

## Audit and Accounts Committee: Minutes

Date: 24<sup>th</sup> November 2022

Time: 2.00pm – 4.05pm

Place: New Shire Hall, Alconbury Weald

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

Officers: Dawn Cave, Mairead Claydon, Mark Hodgson (EY), Stephen Howarth, Fiona McMillan, Stephen Moir and Linda Walker; Ben Barlow and Fiona Coates  
(*attended virtually for item 99*)

The Chair opened the meeting by thanking Fiona McMillan, who would shortly be stepping down as Director of Law & Governance and Monitoring Officer, for all her sterling work for Audit & Accounts Committee, especially on Manor Farm. He extended a warm welcome to Linda Walker, the Interim Director of Law & Governance.

### 93. Apologies for Absence and Declarations of Interest

Apologies were received from Cllr McGuire. There were no declarations of interest.

### 94. Petitions and Public Questions

There were no petitions or public questions.

### 95. Public minutes of the Committee meeting held 29<sup>th</sup> September 2022

It was resolved unanimously to approve the minutes of the Committee meeting held 29<sup>th</sup> September 2022. It was confirmed that the amended 22<sup>nd</sup> July minutes were available on the County Council's website.

### 96. Committee Action Log

The Action Log was noted.

Minute no. 85/Query around IAS 26 disclosure – a Member thanked officers for the very informative note from the Actuary on the actuarial present value of retirement benefits, confirming that IAS26 have to be based on financial assumptions on 31<sup>st</sup> March 2022. The Member advised that his question and challenge was whether the auditors would keep open the possibility that there may need to be a note under IAS8 to make provision for changes made since that date, specifically the economic global situation and the pension scheme itself. The External Auditor advised that this would be covered by a note on subsequent events. The Member accepted that it was standard practice, but he noted the statement from the Actuary that *“We are not aware of anyone putting in a post balance sheet note to capture general assumption changes (from general market movements) on an IAS26 report (which only values the obligations in any case)”*, which was why he had made this specific request, as the audit had to be kept open until it was signed. Officers confirmed that until it was signed, there could be a going concern or a post balance sheet event that required change, subject to the External Auditor's agreement. It was agreed that this item would be kept open and reviewed in future as necessary.

## 97. Consultants and Agency Worker Data – Quarter 4 2021/22 and Quarter 1 2022/23

The Head of Finance presented an update on the use of consultants and agency workers in Quarter 4 (January to March 2022) and Quarter 1 (April to June 2022). No consultants had been engaged via Opus during the period covered by the report. For the first time, the report included the contract with Milestone, the partner for highways.

In terms of process changes in relation to employees, consultants, interims and agency workers, it was noted that approval would be sought via an eform which would be reviewed by both Finance and the relevant senior manager. This would allow increased scrutiny of spending prior to the engagement of consultants, agency workers or interims.

Agency worker use continued to be within services providing frontline social care in the Adults & Safeguarding and Children & Safeguarding services. This was in line with the position in previous quarters, and the situation was the same for other local authorities.

Arising from the report:

- in response to a Member question, it was confirmed that Opus was a joint venture which the Council part owned, which provided most of the Council's agency workers;
- a Member asked why consultancy spend through the contract with Milestone had increased by 47% in the second quarter. It was confirmed that the increase related to the annual spend on a review of the highways network;
- discussed whether consultancy openings were competitively tendered. It was confirmed that the procurement of consultants was subject to the same governance processes as other Council procurement, and whilst the engagement of consultants above a certain level needed to be competitively tendered, expenditure below a *de minimis* threshold was within officers' delegated powers, subject to the usual Value For Money considerations;
- a Member queried the objective of producing this report, noting that whilst it was interesting, the recruitment of consultants and agency workers was not inherently a problem, but could be indicative of issues elsewhere. The Chair advised the Administration did use this information as it highlighted underlying issues which needed to be addressed;
- a Member asked if it would be possible to see budgeted figures for consultants and agency workers in future reports, so that the Committee could see where overspends were occurring. Officers explained that specific budgets were not set for consultants or agency workers, as expenditure was allocated to the relevant substantive staffing budgets, and exceptional expenditure could be tracked through the relevant Service Committee Financial Management Reports;

- a Member queried what the status was of the low interest rate loan that had been advanced to Opus historically. Officers agreed to provide a written response to the Committee on this matter. Action required.

It was resolved unanimously to note the current data on the use of consultants and agency workers/interims.

## 98. Financial Reporting and External Audit Update

The Committee considered an update on progress with the Council's external audit of 2021-22's draft accounts, as well as progress with accounts from previous years.

The Council's draft statement of accounts for 2021-22 draft accounts had been published at the end of July, and the audit was progressing well. However, it was unlikely that the audit would have fully concluded by the statutory deadline of the end of November. If this was the case, the Council would comply with the regulations by publishing a notice explaining that the audit was ongoing as at 30 November 2022. It was expected that the audit would be finalised as soon as possible, but this was contingent on the national issue that had emerged relating to the accounting for infrastructure assets, and the government consultation on statutory override.

Members noted the status of the ongoing issue whereby two objections had been submitted by a local government elector to BDO in 2017 and 2018. Regrettably, the timelines promised by BDO had not been met. In discussion on this matter, the Chair asked if there were any further sanctions available to the Council in relation to BDO's continued underperformance. The Chief Executive advised that he had written to BDO's UK Head of Audit & Assurance, and had escalated the matter to BDO's UK Managing Partner, but received no responses. A Member remarked that he was astonished that the Chief Executive had not received responses from those individuals, and suggested that it would be appropriate to formally engage with BDO's official complaints procedure, and also with the regulator, the Institute of Chartered Accountants for England & Wales (ICAEW), if no satisfactory response was received. It was agreed that the Chief Executive would undertake these actions. Action required.

A Member asked what impact the statutory override would have on signing the accounts if that matter was not clarified following the consultation. The External Auditor advised that he had seen the draft and had commented, and was expecting it to be progressed in accordance with the revised timetable. A 21-day period would need to elapse before the statutory override became extant and live, which was likely to be in February. A Member observed that if the statutory override was not laid by the second week of January, there was a risk the accounts would not be in place for the Committee to sign them off at their 9 February meeting, so that date may need to be rescheduled.

At the previous meeting there had been a discussion on immaterial audit differences, specifically the policy in terms of adjusting the accounts. This related to items identified during an external audit as being at variance with the correct accounting treatment, but which were below the auditor's materiality level, so it was management's discretion as to whether to adjust or not. The materiality limit applied to the total of all the accumulated differences, which were added together rather than considered individually. These differences were reported to the Committee, and the approach was to adjust for them unless there was a specific justification not to do so.

Noting the examples in the report of when officers would not adjust, a Member queried the criterion *“Where the adjustment would impact on our outturn position”*. Whilst understanding this from an accounts perspective, the Member asked if this meant the Council was being less than rigorous from an outturn position. Officers advised the key issue was materiality and the S151 Officer’s best judgement, and those issues were dealt with on a case by case situation. The Chair commented that the materiality threshold was relatively high, and there may be times when consideration would be taken of a matter described by the External Auditor, even though it was below materiality threshold. Whilst noting that this was a matter for the S151 Officer’s professional judgement, a Member commented that he was slightly concerned that the Committee did not have visibility of these matters. Officers confirmed that they did report on all of the immaterial adjusted/unadjusted results in the report, but this might not precisely state if adjustments were or were not made, and why. It was agreed that this would be made clear in reports going forward.

A Member queried the second example of when officers would not adjust, where the adjustment could not be precisely calculated. He suggested that in many cases, best estimates should be included, even if not material, and queried the rationale that they should not be included because they could not be precisely calculated. Officers confirmed that they were compelled to make a lot of best estimates and assumptions in material items. In cases that were immaterial and could not be calculated, they did not want to be forced into making assumptions, but much was dependent on the exact differences. It was suggested that the criteria listed should emphasise the discretion and professional judgement used, because if read in isolation, these criteria could be misconstrued, as actions were taken in the majority of cases

The Chair asked the External Auditor for clarification on the 2020-21 objection, and his commitment to *“...provide a decision on whether to take any action on this front by 20 January 2023”*. The External Auditor confirmed that EY were working to the 20 January date, but the process included consultation with the objector which would have fallen over the Christmas period, so the timescale had been extended to give sufficient time for that part of the process to be duly undertaken. The External Auditor confirmed that the report related to the process for dealing with formal objections: the way it was reported was for the statement of reasons, not the accounting treatment i.e. it was a process point, not an audit specific point for the final set of accounts.

It was noted that the process for appointing the County Council’s auditor for 2023-28 would be announced later in the calendar year, and the Committee would be notified as soon as this had been announced nationally by PSAA. Action required.

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

## 99. Pension Fund Annual Report and Statement of Accounts 2021-22

The Committee considered the final Pension Fund Annual Report and audited Statement of Accounts. Introducing the report, officers commented that there had been no material changes from the draft accounts, which had been considered by the Pension Fund Committee. This report would be considered by the Pension Fund Committee in December, and then the Local Pension Board.

Key points highlighted in the presentation included:

- Contributions had reduced from previous years, reflecting the decrease in deficit payments;
- transfers in from other pension funds had reduced considerably, these being demand led;
- benefit payments had increased to £118.3M, as the number of active pensioners had increased, and also reflecting inflation;
- Management Expenses were largely unchanged, with the increases being due to ACCESS management, audit and actuarial costs;
- one-year investment return as at 31st March 2022 was a net market gain of £383M;
- the Net Asset Statement showed increased investment assets, reflecting returns generated by managers, and a reduction of investment liabilities, which was essentially a timing issue. Current assets had reduced, mainly driven by the contributions accruals in early April, with current liabilities remaining largely unchanged.

At the invitation of the Chair, Councillor Whelan spoke as Chair of the Pension Fund Committee. She noted that there were some unusual items, such as the valuation of the Cambridge & Counties Bank, but overall she was happy with the accounts and the governance of the Fund. She thanked all those officers involved in reaching this stage, and said it was pleasing that the external audit had been completed satisfactorily.

Arising from the report:

- a Member commented that it was clearly a well managed Pension Fund, and whilst he was pleased to note the Responsible Investing policy, he felt the decarbonisation targets were not sufficiently ambitious. Officers responded that there was more information available on the website, and this was very much an ongoing issue that was scrutinised at every Committee and Investment Sub-Committee meeting. Officers also met regularly with ACCESS investment pool colleagues as well as the wider LGPS on these issues. Councillor Whelan advised that there was continuing robust challenge from her as Chair on Responsible Investment targets, which were as ambitious as they could possibly be, given the Pension Fund's overriding fiduciary duty to meet its obligations to pay pensioners. A number of actions were being progressed over the coming months to demonstrate the commitment to decarbonisation of Fund;
- a Member observed that the asset allocation to Fixed Income was quite low, and he asked if there were any implications in the event of a market event such as the mini budget. Officers confirmed that the Fund was reasonably safe in that regard, the Gilt issue having mainly impacted on private pension schemes. In addition, there would be an Asset Allocation Review in February 2023;
- in response to a Member question on the illiquid elements of the portfolio, it was confirmed that this comprised Property, Infrastructure and Private Equity investments;

- Pension Fund Committee Members commented that the Fund was in a very good, robust position currently;
- one Member highlighted the uncorrected difference (understatement) of approximately £10M. This was below materiality thresholds and related to Level 3 funds valued at 31/12/21, as the new actuarial value had not been available in time for inclusion in the accounts. He commented that it was regrettable if systemically the latest actuarial valuations could not be included in the accounts going forward. Officers advised that they were working with partners to ensure data was received in a timely fashion, so they did not have these unadjusted situations in future.

The External Auditor advised that this was a very good audit, executed to planned timetable, and he was proposing an unqualified audit opinion, with only one uncorrected difference relating to valuation of Level 3 investments which had driven the £10.2M difference, which was essentially a timing difference, and did not require adjustment.

The Chair asked if any of the list of outstanding matters raised by the External Auditor, set out in Appendix D, were presenting difficulties for officers? Officers confirmed that all matters had been completed, were in progress or would be completed shortly.

With regard to the various fees to be determined, the External Auditor advised that there would be additional fees as detailed in the report, but the audit had gone well so these fees were likely to be minimal, and less than previous years.

The Committee recorded its congratulations to the Pension Fund team for a successful audit and set of accounts.

It was resolved unanimously to:

1. approve the Final Statement of Accounts and note Annual Report of the Pension Fund for the 2021-22 financial year;
2. view the findings of external audit documented in the ISA260.

## 100. External Review of Compliance with Public Sector Internal Audit Standards (PSIAS)

The Committee considered the recent external assessment of the Council's Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS). Members noted that a PSIAS self-assessment was conducted annually by the Internal Audit team, but in 2022 an external assessment was carried out by Steve Crabtree, 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. There was one attribute standard where an element of partial conformance was noted, but it was confirmed that this did not have a material impact on the assessment. This related to the withdrawal of a

customer feedback questionnaire, but a new electronic customer satisfaction questionnaire has now been introduced. In addition, a number of actions were agreed to further strengthen the Service's compliance and effectiveness, and all actions should be implemented by May 2023, when an update will be provided in the Internal Audit Annual Report. The Chair congratulated officers on a very good report.

Welcoming the report, a Member commented that the value of good Internal Audit could not be understated, and in those organisations where the Internal Audit function failed, this could result in serious problems. He queried the direct reporting of Internal Audit now being to the Executive Director for Strategy and Partnerships, rather than the Section 151 Officer. The Chief Executive explained that as part of the recent Corporate Leadership Team restructure, this had been considered appropriate and that Internal Audit would, in future, report to the Service Director: Legal and Governance (Monitoring Officer) within the Strategy and Partnerships Directorate, not directly to the Executive Director. The advantage of this approach was that there was a broader view on audit, rather than purely focussing on financial systems audit. He added that he also recognised the importance of good Internal Audit in terms of providing professionally independent assurance and had regular update meetings with the Head of Audit and Risk Management to ensure he was appraised directly. It was noted that the recruitment of capable qualified and experienced Internal Auditors was an ongoing challenge for the team.

On the issue of recruitment, a Member commented that this was clearly an important area and he hoped the Joint Administration did not lose sight of this. Both the Chair and Chief Executive reassured the Member that this was a priority. In terms of capacity to deliver the audit plan, it was noted that occasionally external expertise could be used effectively to compliment the Internal Audit team.

In response to a Member question about only 25% of completed questionnaires being returned as part of the PSIAS External Review, it was confirmed that some Committee Members would have received questionnaires, and the team was keen to maximise feedback as far as possible.

It was resolved unanimously to review and comment on the external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards.

## 101. Internal Audit Progress Report

The Committee received a progress report on Internal Audit, for the period to 15<sup>th</sup> July 2022.

Presenting the report, officers highlighted the following areas:

- Those audits reaching completion, and those at draft report stage;
- The forward plan reflecting current reduced capacity;
- Follow up of agreed audit actions, including the 26 outstanding recommendations relating to the 2020-21 audit review of the Capital Programme within the Major Infrastructure Delivery;
- Fraud and Corruption activities including Whistleblowing cases;
- A review that had taken place to provide assurance regarding how the Related Parties process had been handled in respect of a declared related party relationship with the former Executive Director of People &

Communities and, specifically, a proposed corporate project with the related party organisation. The review confirmed that the related party relationship had been declared appropriately in the Council's accounts other than in 2018/19. Some historic weaknesses had been picked up, but this omission appeared to be an oversight given that declarations were made appropriately in preceding and subsequent years. The Committee noted the actions and recommendations arising from this review to ensure there were not similar issues arising in future;

- A Risk Assessment of Money Laundering Risk had been carried out following the recent review of the Anti-Money Laundering Policy;
- Co-ordinating of upload of information for the National Fraud Initiative, and the co-ordination of the Council's response by the Internal Audit team;
- The Payroll Transaction report had been received from West Northamptonshire colleagues;
- The team had commenced testing work for the Accounts Payable and Debt Recovery audits.

Arising from the report:

- one Member expressed surprise that the IT healthcheck was still an outstanding item, and he asked if sufficient priority was being given to resolving this issue. The Chief Executive agreed that the PSN certification was important standard for all public authorities to maintain. Following the detailed discussion on this at the last Committee meeting, he proposed that a written update be provided to Committee from the Executive Director of Strategy and Partnerships. **Action required;**
- With regard to Anti-Money Laundering activities, a Member asked if there was sufficient awareness of this matter across the Council, as many people believed that Anti-Money Laundering related to cash transactions limits not being exceeded, whereas in reality it impacted on a far wider sphere of activities. Officers confirmed that historically the scope of Anti-Money Laundering had probably been underestimated, with the focus being on Finance and Legal, and many staff not feeling it was relevant to their work. The Internal Audit team was undertaking bespoke training targeting specific teams, with a close focus on the types of actions that could be taken. In addition, now that the Policy was in place, the team was keen to ensure communications and awareness was appropriately targeted to embed that culture;
- with regard to the National Fraud Initiative (NFI) which had moved forward quite significantly over the last couple of years, a Member observed that many Internal Audit functions were engaged in high volume data checking with HMRC and other local authorities. He asked to what extent the County Council was involved with HMRC and other authorities in county? Officers advised that the Internal Audit team co-ordinate the NFI initiative at Cambridgeshire County Council. Examples were given of matches received from the NFI, and how Internal Audit dealt with those data matches did not obviously sit within a specific service, such as conflicts of interest. Work also was being undertaken with the District authorities on data matching for Council Tax. On that point, the Member commented that there was advantage to greater pursuance of single person reduction for Council Tax. Officers



confirmed that there was an appetite within the Council to progress with that, and negotiations had taken place with district authorities;

- observing that 16 Whistleblowing cases had been reported year to date, a Member commented that this seemed quite low, and asked if the Council was being too restrictive in how it defined whistleblowing? Officers confirmed that in the reporting to Committee, a wide definition of Whistleblowing was taken, noting that some authorities did treat Whistleblowing and Complaints jointly. The Chief Executive confirmed that he was content that Whistleblowing was defined appropriately within the Council, based on the comprehensive review of the Policy in 2021. There were a number of other policies which may address issues initially coming in through Whistleblowing route, but characterising those as Whistleblowing could be potentially overstating the state of affairs;
- A Member asked if NFI data was routinely generated for every single employee, to check if they had other sources of income, which had consequences not just for conflict of interest, but also overworking. Officers confirmed that NFI data did not include this, but they did receive alerts if an employee was working for another public authority, albeit that this did not pick up consultants, interims or agency workers.

It was resolved to note the report.

## 102. Audit and Accounts Committee Annual Report 2021-22

The Committee considered the draft Audit and Accounts Committee Annual Report for 2021-22, which summarised the Committee's annual work programme. The Annual Report would be presented to the December meeting of full Council by the Chair, to give assurance to full Council and stakeholders that the Committee had fulfilled its responsibilities, set out in paragraph 1.5 of the covering report. The report also set out a proposal to formally review the Committee's Terms of Reference and conduct a self-assessment of its effectiveness.

With regard to paragraphs 3.2.6 and 3.2.7 of the report, it was agreed that it would be reported to Council that the Chief Executive would be raising a formal complaint with BDO in relation to the audit of previous years' accounts, and also noted that the Chief Executive had recently reviewed the Council's Whistleblowing Policy. There was a discussion around the latter, and Members agreed that whilst 'Whistleblowing' could have negative connotations, this name was preferable to the alternatives.

It was resolved unanimously to:

- a) review and comment on the Annual Report of the Committee in advance of its presentation to Full Council on 13th December 2022.
- b) consider and approve the proposal to undertake a review of the Committee's Terms of Reference and a self-assessment of the Committee's effectiveness in line with CIPFA guidance, as set out at Section 4 of the report.

### 103. Whistleblowing Policy Review

The Committee considered a review of the Whistleblowing Policy. Introducing the report, the Chief Executive thanked the Head of Internal Audit and Risk Management, Mairead Claydon, and Executive Officer Edward Groome for their support in producing this report.

The Chief Executive advised that the review of the Whistleblowing Policy that had been undertaken in 2021 was sensible, appropriate, and reflected well on the Council, and was consistent with how Whistleblowing was conducted in many other authorities. Consequently, the changes to this review were minimal.

Referring back to the earlier point raised by a Member, he commented that no matter how robust the Policy was, the implementation and adoption of the policy was key. He also agreed that whilst the word “Whistleblowing” could have negative connotations, but that alternatives such as “Raising Concerns” were often more confusing to staff. More broadly, the issue was how to promote the Policy, as often staff felt that they needed to be brave to raise a whistleblowing issue, or that there was a risk to doing so. He outlined the various routes of communications that were planned.

The Chief Executive suggested that at the next annual review of the policy, engagement of an organisation such as Protect should be considered, to undertake an externally validated review, looking not just at the policy, but also governance, and the Council’s culture and staff engagement. Protect’s services were hugely helpful, and they worked with both public and private sector bodies.

One Member commented that Whistleblowing was always very challenging indeed, and stepping forward on issues that could have dramatic implications for an organisation could be extremely difficult for individuals, and she was personally aware of incidents outside the Council where individuals had become sidelined careerwise, or otherwise disadvantaged. She felt that anything that could be done to reassure staff should be considered. The Chief Executive recognised entirely the Member’s concerns, especially as the media focused on negative outcomes arising from whistleblowing, and outlined his experience in these matters. He reassured the Committee that he would reaffirm the position that there would be no detriment to staff in coming forward, and he thanked the Member for raising those points.

Another Member suggested that this should be shared with all Councillors, not just new Councillors, so that it was at the forefront of their minds.

The Chair agree that at the appropriate time, the Council should be working with Protect or another appropriate body to externally review the Policy.

It was resolved unanimously to re-approve the County Council’s Whistleblowing Policy.

### 104. Audit and Accounts Committee Agenda Plan

Members noted the Committee Agenda Plan. There was a short discussion on the long outstanding FACT, HACT and ESACT issue. It was agreed that an update would be provided to the Committee. Action required.

It was resolved unanimously to note the Agenda Plan.