

## Audit and Accounts Committee: Minutes

Date: 7<sup>th</sup> March 2022

Time: 10:00am – 12.45pm

Place: New Shire Hall, Alconbury Weald

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

Officers: Dawn Cave, Mairead Claydon, Neil Hunter, Tom Kelly, Stephen Howarth, Fiona McMillan, Ben Stevenson, Eleanor Tod; Mark Hodgson and Sappho Powell (EY)

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

Apologies were presented on behalf of Councillor Whelan (Councillor Batchelor substituting).

There were no declarations of interest.

### 45. Petitions and Public Questions

There were no petitions or public questions.

### 46. Public minutes of the Committee meeting held 25<sup>th</sup> November 2021

It was resolved to approve the minutes of the Committee meeting held 25<sup>th</sup> November 2021.

### 47. Committee Action Log

The Action Log was noted.

The appointment of the External Auditor using PSAA had been noted by full Council, along with the Internal Audit Annual Report for 2020-21.

### 48. Statement of Accounts and related matters

The Committee considered a report on the progress with the Statement of Accounts for the year ending 31 March 2021, and the updated financial statements.

Members were reminded that the Committee had considered the draft accounts at its July meeting ahead of the External Audit process. The report set out the remaining items required to complete the audit, most of which were in progress. Once completed, any remaining adjustments would be incorporated into the final accounts. The only material item outstanding related to the City Deal Grant, and Members' attention was drawn to Appendix A to the report which provided the Council's assessment of the technical considerations on this point.

A number of adjustments had been made to the Statement of Accounts as a result of the External Audit process, and these were outlined. A further two adjustments had been identified but had not been adjusted.

Members noted the timescales in terms of the previous audit (2017/18) where the Value For Money conclusion had been presented to the Committee by the previous auditors, BDO, at their November 2021 meeting. The next stage was for BDO to issue the audit completion certificate and determination of the objection.

Introducing the provisional audit results report, Mark Hodgson (EY) advised that whilst it was not fully complete, the report provided considerable assurance in key audit risk areas.

Members noted:

- Changes to Materiality levels: overall materiality was set at £18.68M and audit differences above £935,000 would be reported;
- The detail of the two unadjusted audit differences, which related to Property, Plant and Equipment, and Insurance Provision. The Committee was asked to consider the reasons why Management had concluded that these should not be adjusted;
- The detail of the three corrected audit difference, relating to Net Pension Liability, Grant Income and Short term provisions. None of these were material but they were all above the reporting threshold;
- That there were no matters to report on areas of Fraud Risk;
- The risks around Group Consolidation: audit work had been completed in this area and there were a number of minor adjustments to be made to the revised set of accounts, which had been prepared using This Land's unaudited accounts. There had been some audit differences in This Land's final accounts, but these had a neutral impact in the County Council's group accounts;
- Significant assurance was given against all areas on the risk map. The audit remained in progress with respect to the City Deal grant and the Property Plant and Equipment issue, which related to depreciated replacement cost of assets. With regard to the City Deal, there were in essence two possible outcomes: either the current accounting treatment was judged to be correct, or all income should not be recognised in Year 1. The outstanding issue relating to Property, Plant and Equipment related to sample testing of key asset information used in valuations, specifically that used in calculating the obsolescence factor in assets valued under Depreciated Replacement Costs. The obsolescence factor was driven by the Useful Economic Life policy, which the external auditors had not had sight of, so it was not possible to judge if this had been applied correctly;
- There was only one unadjusted audit difference, which was essentially a timing difference between the report date and the accounts. This was not material to the overall audit;

- This had been the second year that the audit had been impacted by delays in provision of Payroll information. There was therefore a recommendation that Management undertake a review as to why Payroll information has taken so long to be provided and implement actions so that Payroll are able to provide supporting information to the audit process in a timely manner in future years;
- One objection had been received from a Cambridgeshire resident. The assessment was being considered in light of the outstanding objection in respect of the 2016/17, 2017/18, 2018/19 and 2019/20 financial statements,.

A Member asked when the external audit would be complete, including the outstanding matters relating to City Deal and the objection from 2020/21 and previous years. The External Auditor advised that he anticipated the City Deal issue to be concluded soon, but that the VFM conclusion, which was being progressed by the previous external auditor under the old National Audit Office requirements would take longer.

Whilst appreciating that there would be audit differences below the level of materiality, a Member expressed concern at the apparent lack of consistency in dealing with those audit differences, as some had been included, such as the Pension liability, and some had not, such as the Property valuations. Officers outlined the rationale behind the two uncorrected differences, and with regard to the property valuations, committed to ensure that correct valuations were available for the 2021/22 accounts. Mark advised that as external auditors, their responsibility was to report audit differences, and they were not uncomfortable with the approach taken in these two instances and the rationale given.

A Member commented that the allegations made about the accounting treatment of the City Deal by the objector were outrageous, especially the allegations about fraud. Auditors and Members had examined these issues extremely carefully, and there was no justification whatsoever for suggesting fraud was involved – there may be a difference of opinion, or even some incorrect information – but the allegations of fraud were outrageous. Similarly the allegation that this had been done to bolster the calculations to demonstrate that the County Council was a Going Concern was nonsense, again given the thorough examination provided by the external auditors.

There was a discussion on the correct treatment of City Deal monies. A Member expressed some concern that monies for future years were classed as usable reserves. Even if International Accounting Standard 20 (IAS20) was correct, and applied appropriately, it was questionable, by one view, whether this gave a true and fair view to users of the accounts, as receipt of the full amount in the first year distorted the Income and Expenditure account, whilst receipts in future years were not reported at all. He asked whether it was possible to override IAS20 in this situation. Mark responded that essentially there were the competing requirements of IAS20 and the CIPFA adaptation. It was noted that the officer report outlined the judgement made in considerable detail, and it was always better to overdisclose in a note or supporting information on such judgements. The Chief Finance Officer welcomed the comments of Members and the external auditor, and advised that additional expert views had been taken on these matters. He pointed out that it related to the accounting of the grant, and there was not necessarily a guarantee that future years' grant income would be forthcoming, but there were reasonable assurances and legitimate expectations

that was the case. This did not have an impact on the Council's Going Concern status, or the financial resilience or stability of the Council.

The Member who had raised the City Deal issue commented that he was reassured that there would be further discussions between officers and external auditors on these matters, and that a thorough examination would take place on how this particular matter would be concluded. However, his question was really whether it would be appropriate to go against that conclusion, i.e. move away from treatment in line with IAS20, so that it made more sense to users of the accounts. The External Auditor advised that whilst this was a consideration, auditors did not like to depart from international accounting standards, but he acknowledged that it was important to consider "true and fair" in relation to the perception of the reader of the accounts.

Whilst acknowledging that the treatment of the City Deal grant was a complex matter and that there were legitimate arguments on its potential to distort the accounts to some extent, another Member commented that the allegations of fraud and impact on Going Concern were outrageous, and he condemned the any mischief that had been generated by some parties over what was a technical accounting issue, including conspiracy theories and implications of criminal conduct to the National Audit Office. He condemned this intolerable behaviour towards the Council's officers, and commented that this matter needed to be concluded as quickly as possible.

A Member asked about progress with the VFM issue, and how much of an issue this was for the Council. The Chief Finance Officer reminded Members that at their November meeting, the Committee had received BDO's conclusions and recommendations on the procurement issues stemming from objections raised to the 2017/18 Accounts. An update on procurement would be considered by the Committee at its May meeting. While the value for money conclusion from BDO had subsequently been received, the determination of the objection had yet to be concluded formally by BDO. Once this had been determined, the similar or related objections raised in subsequent years needed to be determined. It was not desirable to have the VFM issue still outstanding, and officers were constructively engaging with BDO to conclude those matters.

A Member advised that due to the growing pressures within SEND nationally, the Department for Education had invited the Council to participate in the "safety valve" intervention programme.

With regard to the delays in providing information from Payroll, a Member asked how this area was being addressed. The Chief Finance Officer advised that the required information for completion of this audit was now in place. He confirmed that officers had performance concerns about Payroll and these were being addressed. Payroll was a shared service across four authorities, and was hosted by West Northamptonshire Council, and managed through a Lead Authority Board. The Internal Auditor advised that from an internal audit perspective, concerns had been raised around Control Accounts not being completed as regularly as they could be, but he did not have the detail available on those issues.

The Chair reminded Members that there was a recommendation to delegate signature of the final accounts to the Chief Finance Officer, and he committed to advising the Committee if there were any notable changes in the final version.

The Committee resolved unanimously to:

1. note this report and review and comment on the revised Statement of Accounts;
2. note the external auditor's Audit Results report;
3. approve the decision to not adjust the Statement of Accounts in relation to the two items highlighted in section 2.6 of the report;
4. delegate to the Chief Finance Officer and Chair of this Committee to sign the final Statement of Accounts, and to make any related declarations, taking account of the adjustments agreed with the external auditor.

#### 49. Internal Audit Progress Report

The Committee received a progress report on Internal Audit, for the period to 18<sup>th</sup> February 2022.

Presenting the report, officers highlighted the following areas:

- Highways audit work had paused in early December, and the Audit team were awaiting Open Book Review which would commence on 01/04/22. There had been positive progress and this work was ongoing;
- Risk management – the Corporate Leadership Team (CLT) had discussed the Corporate Risk Register recently and agreed that it was accurate and appropriate, with the following changes:
  - Split the single safeguarding risk into two, Adults and Children's;
  - The risk around budgets had been reworded to reflect the short and medium term assurance required;
  - The risk around Serious Incidents occurring would remove specific reference to Covid, as this was implicit;
  - A specific reference to Cyber Crime had been added to the Risk Register;
  - Specific risks around This Land had been removed, and replaced with more strategic risks around partnerships.
- The updated Risk Register would be presented to the May Committee meeting;
- That there were 65 management actions outstanding, and the majority were in the Place & Economy directorate, many of which related to the Capital audit work which had included a large number of recommendations. There were also a number outstanding in Resources, most of which would be picked up in the current audit of key financial systems;
- The allegation of timesheet fraud, which detailed how an individual working as a full-time interim had been doing a similar role for another local authority at the same time. The individual was no longer engaged by the Council, and it was not possible to pursue this as a criminal fraud, but a referral had been made to the ethics board of individual's professional institute, and a number of

recommendations had been made. HR had already implemented all recommended actions especially in relation to the Agency Worker and Interims policy.

Arising from the report:

- A Member noted that a redraft of the Council's Anti-Fraud and Corruption Policy would be considered at the next Committee meeting, and there was a reference in the covering report to the joint work with District Councils to reduce Council Tax fraud. He asked if this report could show (i) what the cost was to the County Council of the joint project; (ii) the anticipated returns to the County Council as a result of that work; and (iii) whether there were marginal gains to be had by expanding that work. Officers advised that the Council Tax Fraud Initiative project would not be referenced specifically in the Policy, but they were happy to provide an update on the Council Tax fraud project. **Action required;**
- A Member expressed concern regarding the lengthy list of outstanding recommendations which have missed their target dates, some by many months. He had queries about "repeat offenders", and asked if there was a positive direction of travel. It was confirmed that the original target date always remained the same in the report i.e. there were no revisions of revised dates, and that it was currently unusually high for a number of reasons. The Executive Director: Place & Economy would be attending the next meeting on the 26 recommendations relating to contract management work, many of which were in progress or complete, but for which assurance had not been received on the extent to which they had been implemented. Additionally, there were a significant number of recommendations coming out of the case of the timesheet fraud for Place & Economy. The Committee was assured that this report was considered quarterly by CLT, and CLT were aware of the risks if recommendations were not implemented in a timely fashion. Whilst the number of outstanding recommendations was high, it was expected that many would be signed off prior to the annual opinion. The Chief Finance Officer confirmed that CLT was cognisant of the seriousness of this report, and he would raise the Committee's concerns with CLT;
- A Member requested future iterations of reports, 'Essential' recommendations were listed at the top. Officers confirmed that this would be done going forward, and highlighted that this was the case in the narrative of the report. **Action required;**
- Noting that there was a core audit of areas audited annually, a Member asked, from a risk perspective, whether there were any audits that could be done less frequently, to give the team greater flexibility? The Head of Internal Audit confirmed that the core audit was effectively the minimum expected audit coverage across the organisation, and he gave examples on how those audits were modified in terms of resources and intensity, depending on the outcomes of previous audits and officer/CLT view. He welcomed Member views on any areas Members felt required greater or less focus in the Audit Plan;
- A Member asked if the Risk Register could be presented to the Committee at every meeting. **Action required;**

- The Chair asked Members if they were comfortable with the Internal Audit Charter. He felt that it was quite passive, and he favoured the Committee's Terms of Reference, included at Annex G to the report, was both more detailed and had used more proactive language. Members confirmed they were happy with the Terms of Reference as an accurate and comprehensive description of the Committee's role;
- A Member asked what the process would be if the Committee felt that a specific area needed to be investigated, would they be able to raise this with Internal Audit, or would this be seen as "directing" the team? The Head of Internal Audit commented that the Committee did not "direct" or "approve" as it was one of many stakeholders who would influence the Internal Audit Plan, and the need for the Internal Audit function to be independent. However, in practice, the Internal Audit team would take a recommendation from the Audit Committee to look at a particular issue, if it was material and relevant to the Council's work.

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

## 50. Manor Farm Update

The Committee considered a report on the publication of the remainder of the Mazars independent review of the County Council's Internal Audit Investigation into Manor Farm. The Chair advised that he had accepted this report as a late item on the following grounds:

1. Reason for lateness: To allow the report to contain the most up to date information possible.
2. Reason for urgency: To enable the committee to consider whether to publish further information in light of the recent Constitution & Ethics Committee decision to publish the Code of Conduct report by Wilkin Chapman LLP.

The Monitoring Officer reminded Members that when the Audit & Accounts Committee had met in July 2021 to consider this matter, they had agreed not to publish the Mazars independent review at that time, in order to await the outcome of any action on the recommendations relating to member conduct. Since that meeting, the Constitution and Ethics Committee had agreed to commission an investigation into the conduct of Roger Hickford. At a Constitution & Ethics Committee meeting on 25<sup>th</sup> February 2022 to consider the investigation report, Members had agreed to make the findings of that investigation public, as the public interest in publishing the report outweighed the public interest in maintaining the exemption.

The Audit and Accounts Committee was asked to consider if the public interest in disclosing the information within the remainder of the 69-page Mazars report, following the conclusion of the Code of Conduct investigation, outweighed the public interest in maintaining the exemption. The Committee agreed to move into private session to consider legal advice on this issue.

## Exclusion of Press and Public

It was resolved that the press and public be excluded from the meeting on the grounds that the report contains exempt information under Paragraphs 1 & 5 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to any individual, and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

Returning to public session, the Chair announced that following lengthy discussion, it had been agreed to adjourn this item to enable further legal advice to be obtained on the questions raised and consider it further at a special meeting of the Committee, on a date to be determined, which would take place before the pre-election period, which commenced on Monday 28<sup>th</sup> March.

### 51. Audit and Accounts Committee Agenda Plan

The Committee noted the Agenda Plan.

## Audit and Accounts Committee: Minutes

Date: 18<sup>th</sup> March 2022

Time: 2:00pm – 3.25pm

Place: New Shire Hall, Alconbury Weald

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

Officers: Dawn Cave, Fiona McMillan, Stephen Moir and Ben Stevenson

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

Apologies were presented on behalf of Councillor Taylor (Councillor Ferguson substituting).

There were no declarations of interest.

### 53. Exclusion of Press and Public

It was resolved unanimously that the press and public be excluded from the meeting on the grounds that the report contains exempt information under Paragraphs 1 & 5 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to any individual, and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

### 54. Manor Farm update

Returning to public session, the Chair announced that a number of actions had been agreed. The intention was to publish as much as possible of Mazars report and this would be considered at a later meeting. Looking ahead, the Committee was also keen to identify lessons learned, and feed into the work for Strategy & Resources Committee in establishing a programme of actions to resolve the issues raised.