

# **Audit and Accounts Committee**

## **Annual Report 2012/13**

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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 presented to Council in October 2012.
- 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 and the LGSS Risk Manager, 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 2012/13 at their July 2013 meeting. Following the audit of the accounts, the revised version including any adjustments or additional disclosure was approved at the September meeting, and the Chairman signed off the final accounts on behalf of the Council.

- 2.2 Key features of the 2012/13 Statement of Accounts are detailed below.
- 2.3 **Revenue spending on services:** The Council's net cost of services for 2012/13 was £426.5m. This figure was £21.5m higher than the net expenditure for the year of £405.0m reported to Cabinet in June within the Outturn Integrated Resources and Performance Report. The reason 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. It takes account of charges for capital expenditure, centrally budgeted support service costs and variations in the accounting for retirement benefits.

- 2.4 **Reserves:** The Council's total reserves have decreased to £830.9m by the end of March 2013. This balance comprises £92.7m (11.2%) of 'Usable' reserves, (cash-backed resources that an authority can apply to the provision of services) and £738.2m (88.8%) of 'Unusable' reserves (those that an authority is not able to utilise to provide services).

A proportion of the Council's usable reserves (specifically the General Fund and Earmarked Reserves) provide the organisation with vital flexibility when faced with uncertainty and risk. At 31st March 2013, these reserves stood at £65.6m. Of this balance, the General Fund comprised £5.4m (1.3% of the net 2012/13 budget) and reserves earmarked for specific purposes totalled £60.2m, including £22.6m under the control of locally managed schools and £5.1m to cover insurance risks.

- 2.5 **Capital spending and finance:** The Council's revised capital budget for the year was £184.2m. Actual capital expenditure financed from capital resources for the year was £149.1m, leaving some £35.1m of the revised capital budget unspent at the year end. However, it must be noted that this is due to the timing of spending and does not represent underspends on schemes. Many capital projects span a number of years, so this simply means that expenditure has not occurred as quickly anticipated.
- 2.6 **External borrowing and investment:** Total debt outstanding at the year-end was £377.7m, well within the maximum limit prescribed by legislation of £554m. There was a net increase of £24.1m in long term loans in the year and a net decrease of £24.7m 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**

In August 2013 the Council settled its recent dispute with the contractor who delivered the Guided Busway scheme. The settlement has resulted in BAM Nuttall agreeing to pay the County Council £33 million – a move of £76 million in the Council's favour. Overall, this means that the Council will have paid BAM Nuttall £84.7 million to build the Busway compared with an original price of £83.9 million.

BAM Nuttall were two years late in handing over the project and claimed the Council owed them around £70 million more than the price they had originally quoted, leading to a protracted legal dispute. This necessitated the Council finding extra money to protect the interests of local taxpayers and to get back the tens of millions of pounds owed to the authority. This included paying for legal and staffing costs to bring BAM Nuttall to a point where they accepted the Council's arguments. The Council's Cabinet agreed to accept the offer to settle the dispute which will avoid incurring further legal costs in pursuing the case through the court process.

The contract the Council had in place has meant that BAM Nuttall settled with the cost of construction coming in within the range originally set by the Council. This is despite BAM Nuttall claiming the Busway had cost them £152.5 million to build and that the Council should pay them an extra £43 million on top of the £117.7 million the authority had already paid them. However, following the threat of legal action and a mediation process, instead, the company has agreed to pay £33 million to the Council in addition to the Council retaining various monies that it had withheld under the terms of the contract.

Around £126 million had been budgeted to pay for the whole Busway scheme – including construction and other costs such as land acquisitions. Some £92.5 million of this money was provided by Government with another £26 million of Section 106 monies from developers and the rest in transport grants and other income.

Due to the legal process and the time taken to reach a settlement with BAM Nuttall, the cost of the scheme has risen – mainly due to the level of legal fees the Council has had to incur in order to fight the case. This means the total cost of the Busway, including land and staffing costs, as well as interest, is £152 million. Already the Council has found and paid £17.8 million of that gap with £8 million to find. This payment will be spread over 25 years through the capital budget.

## 2.9 **Local Government Shared Services (LGSS)**

LGSS is the shared back office operation created by Cambridgeshire County Council and Northamptonshire County Councils in October 2010. It provides a wide range of strategic, professional, operational and transactional services including: Finance, Property, Pensions, Legal, Procurement, Audit, HR and IT.

It is governed by a Joint Committee with the financial transactions of each Shareholder County included in the respective county's statutory accounts.

Its overall performance for 2012/13 is summarised below:

	<b>2012/13 Budget £000</b>	<b>2012/13 Expenditure £000</b>	<b>2012/13 Variance £000</b>
Northampton Office	14,918	14,068	- 850
Cambridge Office	12,255	10,701	-1,554
<b>Total</b>	<b>27,173</b>	<b>24,769</b>	<b>-2,404</b>

All surpluses and deficits are shared on a 50:50 arrangement. On the basis of the above, a year end equalisation adjustment of £352k was made between Northamptonshire County Council and Cambridgeshire County Council in relation to LGSS operational activities.

## 2.10 Waste PFI

In March 2008 the Council contracted with Ameycespa WM (East) Limited (formerly Donarbon Waste Management Limited) to provide waste treatment and household waste facilities for the County. At the time the contract was signed, the total estimated contract payments were £730m over the 28-year contract period (termination due in 2036). An element of this payment related to financing the construction of a Mechanical Biological Treatment (MBT) plant, with a total cost of £42m. The purpose of the plant was to reduce the waste being sent to landfill and consequently reduce costs to the County Council.

On the 18 September 2012 Ameycespa were forced to close the plant following mechanical failure. Waste destined for processing at the MBT plant is being re-directed to landfill. In March 2013 Ameycespa announced they had awarded a contract for refurbishment of the MBT plant with expected operations to resume in December 2013. Due to the robust PFI contract that the authority has in place, the Council Tax payer is protected from any additional costs incurred as a result of the breakdown.

During 2012-13, the Council instructed NPS Property Consultants Limited to undertake valuations of the portfolio of Waste PFI assets. As a result of this exercise, the Council has recognised impairment losses of £18.3 million on 3 different land and building assets (including a £15.8m permanent reduction in the value of the MBT) in the Comprehensive Income and Expenditure Statement. In addition, one further asset has generated a £1.5m revaluation gain which has been recognised within other Comprehensive Income and Expenditure.

## 2.11 Cambridge Science Park Station

In November 2012 a public consultation was undertaken on construction of a rail station located in the North of Cambridge. It highlighted that 89% of responses were in favour of the station in principle. Outline design work, franchise negotiation with the Department for Transport and planning applications have been initiated in 2012/13.

The new railway station will provide access to the rail network from the north Cambridge area without the need to travel through the city centre.

It will include connection facilities for public transport such as the Busway. Therefore it will also make the station accessible for those living in Huntingdon, St Ives, Swavesey and Histon, as well as providing a rapid transport link for the new Northstowe development.

It will give people an opportunity to take the train to the north Cambridge area and avoid driving along the congested A14 and A10.

The station will provide a much needed link to some of Cambridge's main business areas, including the Science Park, St John's Innovation Centre and Cambridge Business Park. This will make the north Cambridge area an even more attractive place for businesses to grow and locate, helping to boost the local economy.

Construction work is expected to begin in 2014 with completion currently anticipated no earlier than winter 2016.

## **2.12 Connecting Cambridgeshire**

The Connecting Cambridgeshire programme is set to improve broadband provision across Cambridgeshire and Peterborough. Its aim is to provide at least 90% of homes and businesses with access to superfast broadband with speeds of at least 24 Mbps and to provide better broadband connectivity for all remaining premises by 2015.

In March 2013 following a competitive selection process Cambridgeshire County Council signed a contract with BT who will contribute £16 million to the £45 million project to roll out superfast broadband over the next 3 years.

## **2.13 Pensions**

The accounts reflect 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.

The estimated pension liability, measured on an actuarial basis, has increased from £387m at 1 April 2012 to £440m at 31 March 2013. Financial assumptions at 31 March 2013 were less favourable than they were at 31 March 2012, resulting in an increase in the value of the Fund's liabilities. In contrast, actual investment return on the funds assets during 2012-13 was in the region of 11% to 16%, which was higher than the typical expected asset return at the start of the year of 5% to 6%. Overall, this combination of higher than expected investment returns, offset by longevity and low gilt rates, has led to a significant increase in the deficit amount. This deficit will be managed by increased employer contributions over the remaining working life of employees, as assessed by the actuary.

### **3. ANNUAL GOVERNANCE STATEMENT (AGS) 2012/13**

3.1 The AGS summarises the way in which the Council governs its activity, and is a key public document required to be included as part of the Council's annual Statement of Accounts. The Committee considered the AGS at its meeting in July 2013. For the AGS to have its intended benefit in driving good governance it is important to be open and honest about areas for improvement, whilst also giving a balanced view of the organisation.

3.2 The AGS must also identify any 'Significant Governance Issues' defined as those that:

- seriously prejudice or prevent the achievement of a principal objective of the authority.
- have resulted in the need to seek significant 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 financial accounts.
- the Audit and Accounts Committee advises should be considered significant for this purpose.
- the Head of Internal Audit reports 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. One area for action during 2013/14 has been highlighted within the Annual Governance Statement:

- The planned transfer of social care services for older people from Cambridgeshire Community Services to the Council's direct management will be a significant undertaking requiring continued application of appropriate governance, project management and risk management arrangements.

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) has been the Council's external auditor since 2004/05 and has developed a very constructive working relationship with the Council during its tenure.

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

- Annual Audit Letter.

- Annual Certification Report – ISA 260 Report to those charged with Governance.
  - Cambridgeshire Annual External Audit Plan 2012/13.
- 4.3 Following the completion of the audit process 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).

### **External Audit and Inspection Plans**

- 4.4 The Committee noted at its January 2013 meeting the Audit and Inspection Plan for the production of the Statement of Accounts for 2012/13. The External Auditor identified key significant risks relating to the production of these accounts on which they sought to provide assurance during the year. The risks identified included:

- Fraud and management override of financial controls.
- Recognition of income and expenditure.
- Guided Busway.
- Fixed Asset Accounting.
- LGSS.

- 4.5 The January 2013 meeting also received and noted the Pension Fund Audit Plan 2012/13 relating to the Pension Fund Statement of Accounts for 2012/13. The Auditor identified risks relating to their audit responsibilities:

- Fraud and management override of financial controls.
- Pensions Bank investment.

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

- 5.1 Since the creation of LGSS in October 2010, the Internal Audit Team is led by the Head of LGSS Internal Audit, Risk Management and Insurance, reporting to the LGSS Director of Law and Governance. 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 requires improvement to ensure risk is effectively managed.
- 5.2 The work of the Internal Audit Service is directed by an 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 2013/14 at its March 2013 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 others 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 2012/13 and, from April, the 2013/14 plan.

## Internal Audit Annual Opinion and Report

- 5.4 The Head of Internal Audit, Risk Management and Insurance gives an annual opinion on the adequacy of internal control systems. In September 2013 the Committee considered this opinion and the 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 Internal Audit, Risk Management and Insurance's opinion was that Substantial Assurance could be provided over the Council's governance, risk management and internal control environment, both in relation to the Council's main financial systems and other key business processes.
- 5.5 In giving this opinion the Head of Internal Audit, Risk Management and Insurance noted a number of key points:
- Encouragingly the number of audits resulting in limited assurance opinions has reduced since 2011/12 (14% to 8% of reports issued); with the majority of reviews providing moderate or substantial opinions.
  - During 2012/13 management fully implemented 76% of fundamental and 83% of significant recommendations made. The Committee has continued to monitor progress of the implementation outstanding management actions during the course of the year. In March 2013 the Committee agreed a revised process for following up fundamental actions where reasons for delays in implementation were deemed un-satisfactory. This was applied from the July 2013 Committee meeting.
  - Within their overall observations Internal Audit were able to conclude that material control issues that had arisen during the year had been appropriately managed. Particular reference was made to the prompt action taken to address areas for improvement identified during the Ofsted inspection of the Council's arrangements for safeguarding children, which had been rated as inadequate. In addition improvements were highlighted in respect of the systems for managing the financial affairs of service users within Learning Disability Provider Services, which had previously been assessed as inadequate.
  - In respect of key areas of coverage, the Internal Audit programme of corporate and cross cutting audits included a review of Consultation and Use of Intelligence, Community Impact Assessments and the Council's Scheme of Delegation and these were found to be subject to a satisfactory level of internal control. Corporate level Budgetary Control arrangements were also subject to review where substantial assurance was provided. However a review of Community Cohesion identified several key areas for improvement in internal control resulting in a limited assurance opinion.
  - Assurance was provided during the year on a number of major projects that the Council is undertaking through an embedded assurance audit approach. This included reviews of the Social Worker Unit Model, Social Work – Working for Families; Transforming Economy, Transport and Environment; Localism and Community Engagement; Connecting Cambridgeshire – Superfast Broadband; SEND Strategy; Project Trinity; Transfer of Public



Health; Waste PFI; 21st Century Library Programme and Building Schools for the Future. Opinions of 'moderate' or 'substantial' assurance were provided for the above reviews.

- The programme of Core Financial Systems work enabled the Internal Audit team to provide moderate assurance on the key financial systems underpinning the preparation of the accounts. Annual reviews of Payroll and Pensions were also undertaken, providing moderate and substantial assurance opinions respectively.
- Risk based reviews were undertaken on a broad range of activity with coverage largely driven by the risks identified in the Council's Corporate Risk Register. Work in these areas delivered a range of assurance opinions, the majority being 'moderate' or 'substantial'.
- The programme of computer audit reviews included reviews of the ERDM system, Officebase, Pension Hosting arrangements and finally a review of the Business Application Roadmap.

5.6 During the year the Committee has focussed its attention on those internal audit reports for which an opinion of no or of limited assurance was given, in some instances inviting officers to the Committee to receive assurance on actions being taken to address issues identified.

## **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. Additionally the Committee now receives details of the profile of service risk registers.

## **7. FRAUD**

7.1 As part of the regular reporting of Internal Audit progress the Committee has received updates on fraud and irregularity investigations. During the year, Internal Audit has provided support to services and schools in the investigation of allegations of fraud, error or non-compliance with Council policies. In total three of the investigations performed have led to successful criminal proceedings, two of which resulted in custodial sentences. Following all investigations the Internal Audit team has sought to provide guidance on how existing systems of control can be improved to minimise any future risks of misappropriation or error.

7.2 Internal Audit continues to promote the Council's Anti-Fraud Strategy and is continuing to work with other counter fraud agencies and to 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. Various training has been provided during the past year, including an induction event for new members and also more specific sessions or briefings as requested by the Committee to help it fulfill its role.

## 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 Michael Shellens  
Chairman of the Audit and Accounts Committee

### Source Documents

### Location

### Contact

Agenda and reports of the  
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