

Audit and Accounts Committee Annual Report 2020-21

To: Audit and Accounts Committee

Date: 25th November 2021

From: Chair of the Audit and Accounts Committee

Purpose: To present the draft Audit & Accounts Committee Annual Report 2020-21, summarising the Committee's annual work programme, which will be presented to the December meeting of full Council.

Recommendation: a) The Committee is asked to review and comment on the attached draft Report;

b) To refer, with any changes from discussions at the meeting) the Annual Report to the Council meeting on 14th December 2021.

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Audit and Accounts Committee Annual Report

1. Introduction

- 1.1 The Audit and Accounts Committee exists to provide independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. Audit and Accounts Committees within Local Authorities are necessary to satisfy the wider statutory requirements for sound financial management as part of best practice so that the Council can meet its duties under the Accounts and Audit Regulations.
- 1.2 The Audit and Accounts Committee plays a vital role in ensuring that the residents of Cambridgeshire County Council are getting good-quality services and value for money, i.e. economy, efficiency and effectiveness.
- 1.3 The Audit and Accounts Committee currently has seven members and met 9 times in 2020-21. Following the local elections in May 2021, a new Committee was formed with a new Chairperson, and an induction and training session for the new Committee was held on the 1st June 2021. This period also saw the new Head of Internal Audit start in post from 1st January 2021.
- 1.4 2020/21 Audit & Accounts Committee meetings were held in public, other than three meetings which were scheduled in addition to the normal Committee calendar, on the 23rd December 2020 and the 5th and 26th March 2021. These meetings were held in private session, on the grounds that the agenda contained exempt information under Paragraphs 1, 2 & 3 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.
- 1.5 The Committee has been structured around the following responsibilities:
 - 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.

2. The Committee's relationship with Internal Audit

- 2.1 A key part of the Committee's role is to both challenge and support the Internal Audit service. The Committee has supported a flexible approach from

the Internal Audit team, which ensures that planned coverage is continually re-assessed to direct audit resource towards areas of emerging risk, rather than a static plan agreed some months before. The Committee has taken a proactive role in this approach, both by suggesting pieces of work for Internal Audit, contributing ideas towards the detailed brief, and requesting updates from Internal Audit and Council services on implementation of actions.

- 2.2 In its role of overseeing the work of Internal Audit, every ordinary meeting of the Audit & Accounts Committee was provided with updates on progress in delivering the agreed Annual Audit Plan. In 2020/21, Cambridgeshire County Council was significantly impacted by the Covid-19 pandemic, and Internal Audit resource was redirected in-year to support the organisation's response to this critical emerging risk, in line with best practice. While the Internal Audit Plan was significantly revised to accommodate the need for this work, the work completed in-year remained sufficient to support an evidence-based opinion over the control environment. Internal Audit has produced an Annual Report where the Head of Internal Audit has provided his annual opinion as below:

On the basis of the audit work undertaken during the 2020/21 financial year, a strong satisfactory assurance opinion has been reached. My opinion is derived from an assessment of the range of individual opinions arising from work completed in 2020/21 by the Internal Audit team, taking account of the relative materiality of each area under review, and considering management's progress in addressing control weaknesses.

I would particularly highlight the following key pieces of evidence on which my opinion is based:

- Review of the organisation's Code of Corporate Governance and the evidence supporting the Council's Annual Governance Statement, which demonstrate a sound core of organisational governance;*
- Reviews of Key Financial Systems consistently demonstrating a good or satisfactory assurance across all systems;*
- The organisational response to the Covid-19 pandemic, which demonstrated the strength of the Council's business continuity and risk management processes and the ability of senior management to respond effectively to unexpected challenges;*
- In previous years, Internal Audit has highlighted a number of contract management issues in individual projects managed by the Major Infrastructure Delivery (MID) service. In 2020/21, at the service's request, Internal Audit implemented a full review of contract management in the service, including evaluating four major projects and assessing MID capital programme governance as a whole. This work identified significant areas for improvement;*

however the service has responded rapidly to these concerns, and action plans to address the issues are already underway.

- *Although a high-profile issue relating to the tenancy of Manor Farm was reported publicly in 2020/21, this was first raised with the Internal Audit team in 2019. The affected service has responded positively to the issues identified, and the action plan to address the concerns is in the public domain. Additionally, it is noted that the organisation has completed a full review of the Whistleblowing Policy in light of the issues raised.*

It should be noted that no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 2.3 During 2020/21, Key Financial Systems audits were again undertaken as joint reviews of the shared Cambridgeshire County Council, Milton Keynes and Northamptonshire County Council LGSS systems. Internal Audit colleagues based across the three Councils delivered reviews of the key financial systems, with the exception of the Payroll audit. This was due to be delivered by colleagues at Milton Keynes Council as part of these joint arrangements; however, Milton Keynes officers subsequently contacted the Head of Internal Audit to confirm that due to staff sickness, they were currently unable to complete the Payroll audit. Cambridgeshire Internal Audit staff therefore completed a piece of work on Payroll Analytics to review any trends, patterns or significant variances within full time equivalent (FTE) averages. As a result of this work, no significant variances or anomalies were identified.
- 2.4 Due to the exceptional pressures created by the Covid-19 pandemic, at the start of the 2020/21 financial year the former Chief Internal Auditor agreed a change to usual working practices, to create greater capacity to respond to the additional reactive work required of the Internal Audit team at this point. As such, follow-up of implementation of actions was also placed on hold at this time.
- 2.5 As Covid-19 pressures eased, Internal Audit completed a comprehensive review of all recommended actions to ensure that all business-critical actions were being implemented by services. This review re-evaluated the risk profile of each individual recommendation made, to identify where traditional audit follow-up was required for actions related to higher-risk areas and where actions related to lower-risk areas do not require full formal follow-up. The normal process of follow-up and reporting on implementation of agreed audit actions was reinstated by January 2021.

3. Proactive Work of the Committee

The following section provides a summary of the proactive work undertaken by the Committee over the last year. This aspect of the Committee's work is vital, and has assisted in improving the effectiveness of the Council's overall corporate governance arrangements.

3.1 Corporate Governance

- 3.1.1 The Council's Annual Governance statement is compiled on the basis of the findings of Internal Audit reviews throughout the year, assurance statements from executive and corporate directors and input from senior management and members of the Committee. The 2020/21 Annual Governance Statement was reviewed by the Committee in July 2021, prior to final sign-off and inclusion in the Council's annual Statement of Accounts.

3.2 Council Finance and Statement of Accounts

- 3.2.1 Throughout 2020/21, the Committee has maintained its oversight of Council finances, reviewing the quarterly Integrated Finance Monitoring Reports to assess progress in delivering the Council's Business Plan and review the status of the Council's Key Performance Indicators. The Committee regularly inquires and follows-up on areas which have overspends or other issues.
- 3.2.2 The Committee also considers and approves the annual Statement of Accounts both for Cambridgeshire County Council and the Pension Fund. During 2020/21, the Committee received and approved the Council's audited financial statements for the year ending 31 March 2020, the second year in which EY LLP had been our appointed external auditor. The draft Statement of Accounts 2020/21 was presented to Committee on 30th July 2020, ahead of the final review and delegation of approval at the Committee on 24 November 2020. This reflects the disruption caused by Covid-19.
- 3.2.3 In respect of the accounts, BDO (the Council's former External Auditors) had received objections from a local elector in respect of the 2017/18 and 2016/17 public rights periods. BDO have now supplied the Chief Financial Officer with their 2017/18 Value for Money opinion and response to the objections and these were considered at the Audit & Accounts Committee meeting of 25th November 2022.
- 3.2.4 This item is covered separately on the A&A agenda and this section will be updated prior to being presented to Full Council
- 3.2.5 The Committee has also received quarterly updates on debt management within the Authority, particularly focusing on the collection of large debts, and has provided review and challenge to income collection and debt recovery improvement activity.

3.3 Whistleblowing Referrals

- 3.3.1 The Committee received periodic updates on all referrals received under the Whistleblowing policy. Whilst cases that remain ongoing cannot be reported publicly, it can be reported that no completed cases identified material control failures or fraud. In all completed cases the Committee was satisfied that robust action was taken as appropriate.

3.4 Farms Audit

- 3.4.1 The Committee received regular updates on the progress of this audit throughout 2020/21.
- 3.4.2 Following an Extraordinary meeting of the Audit & Accounts Committee on the 23rd December 2020, it had been agreed that the Chief Executive would appoint an independent auditor to complete the investigation into Manor Farm, as the Chief Internal Auditor was unable, due to sickness, to complete the internal audit into this matter. The former Chair of the Committee met with Mazars LLP, the independent audit firm appointed in December 2020 to complete the audit.
- 3.4.3 The final report by Mazars was presented to the Committee on the 5th March. Due to legal advice received, the majority of the meeting was held in private session other than consideration of a 31-point action plan relating to the management of the County Farms estate, which was discussed and published publicly. Subsequent to this meeting, the Committee has also received and approved an updated Whistleblowing Policy and a new Conflict of Interest Policy for Members.
- 3.4.4 Recommendations from the Mazars report regarding potential actions in respect of code of conduct issues were referred for consideration at a meeting of the Constitution and Ethics Committee on 27th July 2021.

3.5 Risk Management

- 3.5.1 The Audit & Accounts Committee also maintains oversight of risk management processes at the Council. Cambridgeshire County Council maintains an approved Risk Management Policy and Risk Management Procedures. During 2020/21, the Joint Management Team and Directorate Management Teams formally considered risk on a quarterly basis. However, as part of the Council's immediate response to the Covid-19 pandemic, a bespoke risk register and action tracker was created to help manage the challenges, and JMT formally agreed a departure from the Council's business-as-usual risk management processes. This approach continued until November 2020, by which time risk controls had been put in place against all COVID risks and actions were being managed within Directorates and monitored by JMT.
- 3.5.2 The Audit & Accounts Committee received updates on the risk management approach adopted via reporting from Internal Audit, and the Annual Governance Statement presented to Committee in July 2021 gave a comprehensive overview of how the Council's risk management responded to the pandemic over the previous year.

4. Terms of Reference for the Committee

- 4.1 Having been fully reviewed and revised in 2016/17, the Terms of Reference for the Audit & Accounts Committee were reviewed by the Committee in May 2018 and retained with no changes. The Committee is advised that the document remains current and consistent with best practice.

5. 2020/21 Covid Pandemic

- 5.1 Covid 19 has had a major impact across the Council. As a result of the pandemic, the Committee met virtually for much of the 2020/21 financial year, with meetings focussed (as agreed across group leaders) on matters requiring decision.
- 5.2 This has impacted on the work of the Committee and the services that serve it, i.e. Finance, Legal, Internal and External Audit. The Committee has been kept informed and briefed by the relevant services, but often outside formal meetings, particularly in the early part of 2020/21 where formal meetings were deferred for some months.
- 5.3 The work of the Committee began returning to normality in the second half of 2020/21 and normal function has resumed as of 2021/22.

6. Source Documents

- 6.1 Audit and Accounts Committee agendas and minutes.

[Audit and Accounts Committee - Agenda and Minutes](#)