

AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: 19th September 2017

Time: 2.00 – 4.45 p.m.

Place: KV Room, Shire Hall, Cambridge

Present: Councillors: I Bates (substituting for Cllr Wells) M McGuire, S Crawford, P Hudson, M Shellens, (Chairman) T Rogers (Vice Chairman) and J Williams

Apologies: Councillor D Wells

Action

31. DECLARATIONS OF INTEREST

Councillor Bates declared an interest in terms of being on the Executive Board of the Greater Cambridge Partnership during consideration of the report at Minute 35 as it made reference to the City Deal.

CHANGE IN THE ORDER OF THE AGENDA

Due to a number of the officers only being required for one report or part of a report, the Chairman, with the Committee's agreement, made changes to the order of the agenda.

32. INTEGRATED RESOURCES AND PERFORMANCE REPORT FOR THE PERIOD ENDING 31ST JULY 2017

It was agreed to take this as the first report. The report presented for information the financial and business information to assess progress in delivering the Council's Business Plan. The same report had that morning been presented to General Purposes Committee, the responsible committee for agreeing the recommendations.

It was orally reported that there had been amendment to recommendation b) i) at that morning's General Purposes Committee to clarify that the allocation of £3.5m Challenge Fund grant received from the Department for Transport would be allocated to the Economy, Transport and Environment Budget for its intended purpose, namely to repair weather damaged roads.

It was noted:

- That the risk of the Business Plan not being delivered was now rated red due to the forecast year-end outturn position

having worsened with it showing an estimated shortfall of +£4.1m an increase of £1m on the forecast overspend reported in May. This was mainly as a result of People and Communities and Corporate Services Financing increases, with the detail set out in section 3 of the report. Although the position continued to be challenging, currently savings of £29.4m were still on track against a target for 2017-18 of £33.4m. It was highlighted that the Council continued to face significant demand-led pressures and risks particularly related to children's services, where numbers of Looked After Children (LAC) were at very high levels and continued to grow, in line with national trends. **Action: The Chairman requested that the Member Seminar in November on LAC required to provide some analysis of the reasons for this Countrywide phenomenon.**

**RVS to notify
Theresa
Leavy.**

- The Capital Programme was forecasting a balanced budget at year end.

The Chairman commented on various sections of the report including:

- Suggesting with reference to the new Housing Investment Company Initiative, referred to on page 56, that in more affluent years, there might be the need to suspend spend to save.
- Drawing attention again to the substantial increase over a year in debt owed to the Council for both 4-6 months and over six months as shown in the table under paragraph 8.1 on page 64. In reply to his question on what measures were being taken to reduce the figures, he was referred to the report 'Level of Outstanding Debt' which had been received at that morning's General Purposes Committee (GPC) setting out a range of actions which were to be taken. In addition, as requested at the July Committee, the referred to report had also already been included in an e-mail to the Committee on 12th September from Democratic Services (*under the title 'Actions From July Audit and Accounts Committee in respect of the Risk Register Update for AAC re risks'*) **Action: It was agreed that the report should be re-circulated with the agreed actions and the discussion recorded at GPC.**

**RVS to
circulate
once GPC
minutes
finalised**

It was further highlighted in the discussion that GPC Committee would be receiving a further report at their March 2018 meeting to monitor the progress on the revised measures to reduce outstanding debt. One Member suggested that it would have been beneficial to have seen the report in draft form before it had gone forward to GPC.

Action: It was agreed that this Committee should also receive for information the next Outstanding Debt update report.

RVS to schedule on Forward Plan.

- With reference to the separate A3 Tracker Document which he was pleased to see had now been provided in a slightly more user-friendly format, he requested that where savings were being reconfigured in cases where they were not anticipated to achieve the original target figure, or if additional savings were required to be made, this information should be included in future versions of the document. **Action: It was confirmed that reference to any changes to savings targets would be included in future versions.**
- Drawing attention to the Transformation Fund Initiative the Chairman asked what benefits were being achieved. Reference was made to a separate report presented to GPC that morning which indicated that while savings would take time to be achieved against the expenditure allocated, £33m of savings had been identified of which £29m had been secured. *(Note: there is to be an update report on the Transformation Fund at the Committee's November meeting).*
- On page 76 'Legal proceedings' and the text reading that the budget was forecasting a £450k overspend, the Chairman drew the Committee's attention to a statistic he had received which suggested that in respect of Special Education Needs Children and appeals by parents on assessments which went to court, 86% were found in favour of the parents. He questioned whether this was a cost-effective use of resources and indicated that he had already requested more detail from Meredith Teasdale the Service Director Strategy and Commissioning in what had been the Children, Families and Adults Directorate.

T Kelly

It was resolved;

To note the report.

33. ACCOUNTS REPORTS TAKEN UNDER THE CHAIRMAN'S DISCRETIONARY POWERS

The Chairman under his discretionary Chairman's powers given under the Local Government Act 1972 agreed to allow consideration of item 4 - the BDO ISA 260 Audit Completion report and Item 6 - the main accounts report - which had been published less than five clear working days before the meeting. The reasons for lateness for both reports being that aspects of the Accounts

were still the subject of ongoing discussions between officers and the external auditors and were therefore not available for the main agenda despatch. The reason for urgency was the need to seek Committee approval to the main content of the Accounts to enable the Chairman, Vice Chairman and the Section 151 Officer to be given a delegation, subject to any minor changes, to sign off a further amended version of the Accounts before the end of September deadline.

34. CAMBRIDGESHIRE COUNTY COUNCIL PENSION FUND - ISA 260 AUDIT COMPLETION REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE

It was agreed that this report item 5 should be taken next and was to be taken with the section of the main Accounts dealing with the Pension Fund - pages 112-155).

The report indicated that the audit procedures against the planned scope were substantially complete, subject to the resolution of the matters set out in the outstanding matters section on page 5 of the External Auditor's (BDO) report.

The audit had identified no material misstatements and no significant deficiencies in internal controls. Subject to the resolution of the outstanding matters on the financial statements, BDO anticipated issuing an unmodified opinion on the financial statements for the year ended 31 March 2017. The review of the separate Pension Fund Annual Report and Statement of Accounts report was also similarly complete and BDO anticipated issuing an unmodified consistency opinion for the year ended 31 March 2017.

While this report stated that no material misstatements had been identified, the Chairman, in making reference to the other BDO Report (Late report Item 4 titled '*Cambridgeshire Audit Completion Report – Audit for the year ended 31 March 2017*', drew attention to page 2 of that report under the heading 'Audit Risks'. This read: *"Subsequent to our Planning report to you, dated 3rd March 2017, and following receipt of the draft financial statements, we revisited our risk assessment. This resulted in the risk of material misstatement associated with the pension liability assumptions being increased from normal to significant"*. He suggested that to the general reader the two statements on the Pension Fund contradicted each other.

In response, it was explained that they were referencing different aspects. The Item 5 report focussing on the Pension Fund, was purely an audit of the assets and investments, contributions and figures provided, and did not look at the estimated future liabilities to pensioners. This was in line with The Chartered Institute of Public Finance and Accounts (CIPFA) code of practice guidelines.

The main accounts included the assessment of the pension liabilities of the County Council estimated by the Actuary as required by the CIPFA code of practice which were based upon a series of assumptions regarding long term liabilities. Reference was made to the explanation note 25 in the main accounts. In response the Chairman suggested that the distinction being made was not clear to the general reader and suggested that officers should consider adding a cross reference note to the entry in the main accounts with an explanation for the different valuations. The BDO officer highlighted that this could cause a problem with the stand-alone Pension Fund Annual Report and Statement of Accounts which needed to be consistent with the Accounts included with the County's financial statements which would not be able to have such an internal cross reference.

In response to a question of when the audit would be fully completed on the Pension Fund accounts the expectation was that the outstanding issues referred to in the report would be finalised later in the week with the BDO officer confirming that there was no suggestion that there would be any required changes to the text narrative or to the figures in the Pension Fund Accounts. If any issues did arise in this completion phase they could be addressed through delegated authority to the Chairman.

Issues raised on the Pension Fund Accounts element of the Main Accounts

- the Chairman, drawing attention to the investment income figures on page 129 of £30 million from a £2.8 billion Fund, highlighted that this represented less than a 2% return which increased which he considered, was a very poor return. An explanation was provided in respect of the market value not being matched by increases in dividend pay outs and the use of accumulation funds. **Action: The Chairman requested a more detailed explanation / breakdown of the figures and the different funds outside of the meeting**
- **page 151 e) 50:50 option** - In response for an explanation of what this meant, this provided flexibility regarding the payment of employee contributions. Where, if employees considered they could not afford the full contribution, they could opt to only pay 50% and in return, would only receive 50% of the eligible benefit. **Action - it was suggested after the full stop this should be changed to a comma and more explanatory text provided.**

**Richard
Perry**

**Richard
Perry / Jeff
Abbott**

It was resolved to:

Accept the Pension Fund Accounts section of the main accounts.

35. AUDIT COMPLETION REPORT AUDIT FOR THE YEAR ENDED 31ST MARCH 2017

The late, published report from BDO, the County Council's external auditors, explained that they had substantially completed their audit procedures with the planned scope and objectives achieved. At the date of report publication no material misstatements had been identified, but this was still subject to the resolution of the outstanding matters listed in the report under 1 on page 6, and final agreement being reached regarding the accounting treatment in relation to the:

- City Deal Funding arrangement (*BDO's initial view on the information provided to date was that the whole of the £100m should have been shown in the accounts in the first year of the award in 2015-16, rather than the £20m tranche received in that year. The Audit team had requested further justification from the Finance team for their proposed accounting treatment in the current year, including clarification of who controlled the funding*) **Councillor Bates suggested that BDO should be provided with the latest City Deal (now the Greater Cambridge Partnership) Constitution / Terms of reference which would help clarify their concerns.**
- the recognition of Heritage Assets on the Council's balance sheet which had now been largely resolved.

Issues highlighted in the report introduction included:

- Three immaterial misstatements having been identified as highlighted in the adjusted misstatements text heading on page 2 of the report.
- Final materiality had been updated to £16.5m.
- Unadjusted audit differences – subject to the outstanding matters section, none were identified to date from the current audit. Two reported in 2015-16 had been brought forward as detailed on page 3 with other details as set out in the text. Some audit evidence requested from the Council was still outstanding which increased the risk of unadjusted misstatements being identified after the date of the Committee.
- No significant deficiencies had been identified relating to the internal control environment.
- On sustainable finances, delivery of the medium term financial position remained a significant challenge.

- Subject to the successful resolution of outstanding matters, BDO anticipated issuing an unmodified opinion on the financial statements for the year ended 31st March 2017.
- No exceptions were reported in relation to the consistency of the Annual Governance Statement.
- BDO anticipated issuing an unmodified opinion on the use of resources for the year ended 31st March 2017.

It was highlighted in the report that one objection from a local elector had been received relating to matters concerning payments made to, and the governance exercised in respect of, contracts and procurement processes. At the time of the report's publication these were still being looked into.

As it was clear that the Accounts could not be signed off at the current meeting, the Chairman sought clarification on whether they would be in a position to be finalised for sign off on the 29th September, the date for which a special reserve meeting had been arranged. He also sought an update on the position on the public objection and whether what had been raised by the objector would require any material changes to the Accounts.

Lisa Clampin, the BDO Engagement Lead, confirmed that the objection received was eligible to be investigated by External Audit. As a number of different questions had been raised, enquiries were ongoing and, while she had not reached a final conclusion, the issues raised were not judged to be material to the financial statements and would not therefore prevent the audit opinion on the financial statements from being given by 29th September. In response to a question, confirmation was provided that the certificate of completion of the audit could not be given until the objection was concluded. It was clarified that it was relatively normal where there were still some non-material issues outstanding for the external auditor's sign-off certificate to be completed sometime after the sign-off of the main Council Accounts). The objector and the Section 151 officer would receive a response once the independent investigation had been completed.

The Chairman suggested that there should be a report back to the November meeting from BDO and Finance on the lessons to be learnt from the current exercise, including the details of the response to the objection. He expressed serious concerns regarding being able to meet the new earlier statutory timetable for 2017-18 which required Accounts sign off by the end of July.

RVS to add to forward plan

Regarding the position on the list of outstanding matters on page 6 of the report, External Audit highlighted that they still awaiting some information from their sample testing and that if this was not received by 22nd September, this would affect the ability of the audit to be concluded and for the auditors' report to be received by the

29th September deadline. Finance officers and External Audit confirmed that both sides were working collaboratively to resolve the outstanding issues so that sign off could be achieved on 29th September.

The Chairman pointed out an error in an Appendix table which required to be corrected, as well as drawing attention to a discrepancy in the draft representation letter (between the first line and the next paragraph relating to the date of the Accounts with the first line reading "Financial statements of Cambridgeshire County Council for the year ended 31 March 2016). **Action: Request that drafting errors be corrected for the final version.**

B Pryke BDO

It was resolved :

To note the report.

36. STATEMENT OF ACCOUNTS 2016-17

This late report presented the detailed revised draft 'Statement of Accounts 2016-17' for the Committee's consideration and approval.

The report highlighted a significant change in the presentation of the Comprehensive Income and Expenditure Statement (CIES). This allowed officers to use the Council's existing internal reporting structure within the CIES, therefore maintaining consistency with internal financial monitoring reports, as opposed to using the service headings previously prescribed by CIPFA. A further change in 2016-17 was the inclusion of the Expenditure and Funding Analysis (EFA) within the Core Financial Statements.

Appendix 1 to the report provided a summary of financial variances between the CIES produced for 2015-16 and 2016-17. The causes of key variances were detailed in paragraphs 2.2.1 to 2.2.7 of the report.

Appendix 2 provided a summary of financial variations from 31 March 2016 to 31 March 2017 with the causes of key variances detailed in paragraphs 2.3.2 to 2.3.11 of the report.

The table in Appendix 3 summarised all the significant amendments to the draft Statement of Accounts submitted at the Audit & Accounts Committee meeting on 25th July 2017 which had been incorporated into the final document. Individual amendments were listed in paragraphs 3.2 to 3.5 which had followed from further work undertaken by the Finance Team and findings from the review by the external auditors.

Reference was made to the ongoing work in respect of the City Deal monies and that further amendments might be required. A decision on the accounting treatment for the City Deal finances was anticipated to be possible by 22nd September.

Issues raised in considering the detail of the Accounts included:

Page 23 – an explanation was provided that the income variations in some areas over the year were due to changes in the organisation

Page 34 - Heritage assets – In response to a query on what the current position was on the text reading “....*there remains £3.4m of Heritage Assets that have not actually been reviewed to determine their individual lengths*”, it was explained that this related to the value of heritage items not subject to specific review by the Council. The required information had been passed to BDO for them to consider as part of their audit procedures.

Page 36 - 11- Other Operating Expenditure – In reply to a query on the line reading ‘Losses on the disposal of the current assets’ the reason for the increase from £59,194k in 2015-16 to £88,287k was due to the higher number of schools transferring to academies. Later in the consideration of the report there was a discussion regarding the status of caretakers’ houses when a school was transferred to an academy. In reply it was explained that when it was within the school site it was transferred along with the school, but that if it was on the edge of a boundary, it was retained by the Council. The aim was to avoid leasing a council property to a non-council employee. Regarding a query on who made the decision to sell an ex-caretakers property no longer required, this would be a decision for Commercial and Investment Committee. **The Chairman expressed an interest in seeing the recent report on this Issue.**

T Kelly

Page 37 - 12 - Finance and Investment Income and Expenditure – in relation to investment properties and changes in their fair value - in reply to a query on why this had changed from £-57k in 2015-16 to £-5,579k in 2016-17 it was explained this was due to the significant increase in the land value of two Council owned properties.

Page 67 – Capital grants receipts in advance – on a query regarding why the balances on the line titled ‘Section 106 contributions and Community Infrastructure levy’ had halved between the two years it was explained that this was due to re-classification, but this would be checked. **Action: the Chairman to be emailed the explanation.**

Eleanor Tod

Page 80 – Local Government Pension Scheme – regarding the change in figures on the line titled Actuarial gains (-) / losses arising on changes in financial assumptions from £-125,748K in 2015-16 to £220,808 this was highlighted as showing how small changes in assumptions on returns resulted in large changes to the figures.

Page 93 – The Chairman queried whether all the text was required in the first paragraph.

In a final discussion on what the position was on agreeing the Accounts at the current meeting, the Deputy Section 151 Officer highlighted that the only identified material change to the Accounts which was still unresolved was around the treatment of the City Deal monies. His advice was that the Committee was in a position to agree the Accounts and approving a delegation to the Chairman, Vice Chairman and the Section 151 officer in respect of agreeing at a later date before the sign-off how the City Deal monies would be shown in the final version of the accounts. In respect of BDO's unfinished review and the possibility of some uncorrected misstatements being discovered as long as they were not considered material, their treatment could also be agreed via a delegation. The Committee unanimously agreed to this approach.

It was resolved:

- a) to approve the 2016/17 Statement of Accounts, subject to delegating approval to the revision of the accounting treatment of City Deal income to the Section 151 Officer in consultation with the Chairman and Vice-Chairman.
- b) To delegate authority to the Section 151 Officer in consultation with the Chairman and Vice Chairman to approve any further uncorrected misstatements that may be identified up to the conclusion of the Audit and determine whether or not they should be corrected.

37. MINUTES OF THE MEETING HELD ON 25th JULY 2017

The minutes of the meeting held on 25th July 2017 were confirmed as a correct record and were signed by the Chairman.

38. AUDIT AND ACCOUNTS MINUTE ACTION LOG FOR SEPTEMBER 2017 COMMITTEE MEETING

The Minute Action Log

The following issues were raised in relation to issues in the Minutes and the Action Log:

- Regarding the investigation into issues with 'Fenland Association for Community Transport' (FACT) it was confirmed by Internal Audit that this would not be finalised in time for a report to be considered at the November meeting. As a result, it was agreed it should move to the January meeting. In answer to a follow up question It was confirmed that the investigation was separate from the running of the contract and that the service provided was not being disrupted.
- In respect of the Integrated Resources and Performance Report actions from the July meeting Tom Kelly agreed to resend his email from 13th November with the response to the actions detailed on page 10 of the action log relating to carry forward details on home care savings targets and explanation of the line of 'Develop Traded Services' as listed on page 10 of the Action Log.

It was resolved:

To note the Minutes Action log update.

37. AUDIT AND ACCOUNTS COMMITTEE ANNUAL REPORT 2016-17

This provided the proposed annual report to be submitted to the October Council meeting for consideration and comments.

The Chairman highlighted the large number of recommendations made by Internal Audit arising from their audit reviews which required significant follow-up. He was concerned that a large amount of this time was not budgeted for, as there were not sufficient staffing resources. More detail on this issue was set out in the next report. His concern was the need to ensure there were sufficient resources to be able look at key areas that were undergoing transformation and required early review.

There was a discussion regarding the role of the Audit and Accounts Committee in terms of the Integrated Resources and Performance report and whether the report should be received before General Purposes Committee (GPC) and make recommendations on. It was clarified that the role of the Committee was not to advise GPC on the contents or suggest changes but to provide independent assurance of the adequacy of the risk management framework and associated control environment and to oversee the financial reporting process. In debate it was generally

agreed that this role was more appropriately undertaken by receiving the report after GPC as the latter was the overarching committee in terms of monitoring overall expenditure against the Council Business Plan and agreeing changes as appropriate.

The Chairman indicated that he would provide additional stylistic input outside of the meeting.

It was resolved to note the report.

38. INTERNAL AUDIT PROGRESS REPORT TO 31ST JULY 2017

This report provided an update on the main areas of audit coverage and the key control issues arising for the period 1ST June 2017 to 31st July 2017.

Paragraph 1.1 listed the audit assignments which had reached completion since the previous Committee report with Section 4 providing more detail on the summaries of completed audits with satisfactory or less assurance. 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 details of:

- the investigations caseload of the Internal Audit team provided in Table 3.
- Details of a Direct Payments investigation.

Outstanding management actions at the end of July 2017 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 pressures on the Internal Audit Plan and options to address the pressures. The proposed changes to the Plan as detailed in paragraph 5.2 were expected to provide sufficient compensating resources to manage the pressures within the Audit Plan while also highlighting that it was not likely that any further pressures within the Audit Plan could be accommodated without affecting the level of assurance that could be provided by the Audit Plan.

Issues raised included:

- As 10 out of the 13 assignments listed on page 101 had a minor organisational impact, the Chairman challenged why pact they were undertaken in the first place. This was on the

basis of the report highlighting the current issues the Service had in being able to resource follow up work. He suggested that priorities for future assignments should look at the potential impact the review could make. In response the Internal Audit officer provided assurance that the areas being looked at were appropriate.

- With reference to the text on page 107 on the 'A2 Project assurance – Looked After Children Property Project' and the last line reading "...at the time of the audit report it had not been established how these actions would be taken forward" it was clarified regarding the current position that an audit plan was to be formalised with timescales for the actions.

On page 110 under the heading 'Ethics' which was under the section on 'Pressures on the Internal Audit Plan' there was a request for explanation regarding the text reading: "The initial sample identified very low compliance". It was explained that in respect of the work undertaken to identify if officers and Members were disclosing interests they had in organisations which traded with the Council, this had revealed that some had not been declared from the small sample undertaken. In terms of Member compliance from later questioning it was clarified the sample had only picked up non-compliance from one Member. As a result, a further round of checks was being undertaken.

The Chairman suggested that a note should be sent around to members to consider if they needed to refresh their declaration of interests. In further debate on the issue, some Members felt a wider sample on Members compliance was disproportionate to the current findings. Councillor Shellens proposed the following action which was seconded by Councillor Rogers and on being put to the vote was agreed.

"To send an e-mail to all Members on the Council to indicate an Internal Audit review was being undertaken on declarations of interest to check for non-compliance having found a recent example and that they should be reminded of the need to check their declarations of interests forms to ensure they were up to date".

**Democratic
Services**

It was highlighted that B2 on page 108 had missing text. There was a request for Internal Audit to provide details of the lost text.

M Kelly

Regarding Appendix B 'Summary of Outstanding Actions' and those with a target date of the end of September, these would be updated for the next report (as the report had been written and presented before the end of September).

It was resolved:

to note the contents of the update report and agree the proposals to amend the Audit Plan as detailed in Section 5.2(1) of the report.

39. AUDIT AND ACCOUNTS COMMITTEE TRAINING PLAN

The Committee received a report, deferred from the last meeting, setting out the training that had been provided to Committee members and relevant training scheduled in the future (Risk Management - 5th October). The report sought any requests for additional training.

While no specific additional requests were put forward, the Chairman requested that officers **should at session before one of the future meetings take the Committee through the detail of a non-contentious project. This was agreed as a future action.**

M Kelly

The report was noted

40. AUDIT AND ACCOUNTS FORWARD AGENDA PLAN

In discussion the following changes were agreed

- Removing FACT from November to the January meeting.
- An additional report to the November meeting on how officers and BDO intended to improve the accounts audit process to achieve assign off by the end of July 2018

In respect of the Workforce Strategy the Chairman wished to convey to the relevant officers his continued extreme concern at the lack of progress and that a progress report would be required for the November meeting.

The Forward Plan with the above changes was noted.

41. DATE OF NEXT MEETING – 2.00 P.M. 21st NOVEMBER 2017

Chairman
21st November 2017