

Annual Report of the Audit & Accounts Committee

To: Audit & Accounts Committee

Meeting Date: 28th September 2023

From: Mairead Claydon, Head of Internal Audit & Risk Management

Electoral division(s): N/A

Outcome: The Audit & Accounts Committee agrees an annual report on its activity which will be presented to Full Council on 12th December 2023.

Recommendation: The Committee is asked to review the proposed annual report to Full Council and agree any changes required.

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1. Background

- 1.1 The Audit and Accounts Committee exists to provide independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 1.2 As part of their role, the Committee provides an annual report to Full Council outlining the work of the Committee over the past year.

2. The Audit & Accounts Committee in 2022/23

- 2.1 Audit and Accounts Committees within Local Authorities are necessary to satisfy the wider statutory requirements for sound financial management as part of best practice so that the Council can meet its duties under the Accounts and Audit Regulations. The Audit and Accounts Committee plays a vital role in ensuring that the residents of Cambridgeshire County Council are getting good-quality services and value for money, i.e. economy, efficiency and effectiveness.

Membership of the Committee:

- 2.3 The Audit and Accounts Committee currently had seven members and met five times in the 2022-23 financial year, with all meetings held in public. The Annual Council meeting held on 10th May 2022 agreed to appoint Councillor Wilson as the Chair and Councillor Gay as the Vice Chair for the Municipal Year 2022-23.
- 2.4 At the Audit and Accounts Committee meeting in July 2022, Members agreed to seek up to two apolitical, non-voting members to be co-opted to the Committee. This intention of this decision was to position the Council well to comply with any future legislative changes and to meet the aspirations of the CIPFA Position Statement on Audit Committees in Local Authorities and Police, which recommends that Committees include an independent or apolitical member. The Committee felt that introducing this arrangement at Cambridgeshire would be a valuable addition to the Council's governance arrangements.
- 2.5 Following an open advertised recruitment process, a total of eight applications were received, of which four were shortlisted and interviewed by Councillors Wilson, Gay and Boden. On 28th July 2023, the Committee received a report from the panel recommending the appointment of Mohammed Hussain as an independent non-voting member of the Audit and Accounts Committee. This proposal was approved by the Committee.

Committee Terms of Reference:

- 2.6 The Committee has been structured around the following responsibilities:
 - 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.

- 2.7 On 9th February 2023, the Audit and Accounts Committee considered a review of the Committee's Terms of Reference, which had been re-evaluated in light of CIPFA's recent Position Statement on Audit Committees in Local Authorities and Police, which set out the Audit Committee practice and principles that should be adopted. The Terms of Reference were then considered at the Constitution and Ethics Committee, before approval at full Council.
- 2.8 The report also included a proposal for the Committee to undertake a self assessment of its effectiveness. This proposal was agreed by the Committee and the review undertaken on 8th September 2023. The findings and actions from the review will be formally reported to the Audit & Accounts Committee in December.
- 2.9 At its meeting on the 26th May 2023, the Committee also agreed a proposed training programme for the financial years 2023/24 – 2025/6. Training sessions on the accounts and risk management have been delivered in August and September 2023.

3. The Committee's relationship with Internal Audit

- 3.1 A key part of the Committee's role is to both challenge and support the Internal Audit service. The Committee has supported a flexible approach from the Internal Audit team, which ensures that planned coverage is continually re-assessed to direct audit resource towards areas of emerging risk, rather than a static plan agreed some months before. The Committee has taken a proactive role in this approach, both by reviewing the proposed plan of work for Internal Audit and requesting updates from Internal Audit and Council services on implementation of actions.
- 3.2 In its role of overseeing the work of Internal Audit, every ordinary meeting of the Audit & Accounts Committee was provided with updates on progress in delivering the agreed Annual Audit Plan. For the 2022-23 financial year, the Head of Internal Audit produced an Annual Report setting out her annual opinion on the Council's control environment, which was presented to the Committee on 26th May 2023. The annual opinion is summarised as follows:

On the basis of the audit work undertaken by Cambridgeshire's Internal Audit team during the 2022/23 financial year, it is the Head of Internal Audit's opinion that overall Internal Audit can provide moderate assurance¹ over the system of internal control in place at Cambridgeshire County Council for the financial year ended 31st March 2023.

This opinion is derived from an assessment of the range of individual

¹ The opinion of 'moderate' assurance reflects the Council's Internal Audit service's standard definitions for assurance opinions, indicating that audit work has identified that there are control weaknesses that present a medium risk to the control environment; and that the control environment has mainly operated as intended, although errors have been detected. For more detail please see Section 3.2.4 of the Internal Audit Annual Report 2022/23.

opinions arising from work completed in 2022/23 by the Cambridgeshire Internal Audit team, taking account of the relative materiality of each area under review, and considering management's progress in addressing control weaknesses.

I would particularly highlight the following key pieces of evidence on which my opinion is based:

- Assurance opinions from Internal Audit reviews in 2022/23 showing a predominance of 'moderate' audit opinions. No instances were identified in-year where audit findings were deemed to have a 'major' organisational impact, and one action was recommended which was risk assessed as being 'essential' to avoid exposure to a significant organisational risk.*
- Reviews of Key Financial Systems for which Cambridgeshire County Council is the Lead Authority consistently demonstrating a good or moderate assurance across all systems. A prior-year issue around payroll control accounts is being addressed and will be reviewed in detail in a future audit undertaken by West Northamptonshire colleagues.*
- Procurement and contract management remains a key area of risk and focus for Cambridgeshire County Council, and this has been reflected in the Internal Audit plan and work completed throughout the year.*
- Review of the organisation's Code of Corporate Governance and the evidence supporting the Council's Annual Governance Statement, including Director's Assurance Statements. These documents demonstrate a sound core of organisational governance. There are some areas within the corporate policy framework which require further development, particularly with regards to project management and partnerships governance. There have been significant planned and actual changes in organisational structure at the Council in 2022/23 coupled with changes in senior management, and work to manage and embed these changes will continue into the new financial year. Organisational change of this nature may increase governance risk in the short term.*
- 62% of agreed audit actions due for implementation in 2022/23 have been completed by the organisation. This is broadly similar to the implementation rate of 64% for 2021/22.*

During 2022/23, the Council's Internal Audit service:

- Had unrestricted access to all areas and systems in the authority.*
- Received appropriate co-operation from officers and Members.*
- Had only just sufficient resources to enable it to provide adequate coverage of the authority's control environment.*

As a result, there are no qualifications to the 2022/23 Head of Internal Audit position statement. It should be noted that no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 3.3 The issues referenced in the Head of Audit opinion are outlined in more detail in the full Annual Internal Audit report considered by the Audit & Accounts Committee on 26th May 2023. Assurance over the payroll system is currently provided by the Internal Audit team at West Northamptonshire Council under arrangements managed via the Lead Authority Board. In 2022/23, the Audit & Accounts Committee continued to receive regular updates on payroll system assurances via Internal Audit.
- 3.4 On 24th November 2022 the Committee received a report on the external assessment of the Council's Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS). In 2022 the external assessment was carried out by the Head of Internal Audit at Peterborough City Council, in line with PSIAS recommendations that it be undertaken externally every five years. The conclusion of the assessment of Cambridgeshire's PSIAS compliance was that the Internal Audit team fully conformed to the requirements of the PSIAS and the CIPFA Local Government Application Note.
- 3.5 As part of the Annual Report, the Head of Internal Audit highlighted ongoing resourcing issues within the Internal Audit team, primarily due to an extremely competitive market for audit professionals. The Committee continues to receive regular updates on the actions being undertaken to secure sufficient audit resource, including recruitment, succession planning and procurement of a co-sourcing arrangement to supplement internal resource.

4. Proactive Work of the Committee

The following section provides a summary of the proactive work undertaken by the Committee over the last year. This aspect of the Committee's work is vital, and has assisted in improving the effectiveness of the Council's overall corporate governance arrangements.

4.1 Corporate Governance

- 4.1.1 The Council's Annual Governance statement is compiled on the basis of the findings of Internal Audit reviews throughout the year, assurance statements from executive and corporate directors, and input from senior management and members of the Committee. The 2022-23 Annual Governance Statement was reviewed by the Committee on 26th May 2023, prior to final sign-off and inclusion in the Council's annual Statement of Accounts.
- 4.1.2 The 2022-23 Annual Governance Statement included an action plan to further strengthen the Council's governance arrangements. The implementation of this action plan will be monitored via the new Statutory Officers Group and reported to the Audit and Accounts Committee.

4.2 Council Finance and Statement of Accounts

- 4.2.1 Throughout 2022-23, the Committee has maintained its oversight of Council finances to assess progress in delivering the Council's Business Plan. The Committee regularly receives reports on specific risk areas. In 2022/23, this included reports on debt management and consultants and interims.

Cambridgeshire County Council Statement of Accounts and External Audit:

- 4.2.2 The Committee considers and approves the annual Statement of Accounts for Cambridgeshire County Council. During 2022/23, the Committee received and approved the Council's audited financial statements for the year ending 31st March 2021.
- 4.2.3 On 26th May 2023 Members received a report setting out progress with the Statement of Accounts for the year ending 31st March 2022, and matters relating to the production of accounts for 2022-23. Members noted that the objections for years preceding 2022-23, i.e. relating to the periods 2018-22, had been determined by the External Auditor and the statement of reasons issued to the objector, with no further actions proposed. The appeal period had elapsed without the objector applying to the Court and these matters are now closed. There are also two objections lodged in 2017 and 2018 with the predecessor external auditor. The Committee has requested regular updates on their progression and required the attendance of a senior representative of that auditor at the Committee to press that point.
- 4.2.4 In relation to the External Audit for 2022-23, the deadline in the national regulations was for the draft version of the Council's accounts to be published by 31st May 2023. The County Council was not able to meet the 31st May deadline due to awaiting for and responding to outstanding external audit work. The Council has made strong representations in response to the government consultation on this issue, highlighting capacity constraints and the lack of External Audit resources available nationally. The draft accounts were subsequently published on 20th July 2023 and presented to the Committee on 28th July 2023.
- 4.2.5 The Regulations require the accounts to be audited and fully signed off by 30th September 2023, but this has also not been possible, with the reasons for this and the national context in terms of local government audit set out in full in the report to Committee on 28th July 2023. No local authority is due to meet this deadline and Government and regulatory bodies continue to explore a way to resolve the national delays.
- 4.2.6 In respect of the process of closedown of accounts and external audit for the 2023/24 year, officers have engaged with the Department for Levelling Up, Housing and Communities (DLUHC) to note that the audit of the 2022-23 accounts will still be taking place at the time that the Council is closing down its accounts for 2023/24. Additionally, the Council will be changing its External Auditors from EY to KPMG, and there will also be significant Code changes likely to be issued between December 2023 and March 2024, making this an extremely complex process.
- 4.2.7 The Committee will continue to check and ensure the Council's finance team are preparing for early closedown next year, whilst officers continue to lobby for a reasonable and pragmatic closedown date.

Pension Fund:

- 4.2.8 The Committee reviews and approves the Cambridgeshire Pension Fund Annual Statement of Accounts, alongside the Annual Report of the Pension Fund. The Fund's audited Statement of Accounts for the year ending 31st March 2022 was presented to the Committee on 24th November 2022 and approved.

4.3 Procurement and Commercial Annual Report

- 4.3.1 On 26th May 2023 the Committee received the Procurement and Commercial Annual Report. The Committee noted that many actions that had been undertaken in response to the Value For Money conclusions for 2017-18 by the previous external auditor, BDO, which had been critical in relation to the Council's procurement arrangements. Members were reminded that in 2021 the County Council had exited the Local Government Shared Service (LGSS) arrangements, and an enhanced procurement team had been established within the Council.
- 4.3.2 The report highlighted key areas of activity, how compliance was improving, the reduced number of waivers being issued and changes to procurement legislation. It was noted that there would be further changes resulting from decoupling from the arrangements with Peterborough City Council.

4.4 Performance Management Framework

- 4.4.1 The Committee received a report on the revised and refreshed Performance Management Framework on 31st May 2022 and its role in the Council's governance framework. The Performance Management Framework sets out how the Council manages performance in delivering services against its overarching priorities. It describes performance management activity at three levels: strategic (Committees and senior officers), operational (directorates and senior management teams) and individual (based on the Our Conversations framework).

4.5 Whistleblowing, Fraud and Corruption and Investigations

- 4.5.1 On 29th September 2022 the Committee reviewed the updated Anti-Fraud & Corruption and Anti-Money Laundering policies, and on 24th November the Committee approved an updated version of the Council's Whistleblowing Policy.
- 4.5.2 The Committee received periodic updates on all referrals received under the Whistleblowing Policy in the quarterly Internal Audit Progress reports throughout 2022/23, and also received a report on the awareness raising campaign, including the staff whistleblowing survey. The Committee also received the annual update on the use of the Regulation of Investigatory Powers Act 2000 (RIPA) at its meeting on 26th May 2023, which confirmed that the Council's RIPA policy had been reviewed and updated, and that no RIPA powers had been used by the authority in the previous 12 months.

4.6 Risk Management

- 4.6.1 Under the Council's Constitution, the Strategy & Resources Committee is responsible for the development and oversight of the Council's risk management strategy and process. The Audit & Accounts Committee also has important functions in relation to risk, including considering the effectiveness of the risk management arrangements and associated control environment and to seek assurances that appropriate action is being taken in response to risk.

- 4.6.2 During 2022/23, the Corporate Leadership Team and Directorate Management Teams formally considered risk on a quarterly basis. The Audit & Accounts Committee received updates on the risk management approach adopted via reporting from Internal Audit.
- 4.6.3 On 28th July 2023 the Committee received the Annual Risk Management Report, which summarised activity for 2022-23, highlighting key changes to the Risk Register, and outlining the introduction of new regular Corporate Leadership Team (CLT) risk assurance meetings, and a new system of risk assurance reviews. The report also detailed the assessment of the Council's risk maturity, which aimed to identify any gaps in current arrangements as well as helping plan and prioritise actions to further enhance and embed effective risk management, and the action plan appended to the report as a Risk Strategy, which will be reported back to CLT and the Committee at regular intervals.

5. Forward Plan for the Committee

- 5.1 Following the review of effectiveness undertaken on the 8th September 2023, a report on the review and a supporting action plan for the Committee is being developed and will be presented to the Committee in December. Key areas that the Committee is intending to focus on within that action plan include:
- Continuing implementation of the Committee's training plan;
 - Further building relationships between the Audit & Accounts Committee and the other Committees of the Council, and reminding other Committees that they can refer matters to the Committee for its consideration or action;
 - Conducting a review of the Committee's terms of reference to ensure this is aligned to best practice.

6. Alignment with ambitions

- 6.1 Net zero carbon emissions for Cambridgeshire by 2045, and our communities and natural environment are supported to adapt and thrive as the climate changes

There are no significant implications for this ambition.

- 6.2 Travel across the county is safer and more environmentally sustainable

There are no significant implications for this ambition.

- 6.3 Health inequalities are reduced

There are no significant implications for this ambition.

- 6.4 People enjoy healthy, safe, and independent lives through timely support that is most suited to their needs

There are no significant implications for this ambition.

6.5 Helping people out of poverty and income inequality

There are no significant implications for this ambition.

6.6 Places and communities prosper because they have a resilient and inclusive economy, access to good quality public services and social justice is prioritised

There are no significant implications for this ambition.

6.7 Children and young people have opportunities to thrive

There are no significant implications for this ambition.

7. Source documents

7.1 Source documents

Minutes and reports of the Audit & Accounts Committee, 2022 - 2023

7.2 Location

https://cambridgeshire.cmis.uk.com/ccclive/CambridgeshireCommittees/RegulatoryCommittees/tabid/139/ctl/ViewCMIS_CommitteeDetails/mid/530/id/9/Default.aspx