

## Audit and Accounts Committee Minutes

Date: 6<sup>th</sup> February 2024

Time: 2:00-3.12pm

Place: New Shire Hall, Alconbury Weald

Present: Councillors D Ambrose Smith, C Boden, N Gay (Vice-Chair), G Seeff, A Sharp, A Whelan and G Wilson (Chair); M Hussain (co-optee) (virtual)

Officers: Mairead Claydon, Emma Duncan (virtual), Richenda Greenhill, Michael Hudson and Stephen Moir; Mark Hodgson (EY), Tom Kelly, Emma Larcombe (KPMG), Jacob McHugh (EY), Eleanor Tod (relevant agenda items only)

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

There were no apologies.

Councillor Boden declared a non-pecuniary interest as a member of the ICAEW (Institute of Chartered Accountants in England and Wales) Conduct Committee. He advised that he would ensure that he was excluded from any discussions at that Committee which involved any potential conflicts with regard to the County Council's existing or past auditors.

### 156. Minutes of the Committee meeting held 1<sup>st</sup> December 2023 and Action Log

It was resolved unanimously to approve the public minutes of the Committee meeting held 1<sup>st</sup> December 2023.

The Action Log was noted.

### 157. Petitions and Public Questions

There were no petitions or public questions.

### 158. Financial reporting and related matters

The Committee considered a report on a number of items relating to the Council's financial reporting across several financial years.

In relation to objections for years 2016-17 and 2017-18, officers were very pleased to report that on 29/01/24, the objections had been determined by the auditor BDO, and the statement of reasons had been provided to the objector. BDO's final decision was not to propose any formal audit actions. The objector had a right to appeal, and that appeal period ran for a further two weeks. The audit completion certificates had also been received for both of those years.

The Chair was pleased to note this satisfactory outcome, and commented that it was frustrating that it had taken so long. The cost of the additional work by BDO had not yet been confirmed, but senior officers would be monitoring this closely. The Chief

Executive commented that whilst this was a very welcome development, the Committee was very aware that this was long overdue, and he reassured Members that the issues relating to costs would be followed up robustly and appropriately. He was particularly mindful of the impact on individual officers of having this issue unresolved for such a long time, and he thanked them for their resilience, professionalism and tenacity, given the concern, challenge, and unjustifiable criticism. In particular, he praised Tom Kelly, the Service Director for Finance and Procurement, and said it was unfortunate that it had taken so long for BDO to agree with the Council's management representations.

A Member commented that the ballpark figure for BDO's additional work was estimated to be around £70K, and asked if there was any latitude to demand a discount. Given that there would be similar objections relating to EY's tenure as external auditor, the total bill for dealing with objections could be in the region of £200-250K, which was not a good outcome for the Council Tax payer.

A Member welcomed the end to this very long saga. Whilst noting that the fault did not lie with the Council, unfortunately the Council was receiving blame from some quarters, which was entirely unjustified. Many local authorities were experiencing the same issues having their BDO audits signed off. The Member asked for officers to advise the Committee when the appeal period had concluded, and whether any appeal had been made. **Action required.**

Officers commented that this was a defined process with PSAA (Public Sector Audit Appointments) and it was probably inappropriate to comment beyond that at this stage. Representations had been made to PSAA in the past relating to the objections works. A balance needed to be struck between the right to question and the cost incurred.

Turning to the current accounting period (2023-2024) where the external audit would be conducted by KPMG, Members noted that liaison was continuing with new the auditor. Timescales for closedown activities across the Council were being progressed, property valuations had already been undertaken, and resource had been identified to boost capacity and resilience within the Finance team.

Noting the discussions taking place at a national level on the audit crisis in the public sector, a Member suggested that one temporary solution being suggested was that some audits would not take place at all, or on a reduced basis. On that basis, would an audit be expected in 2023-24? Officers confirmed that there had been an update from the Minister in January, reconfirming the government intention was to set backstop dates. It was understood that the implication was that there would be a backstop date in September for historic audits. The current expectation was that the 2022-23 audit would be skipped, and EY had indicated that they would be looking to disclaim that opinion. Members observed that if the 2022-23 accounts were not audited, it would be difficult for KPMG to progress with their work on subsequent years. It was noted that the national consultations were due to be published imminently, with only a four-week window to respond. The likely content of the three consultations (DHLUC, NAO and CIPFA) was noted, which would effectively reset the audit market in 2023. EY was currently concentrating on clearing all historic audits, focusing on pension fund audits across the board, and reporting all VFM work by the end of April, and would be looking at disclaimed audit opinions for 2022-23 in line with Ministerial direction. The opening balance position would be the critical element for all auditors: any disclaimed opinion in 2022-23 would have a three-year unwinding process (the recovery phase) before a clear position could be reached.

Emma Larcombe of KPMG agreed with these comments, advising that the steer was awaited from the NAO on the expected procedures, and this would be communicated as soon as possible to officers. A full opening balance audit was not expected, so the focus would be on the in-year results, and the issue of opinion would be consistent across the system. The expectation was that VFM would be completed up to 2022-23, with full assurance for 2023-24. KPMG would be bringing the initial risk assessment for VFM to the next Committee meeting, and were already planning to work to a normal audit cycle. She added that it was helpful to have clear direction from EY on the prior year situation.

The Executive Director of Finance and Resources agreed that it was disappointing that there was not yet any clear direction, and communication of the exact wording of the disclaimer of opinion would be critical, but this would not be included in the consultation. It was unclear whether the accounting deadline would move from 31<sup>st</sup> May for the Council's submission, which was the date the Finance team was working towards. It was agreed that the Council's response to the consultations prior to submission, and also the position of the Association of Local Authorities providing the definitive position on Local Authority audits, would be circulated to the Committee. **Action required.** The Chair observed that although it was a consultation, there was unlikely to be any realistic alternative options to the ones discussed.

Noting that the backstop position was effectively to reset, a Member commented that this did not address the underlying problem of lack of capacity for public sector audits, and it was unlikely that this imbalance would change significantly in the near future. He observed that it was possible that this lack of capacity issue would be the same in 3-4 years time, and he sought reassurance from KPMG that capacity issues would not impact on audits in future years. Emma Larcombe of KPMG gave assurance that KPMG had the right level of resource in place to deliver.

Good progress had been made with the 2021-22 audit. An updated set of accounts had been submitted for final review, reflecting progress on adjusted and unadjusted audit differences. Subject to final procedures, and depending on VFM work being completed, it was recommended that the Committee accept the treatment of the audit differences, and a practical and pragmatic approach had been taken. It was noted that EY were comfortable with the changes being proposed by management.

A Member commented that on the list of unadjusted differences, it appeared as if the level of adjustments totalled £17.5M. However, changes were both credit and debit, so the net effect was significantly lower. The majority of the changes related to differences of opinion between officer estimates of land and building values and the external auditor's opinion. The Member asked if this could be clarified in future reports. Additionally, it would be helpful in future to highlight those adjustments which actually impacted on the Accounts. **Action required** Officers agreed that asset valuations were highly material, and there was a potential for differences between expert opinions. However, this ultimately did not impact on Council Tax levels. KPMG commented that they would ensure that there was early engagement with the valuer.

EY commented on an addendum that had been circulated to the Committee on the VFM work. The audit results report considered at the December meeting had subsequently been updated, and EY were now working through a revised set of accounts, and would then complete closing procedures. Members noted that the VFM conclusions were linked to the weakness and qualified position issued by BDO in 2017-18, and for the three subsequent accounting issues there would be VFM

issues to report in respect of procurement. For 2021-22, EY was seeking assurance that the procurement arrangements were resolved, and the EY default position would be that they were not, unless evidence to the contrary was demonstrated. For 2018-19, there was an additional basis for qualification in relation to County Farms.

The Chair observed that on procurement, the Head of Internal Audit and Risk Management had picked up an issue on Guided Busway procedures. He expressed concern, having anticipated that all procurement and contract management issues that BDO had picked up were now resolved. It was noted that there was a difference between inadequate underlying procurement issues across the board, to issues with one contract, albeit a significant contract. There was ongoing discussion with the Head of Internal Audit and Risk Management on this matter.

It was resolved unanimously to:

- i) note the report; and
- ii) accept the treatment of audit differences selected by management that are shown in the appendix.

## 159. Internal Audit Progress report

The Committee received a progress report on Internal Audit, for the period to 31st December 2023.

Presenting the report, officers highlighted the following areas:

- ten final internal audit reports had been issued since the last Committee;
- the current version of the Internal Audit Plan (IAP) included a couple of minor changes. A major refresh of the IAP would be considered at the next Committee meeting;
- a new Deputy Head of Internal Audit and a new Senior Auditor had been appointed. Additionally, draft reports were being received from the co-sourced partner TIAA;
- with regard to the implementation of Internal Audit actions, 82 were currently overdue, compared to 96 at the last Committee, which demonstrated a positive direction of travel;
- the Pensions and Payroll audits were underway, and it was anticipated that this would be ready in time for the annual opinion;
- the referral made at the last Committee was considered by the Adults & Health Committee in January, where the Committee considered two outstanding actions relating to Public Health.

The Chair noted that Public Health, in line with the rest of the Council, would be undertaking open book accounting in future. It was noted that the commitment had been given at Adults and Health Committee that the necessary procedures would be in place by 30/04/24. If that target date was not met, the Committee should be notified by email as soon as possible. It was an extremely helpful outcome.

A Member queried the terminology used, specifically *limited systems assurance*, and asked what it meant in the context of the Climate Change Strategy audit report in Place and Sustainability. It was noted that general definitions were covered in

paragraph 2.2.5, but limited systems assurance indicated that there were significant control weaknesses that presented a high risk to the control environment. In respect of the Climate Change and Environment Strategy (CC&ES) audit, this related to the strategy being very ambitious, and there was still considerable work to secure the baseline data; this early stage of implementation of the strategy reduces the ability to provide assurance that there are effective arrangements in place to ensure that CC&ES targets will be delivered. Whilst there was a good opinion on compliance, the long-term nature of the Strategy and Climate Change as a risk meant that there was not yet a strong assurance that the Strategy's objectives would be met. With regard to the Climate Change and Environment Strategy, and the difficulties involved in identifying targets related to science-based baseline data, it was noted that the Chair and Vice Chair of the Environment and Green Investment Committee would be exploring this further with senior Place and Sustainability officers.

In relation to the Huntingdon Nursery School internal audit, it was confirmed that the individual recommendations within the Schools audit were not risk rated or followed up individually by Internal Audit. An action plan for each audit is agreed with schools and presented to governing bodies, whose responsibility it is to ensure that actions are implemented. Thematic findings from the range of school audits have been followed up in a report presented to Director of Education on control weaknesses. In respect of the financial governance in schools, this involved looking at issues such as payroll and procurement procedures.

With regard to the planned audit review of schools Deficit Recovery Plans, a Member welcomed the review, given the challenging budgets that some schools were facing. He asked if the report to the Director of Education would also be considered by the Children and Young People Committee. Officers confirmed that they were happy for that report to be shared with the Committee. Action required.

A Member observed that whilst it was good to hear the number of outstanding audit actions had reduced from the previous meeting, the number of outstanding actions with a "High" risk rating had increased. There were four on the issue of VAT, and whilst the procedure notes had been drafted, the focus of the team was on the 2022 closedown meaning that the action had yet to be completed. The Member was concerned with this delay, as mistakes on VAT could be very costly, especially if those issues were cumulative. He noted that the service had since confirmed that partial exemption limit calculations were now included as part of the monthly VAT returns. Officers from Finance advised that they had no concerns that the Council was approaching the limit, but agreed to provide further information outside of the meeting. Action required.

A Member asked if target dates could be retained for actions within Annex B to the report, so all agreed target dates were clear to the Committee. Officers confirmed that within annex B, the original target date was included, along with current revised target date. However, any target dates in between the original and current date were not tracked on that report. The Member commented that whilst there were sometimes legitimate reasons for extensions, this was not always the case, and it would be helpful to have this information. Officers agreed to add those dates in going forward, but advised that this could not be done retrospectively. Action required. The Chief Executive felt this approach would be helpful and improve the ownership of target dates. CLT considered monthly reports on progress with the Internal Audit Plan and risk management. Whilst it was good to see the reductions

in Essential actions, managers had been asked to focus on those actions rated High. He also observed that audit actions were recommendations from the Internal Audit team that managers had accepted, and it was therefore incumbent on managers to ensure that the dates set were achievable and reasonable.

In relation to High and Essential audit actions overdue for more than three months, a Member asked if it was possible to invite officers to attend Committee to talk through their new plans to meet the revised target dates, to help the Committee to get closer to some of the issues the Council was facing. It was agreed that the Chief Executive would take this forward with the Head of Internal Audit and Risk Management, potentially linking in with the Annual Governance Statement and assurances from Directors. **Action required.**

It was confirmed that a Teams site has been created which will enable all Committee Members to access the full text of audit reports going forward. Once the Internal Audit team has uploaded the current year reports to the Teams site, the Head of Internal Audit will contact Members with more information on how to access these. **Action required.**

The Chair noted that under the National Fraud Initiative Investigation section, an individual officer had been working for both Cambridgeshire County Council and another local authority at the same time. The individual had subsequently resigned from CCC, and no disciplinary action could be undertaken in this instance. It was confirmed that the other local authority was aware of the case, and this demonstrated the value of the National Fraud Initiative. However, the investigation found the second role was undertaken out of hours, and it would have been possible to undertake both roles. It was understood from both line managers that the individual involved was deemed to be highly effective, with no underperformance or delivery issues. Nonetheless, there were Health & Safety and Working Time Directive issues involved. At the conclusion of the investigation, although there was some evidence of dishonesty, there was no evidence of fraud or misuse of working time. Some authorities did opt to conduct disciplinary actions following the resignation of individuals where this was in the public interest, but participation in such actions was down to the individual. This issue would be followed up with Human Resources, and the application of the Disciplinary Policy would be included in next year's Internal Audit Plan. **Action required.** Members indicated their support for these actions.

It was resolved to:

- (a) consider the contents of this report; and
- (b) review and comment on the proposed revised Internal Audit Plan for 2023/24, outlined at Section 6 of the report.

## 160. Audit and Accounts Committee Agenda Plan

The Committee considered the Committee Agenda Plan.

It was agreed that an update on the Committee's review of effectiveness, including all the items in the action plan, would be considered at the March Committee meeting.

It was resolved to note the Agenda Plan.