we considered the draft accounts in July.

The Council’s draft accounts are currently subject to audit by EY. As a result of the size of this grant we would absolutely expect it will be considered during the audit and if it is concluded during the audit that the treatment of the GCP grant needs to be considered further or amended that can be done ahead of the Committee considering the final, audited accounts in due course