

# Audit and Accounts Committee

## Annual Report

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### 1. INTRODUCTION

- 1.1 This is the annual report of the Audit and Accounts Committee, covering meetings held since the last annual report that was brought to Council in October 2010.
- 1.2 The Audit and Accounts Committee was established in May 2005 and is responsible for:
- 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.
- 1.3 The Committee's work involves the consideration of reports from the Council's internal and external auditors, providing challenge, seeking assurances that issues requiring attention are being addressed and monitoring progress. This report focuses on the main conclusions and issues arising from this work.
- 1.4 The Committee has seven members. Five meetings have been held since the last annual report, all in public with a number of training sessions held prior to the public meeting in respect of a relevant report or issue on the agenda.

### 2. STATEMENT OF ACCOUNTS

- 2.1 It is a key governance role of the Committee to approve the Statement of Accounts on behalf of the Council. Members considered the draft Statement of Accounts for 2010/11 at their July 2011 meeting. Following the audit of the accounts the revised version was approved at the September meeting with the adjustments or additional disclosures that had been required as a result of the audit being noted and agreed. Following these adjustments, the Chairman signed off the final accounts on behalf of the Council.

At the September meeting the Committee noted the excellent progress that the Finance staff had made to ensure that the Statement of Accounts were

presented in accordance with the revised International Financial Reported Standards. The Committee specifically wished to thank all relevant finance staff for the excellent close working relationship between the County Council staff and the External Auditors, that helped ensure that the Statement of Accounts for 2010/11 could be successfully signed off by the end of September.

2.2 Key features of the 2010/11 Statement of Accounts are detailed below.

2.3 **Revenue spending on services:** The Council's net cost of services for 2010-11 was £274.493m. This figure was £67.575m lower than the spending for the year of £342.068m (£3.271m under budget), that was reported to the Council's Cabinet in June. The reason for this is that the statement of accounts is prepared on a different accounting basis to those reports presented to members for resource allocation decisions by service, and takes account of charges for capital expenditure, centrally budgeted support service costs and variations in the accounting for retirement benefit.

2.4 **Reserves:** At 31 March 2011, the Council's reserves (Earmarked Reserves and General Fund Balances only) stood at £69.4million. Of this balance, £63.3 million was earmarked for specific purposes, including £23 million under the control of locally managed schools and £9 million to cover insurance risks. The Balance Sheet shows general reserves (i.e. General Fund Balances) at the end of 2010/11 of £6.1 million, which is 1.8% of the net 2010/11 budget.

2.5 **Capital spending and finance:** The Council's revised capital budget for the year was £179.3 million. Actual capital expenditure financed from capital resources for the year was £144.6 million, leaving some £34.7 million under the revised budget. However, it must be noted that this is due to the timing of spending and does not represent underspends on schemes.

2.6 **External borrowing and investment:** Total debt outstanding at the year-end was £331.8 million, well within the maximum limit prescribed by legislation of £495 million. There was a net increase of £5.1 million in long term loans in the year and a net increase of £29.9 million in short term loans. New loans were raised to fund capital programme and working capital requirements.

Cash surpluses occurring during the year have been invested in accordance with guidance issued by the government and the Council's agreed Treasury Management Strategy. The primary objective is to ensure that funds are invested prudently, with priority given to security and risk minimisation.

2.7 There were a number of significant matters for which adjustments or additional disclosures were required within the accounts:

## 2.8 **Cambridgeshire Guided Busway**

The Cambridgeshire Guided Busway opened on 7th August 2011 and is a significant capital project that is intended to provide fast, reliable transport link between Huntingdon, St Ives and Cambridge. The Busway is the longest of its kind anywhere in the world.

The project has taken longer than expected to complete and the Council has had to appoint a contractor to rectify the outstanding issues not completed by the original contractor that delayed the opening of the Busway. The cost of this remedial work will be charged to the original contractor.

The project is expected to cost £117.4 million following the application of the risk share mechanism within the contract. The government has contributed £92.5 million towards construction costs with the remainder coming from developer contributions.

## **2.9 Local Government Shared Service**

On the 1st October 2010, Cambridgeshire County Council (CCC) and Northamptonshire County Council (NCC) created a Local Government Shared Service (LGSS) to establish a wholly owned public sector organisation to deliver high performing support services at optimal cost.

LGSS is delivered through a Joint Committee with its own management team, but with its strategic direction being defined by both Councils.

The benefits of LGSS are expected to be:

- Reducing the net cost of change for each authority – as transformation activity can be undertaken once and the outputs shared for each organisation, reducing the relative implementation costs;
- Providing a vehicle to deliver service to other organisations;
- Providing an effective alternative to outsourcing;
- Improved controls through consolidation and process standardisation;
- Improved management reporting; and
- Creating an environment to share and implement good practice across the councils.

## **2.10 Building Schools for the Future**

Building Schools for the Future (BSF) was conceived as a national programme that would bring all secondary schools up to modern standards over the next 15 – 20 years.

The Cambridgeshire BSF project will create transformed schools reflecting the vision, hopes and aspirations of all who will look to these schools for their learning, local services, leisure and cultural opportunities as well as those who will work with and for the local communities in the schools.

The Council signed a contract in May 2010 for BSF provision in Fenland. This covers 4 secondary schools, 1 special school and 1 pupil referral unit. One of the secondary schools, Thomas Clarkson is being constructed under a Private Finance Initiative project (to be recognised in the accounts from 2011-12), with work on the remaining schools done through standard design and build contracts. Progress on each school is as follows:

- Thomas Clarkson – under construction and expected to be operational from January 2012;

- Neale Wade – under construction and expected to be operational from September 2011;
- Cromwell / Sir Harry Smith / Meadowgate – final funding has been agreed and the design process is underway. Expected to open in January 2014; and
- Fenland Pupil Referral Unit – awaiting confirmation of final funding before design stage. Due to open in January 2014.

## 2.11 Pensions

The Pension Fund Statement of Accounts reflects the underlying commitment that the Council has to pay future retirement benefits for its employees. This information has been compiled by the fund's actuary in accordance with the International Accounting Standard 19 Employee Benefits (IAS 19). The estimated pension liability, measured on an actuarial basis, has decreased from £510m at 1 April 2010 to £308m at 31 March 2011. The deficit will be made good by increased employer contributions over the remaining working life of employees, as assessed by the actuary.

## 3. ANNUAL GOVERNANCE STATEMENT (AGS) 2010/11

3.1 The AGS summarises the way in which the Council governs its activity, and is a key public document that is required to be included as part of the Council's annual Statement of Accounts. The Committee considered the AGS at its meeting in July 2011. For the AGS to have its intended benefit in driving good governance it is important to be open and honest about areas for improvement, but also give a balanced view of the organisation.

3.2 The AGS must also flag any 'Significant Governance Issues', which are defined as those that:

- seriously prejudice or prevent achievement of a principal objective of the authority;
- have resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- have led to a material impact on the accounts;
- the audit committee advises should be considered significant for this purpose;
- the Head of Internal Audit reports on as significant in the annual opinion on the internal control environment;
- have attracted significant public interest or have seriously damaged the reputation of the organisation;
- have resulted in formal action being undertaken by the Chief Financial Officer and / or the Monitoring Officer.

3.3 The review of the effectiveness of the Governance Framework has provided a satisfactory level of assurance on the effectiveness of the Council's governance arrangements. However a number of areas to note were raised, which included:

- Internal Audit has provided ongoing assurance on the Guided Busway, reporting to the Audit and Accounts Committee twice during 2010-11. Led by the Chief Executive, the Council has made concentrated efforts to resolve the

issues related to delivery of the Guided Busway and to take every possible action to ensure risks in this area are effectively managed; Requested regular updates on progress with AGS actions;

- CCC recognises that the programme of policy and legislative change emerging from the Coalition Government may mean considerable changes in the Council's range of responsibilities and the ways in which the Council is expected to take these forward; and
- Along with all other Councils, CCC faces very significant future challenges and difficulties to deliver services and meet its statutory obligations and objectives.

3.4 The Committee agreed the Statement to be consistent with the Committee's own perspective on internal control within the organisation and considered that it sufficiently acknowledged the particular challenges that the Council along with all other Councils currently faces.

#### **4. REPORTS FROM EXTERNAL AUDITORS**

4.1 PricewaterhouseCoopers (PWC) have been the Council's external auditors since 2004/05 and have developed a very constructive working relationship with the Council since this time.

4.2 Since the Committee's last report to Council, members have considered a number of reports from the external auditors, including:

- The External Audit and Inspection Plan 2010/11
- The audits of the Statements of Accounts for 2009/10
- The annual Audit Letter and the Use of Resources Assessment Results 2009

4.3 In each case the Committee has received details of the issues identified by the external auditors, the recommendations made by them and the response from the relevant Council officer(s).

#### **4.4 Audits of the Statements of Accounts for 2009/10**

4.5 The external auditors report on the Statement of Accounts for 2009/10 was presented to the Committee on 15th September 2010. The Committee also received a separate report on the audit of the Cambridgeshire County Council Pension Fund financial statements. In both reports an unqualified audit opinion was given.

4.6 In respect of the main Council Accounts the external auditors highlighted a number of significant matters for which adjustments or additional disclosures had been required, most of which had been undertaken by the time of the September meeting and are as outlined in Para 2.2 of this report.

#### **External Audit and Inspection Plans 2009/10**

4.7 The Committee noted the Audit and Inspection Plan for the County Council for 2010/11 presented at the January 2011 meeting; this plan will relate to the production of the Statement of Accounts in 2011/12. The external auditors identified key significant risks relating to the production of these accounts that

they will seek to provide assurance on during the year. The risks identified included:

- The first year of reporting under the new International Financial Reporting Standards (IFRS);
- Income and Expenditure Recognition;
- Management Override of Controls;
- Guided Busway;
- Accounting for Fixed Assets;
- Increased Pressures on Budgets;
- Development of Shared Service Arrangements;
- Treatment of Foundation Schools and Colleges; and
- Private Finance Initiative (PFI) Schemes.

4.8 The January 2011 meeting also received and noted the Pension Fund Audit Plan 2010/11 relating to the Pension Fund Statement of Accounts for 2010/11. The auditors identified risks identified in the Plan, including key areas of risk relating to their audit responsibilities, linked to:

- Management Override of Controls;
- Valuation of Investments;
- Restructuring of investment manager mandates;
- Reliance on Controls Within Asset Managers; and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, SI 2009/3093. .

## **5. REPORTS FROM INTERNAL AUDITORS**

5.1 Since the creation of LGSS in October 2010, the Internal Audit team is now led by the shared Head of LGSS Audit and Risk Management, reporting to the LGSS Director of Finance. Internal Audit is a team whose primary role is to provide assurance on the adequacy of the system of internal control within the Council, and to agree courses of action with managers where internal control can be improved.

5.2 The work of the Internal Audit service is directed by an audit assessment of the risk associated with the Council's various activities, to ensure that those areas presenting greatest risk are given highest priority. The Committee agreed the Internal Audit Plan for 2011/12 at its March 2011 meeting. The Internal Audit Plan is co-ordinated with the external auditor's Audit and Inspection Plan so that reliance can be placed on each other's work and duplication avoided.

5.3 During the course of the year, the Committee has closely monitored progress against the objectives and programme of work set out in the Internal Audit Plan for 2011/12.

### **Internal Audit annual opinion and report**

5.4 The Head of Audit and Risk Management gives an annual overall opinion on the adequacy of internal control systems. In July 2011 the Committee considered this opinion and the Head of Audit and Risk Management's annual report. The

Committee noted that, on the basis of work carried out by Internal Audit during the year and through using external sources of assurance, the Head of Audit and Risk Management's opinion was that the Council's governance, risk management and internal audit environment remained satisfactory both in relation to the Council's main financial systems and other key business processes.

5.5 In giving this opinion the Head of Audit and Risk Management noted a number of key points:

- The number of limited assurance opinions given on areas subject to audit review has reduced slightly in comparison with previous years. The majority of work completed by Internal Audit had resulted in moderate or substantial opinions.
- Implementation rates for our recommendations declined in 2010/11 relative to the previous year. This year management fully implemented 50% of fundamental category recommendations (71% in 2009/10). We have recorded where recommendations are in progress but have not yet been fully implemented. This was the situation with the remaining 50% of our fundamental category recommendations. Although there are no fundamental actions that have not been implemented to a greater or lesser extent, we will be taking steps in 2011/12 to improve our follow up procedures and to draw greater attention to those areas where management are unduly delaying implementation of agreed actions.
- Our programme of cross cutting work included a review of budgetary control and integrated planning arrangements, and found these to be satisfactory.
- Ongoing Assurance has been provided on a number of major projects with which the Council is involved (Cambridgeshire Guided Busway, Streetlighting PFI, Cambridgeshire Public Sector Network and Building Schools for the Future)
- Our programme of core financial systems work enabled us to provide substantial assurance on the key feeder systems underpinning preparation of the accounts. In addition, we undertook additional testing on interfaces upon which External Audit placed reliance.
- We carried out risk based reviews on a broad range of activity; our coverage is largely driven by the priorities identified in the Council's Strategic Risk Register. Our work in these areas delivered a range of assurance opinions; the majority of these were 'moderate' or 'substantial'.
- Our programme of computer audit included a major review of the Service Level Specifications and Technical Security controls for the Waste Managements Services core management information system the 'waste data tool'.

5.6 During the year the Committee has focussed particular attention on those internal audit reports for which an opinion of no or of limited assurance was given, inviting officers to the Committee to receive assurance on actions being

taken to address issues identified. The Committee has found it useful to engage with officers in this way and will continue to seek such assurances in the year ahead.

## **6. RISK MANAGEMENT**

- 6.1 The Committee has an important role in ensuring that the Council has effective arrangements for the identification, assessment, mitigation, management and monitoring of risk.
- 6.2 The Committee has continued to receive regular updates of the Corporate Risk Register to ensure effective risk management arrangements are in place.

## **7. FRAUD**

- 7.1 The Committee, as part of the regular reporting of Internal Audit progress has continued to receive updates on fraud and irregularity investigations completed. Whilst over the year there has been a requirement to conduct these types of reviews no major frauds or irregularities have been reported.
- 7.2 Internal Audit however continue to promote the Council's Anti-Fraud Strategy and are continuing to work with other counter fraud agencies and explore the opportunities available for partnership working.

## **8. DEVELOPING THE COMMITTEE**

- 8.1 Members have continued to be keen to develop and strengthen the role of the Committee, particularly to help the Council respond to the challenges of the period of economic austerity ahead. As a result of this commitment, the Committee has continued to receive training and briefings to help them fulfill their role, (undertaken usually an hour before the main meeting).

## **9. CONCLUSION**

- 9.1 The Committee would like to place on record its thanks to the Council officers and the external auditors who have supported its work throughout the year.

Councillor Tim Stone  
Chairman of the Audit and Accounts Committee 2008/09, 2009/10, 2010/11, 2011/12

<b><u>Source Documents</u></b>	<b><u>Location</u></b>	<b><u>Contact</u></b>
Agenda and reports of the Audit and Accounts Committee 2010/11	Room 114a Shire Hall Cambridge	Rob Sanderson (01223) 699181 <a href="mailto:rob.sanderson@cambridgeshire.gov.uk">rob.sanderson@cambridgeshire.gov.uk</a>