

Audit and Accounts Committee Minutes

Date: 30th May 2024

Time: 2.00pm – 4.05pm

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 (via Zoom)

Officers: Dawn Cave, Mairead Claydon, Emma Duncan, Michael Hudson, Stephen Moir; Tom Kelly (relevant items only)
Emma Larcombe (KPMG) and Mark Hodgson (EY)

171. Notification of Appointment of Chair and Vice-Chair

The Committee noted that the Annual Council meeting held on 21st May agreed to appoint Councillor Wilson as the Chair and Councillor Gay as the Vice-Chair for the Municipal Year 2024-25.

172. Apologies for Absence and Declarations of Interest

There were no apologies for absence.

Councillor Boden declared an interest as a member of the Conduct Committee of the Institute of Chartered Accountants of England and Wales (ICAEW).

173. Minutes of the Audit and Accounts Committee held on 28th March 2024 and Action Log

It was resolved unanimously to approve the minutes of the Committee meeting held 28th March 2024.

The following Action Log items were discussed:

Item 159 – it was confirmed that the Service Director for Human Resources had made the required adjustments to the Council's Disciplinary Policy, and was currently consulting with trade unions. If agreed, these changes would enable the continuation of disciplinary investigations and hearings where individuals had left the Council's employment, where there was a genuine public interest.

Item 151 – A briefing note from the Acting Director of Public Health had been circulated to the Committee, which Members commented had been exceptionally helpful and positive. An amendment to the savings indicated in the briefing note was

noted. The note confirmed that the necessary actions and processes had commenced and would be completed by a revised deadline of 31st July 2024, and Members stressed the importance of this revised deadline being met. A Member observed that at least £92K savings had been identified as a result of open book accounting on this issue, which demonstrated the value of open book accounting for certain types of transactions. The Chief Executive agreed, and advised that the Corporate Leadership Team would review this, taking into account the Executive Director of Finance and Resources' professional advice. It was also noted that from an organisational perspective, Public Health was now within the Adults, Health and Commissioning Directorate. The Chair commented that he was also reassured by an exchange between the Acting Director of Public Health and the Head of Internal Audit and Risk Management on this matter on the evidence required, and once evidence had been provided, this action could be signed off as complete.

With regard to item 159, providing a "deep dive" on some essential and high risk actions at future meetings, a Member asked how that would be addressed going forward. The Chief Executive advised that following discussions at the Statutory Officers Group on how best to facilitate this action, it had been agreed that Executive Directors would individually be scheduled to attend future meetings of the Committee to provide updates on their assurance statements and outstanding audit actions, enabling Members to scrutinise progress more fully.

Regarding a query raised by a Member on item 169 (Section 106 funding), which would be reported to the July Committee, the Executive Director of Finance and Resources agreed to discuss a confidential matter relating to this item that Member.

The Action Log was noted.

174. Petitions and Public Questions

There were no petitions or public questions submitted.

175. Financial Reporting and Value for Money Report

The Committee received an update on the latest progress with matters related to external audit. This comprised the conclusions of audits related to financial years 2018/19 to 2021/22, the 2022/23 accounts and external audit, and progress with the 2023/24 statement of accounts.

In April, EY finalised closing procedures for audits of the four financial years from 2018-19 to 2021-22 and issued audit certificates. The final audited set of accounts and audit reports had been published on the Council's website. EY also issued a value for money (VFM) opinion alongside the external audit of the financial statements. For 2018-19 and 2019-20, EY had reached an "except for" opinion regarding VFM. The exceptions related to procurement (record keeping/

arrangements for working with partners and third parties) and the Manor Farm tenancy (governance issues).

For the years 2020-21 and 2021-22, there was a change in the form of national reporting arrangements for VFM, and EY's narrative conclusions in those years covered financial sustainability, governance and improving VFM. Receipt of these audit reports and completion certificates was a significant and welcome milestone for the Council.

Whilst the accounts for 2022-23 were published in July 2023, the external audit for 2022-23 was still outstanding, and a disclaimed opinion was expected for that year. However, an interim report on VFM arrangements was appended to the report.

The Council was working towards meeting the deadline of 31 May 2024 for publication of the 2023-24 draft statement of accounts. Officers paid tribute to the tremendous effort of colleagues in the Finance team in meeting this deadline.

Individual Members raised the following points in relation to the report:

A Member suggested that it was important to have appropriate communications in place regarding the disclaimer, as there was scope for this to be misinterpreted: it needed to be made clear that it resulted from broader issues in local government audit. To date, there had not been any notice from the relevant bodies on the form the disclaimer would take, and it was confirmed that this matter had not been considered prior the dissolution of Parliament. It was further noted that wording of the disclaimers would not be uniform, e.g. there were local authorities which had not produced accounts for a number of years, and there were other authorities where accounts had been produced but not audited. The Executive Director of Finance and Resources indicated that he had reviewed the draft set of accounts and was confident they would be published in time for the 31st May 2024 deadline. Mark Hodgson (EY) advised that each firm was working on opinion wording that would accompany disclaimed accounts. However, all firms were looking for a degree of national oversight, and there was currently no common form of wording.

A Member asked if there was any inconsistency between the audit statements considered by the Committee, noting that the External Auditor stated that they were satisfied that the Council has a good system of risk management, whilst the Annual Internal Audit report stated that the Council has moderate assurance in this area. It was noted that there was differing terminology regarding assurance levels: "adequate" from an external audit perspective being similar to, but not the same as, internal audit's "moderate".

Qualifications around 2018-19 and 2019-20 were well known to the Committee, and good progress had been made, especially around Procurement, enabling EY to reflect this position in their narrative. On financial sustainability, it had been concluded was that there were adequate arrangements in place, which was linked to

the Going Concern conclusion in the 2021-22 accounts. The legislative position on the 2022-23 accounts was still outstanding.

It was clarified that irrespective of whether there was a disclaimed opinion or not, objections must be determined and concluded in accordance with NAO guidance in full, prior to the audit certificate for that year being concluded. A Member commented that it would be important to distinguish between a disclaimed opinion and adverse opinion.

The Chair commented that whilst it would not be appropriate to undertake any communications prior to the General Election, a press release could be issued following the election to reassure the public on recent developments with regard to external audit opinion on previous years' accounts, and clarify the issues around the disclaimed accounts. The Committee agreed that they were happy to delegate this action to the Chair and Vice Chair. **Action required.**

The Committee congratulated senior officers and their teams for their work on the accounts.

Mark Hodgson highlighted that the 2021/22 audit opinion covered the Pension Fund account. Councillor Whelan confirmed, as Chair of the Pension Fund Committee, that the Committee was happy with the audit, and reinforced the importance of good communications, noting that the public generally had little understanding of the audit process.

In response to a query, officers advised that they had received some further information from BDO around fees, and BDO would be submitting a fee request to PSAA. The Council would not be supporting this request, in line with the Committee's direction. It would then be a matter for PSAA to determine the appropriateness of the fees. The level of fees was likely to be broadly in line with those previously advised, and officers agreed to circulate this information to Committee. **Action required.**

It was resolved unanimously to:

- a. note the report and the audit results received from the auditor for 2018-22
- b. note the very satisfactory report from the auditor in the appendix: Interim Value for Money Arrangements report for the year ended 31 March 2023.

176. External Audit Plan and Strategy 2023-24

The Committee received the draft External Audit Plan and Strategy for the year ended 31 March 2024, which was presented by Emma Larcombe of KPMG. The final version would be considered at a future Committee meeting.

Introducing the report, the External Auditor highlighted:

- Materiality levels, which were based on the outcome of the prior year audit. It was acknowledged that guidance was still being prepared by the NAO, and KPMG were developing procedures to cover the work required over opening balances;
- key risk areas, which included:
 1. Valuation of land and buildings including solar farms. Give the element of subjectivity, a valuation specialist would be engaged by KPMG to assess these;
 2. Valuation of the investment property portfolio;
 3. Management override of controls, including journal controls, key estimates and areas where there was a greater level of judgement involved;
 4. Valuation of post retirement benefit obligations: there were numerous estimates and judgements in valuing pension liabilities. KPMG had a specialist team which would undertake this work.
- other audit areas of heightened focus included the classification of non-capital expenditure; This Land; regulatory compliance, e.g. Guided Busway; and the accuracy and valuation of PFI liabilities;
- the reasons for rebuttal of the risk of revenue recognition, as the nature of the Council's income was predictable and consistent, with minimal exposure to fraud. The same applied to expenditure;
- there had been limited progress with VFM work to date, but the Plan outlined the proposed process and outputs over the coming months.

Arising from the report, Members raised the following questions:

- noting the risk identified relating to litigation, a Member asked about the level of claims that were processed by the Council, and whether the auditor was satisfied that the provision/contingent liability was reasonable? Emma Larcombe advised that materiality applied when reviewing provisions, so low level claims were not a key area of focus. The areas which were reviewed were outlined;
- observing that whilst some of the FRC statements on the regulation of auditors were inconsistent, a Member believed that the FRC may have legitimate concerns with regard to opening balances, gives these would not been subject to independent scrutiny. He asked if significant work would be required in this area? Emma Larcombe advised that guidance was still awaited from the NAO and FRC on this issue. However, it was clear from discussions to date that there was no expectation that an opening balance audit would be undertaken, as the consultation referred to a "recovery phase". A clean audit opening opinion would therefore not be received, and the same would apply for other local authorities. The Member asked that due to this fundamental issue, whether KPMG were working on the assumption that there would be a disclaimer of opinion or whether it would be an "except for" opinion. Emma

Larcombe confirmed that it was likely to be modified rather than fully disclaimed;

- a Member asked about Risk 4, post retirement benefits, and why this was not ranked more highly. Emma Larcombe agreed to review this. **Action required;**
- noting the reference to the “Modified” audit opinion, a Member asked if this needed to be communicated to the public. Emma Larcombe advised that the modification would be around the opening balance only, and not the closing position. Because of the disclaimer on the 2022-23 accounts, assurances could not be provided on opening balances;
- noting materiality only applied over £1M, a Member asked if there was scope to share values below that with the Committee? Emma Larcombe advised that if the Committee wanted further information below the £1M threshold, she would discuss this with the Service Director for Finance and Procurement. **Action required;**
- a Member asked if the work in relation to IT systems and automated controls was typical for local authority audits. Emma Larcombe advised that the audit would perform a detailed evaluation of how the Council’s IT systems operate. Reliance on automated controls linked to significant risks would also be investigated, but most of those processes within the Council were manual;
- a Member asked about “non capital expenditure”, specifically around timing and release of funds in relation to projects, and whether this would be covered as part of testing? Emma Larcombe advised that in relation to finalised projects, the audit would review whether expenditure had correctly been identified as capital;
- a Member commented that it would be useful to see all corrected and uncorrected misstatements, including those under £1M, as it would be helpful in understanding the level of control within the organisation. The Executive Director of Finance and Resources committed to disclose all matters raised by the auditors with the Committee, and make statements where there was disagreement;
- a Member observed that there was reference in the report to the FRC focus on *companies*. Emma Larcombe advised that areas of focus for companies identified by the FRC usually applied to local authorities too. Another Member commented that the FRC often treated PIEs (public interest entities) in the same way as other organisation, and often failed to provide specialised guidance.

It was resolved unanimously to note the draft audit plan and strategy for the year ending 31 March 2024 received from the external auditor.

(Tom Kelly and Mark Hodgson left the meeting)

177. Internal Audit Annual Report 2023-24

The Committee considered the Internal Audit Annual Report for 2023-24. The Public Sector Internal Audit Standards require that the Head of Internal Audit and Risk Management present an annual report to the Authority's Audit & Accounts Committee. It was noted that the Annual Internal Audit Report formed part of the evidence that supported the Authority's Annual Governance Statement 2023-24.

The Head of Internal Audit and Risk Management had given a "moderate" assurance, equivalent to the assurance given in 2022/3, and some control weaknesses had been identified which posed a medium risk to the organisation. The areas where Internal Audit reports in 2023/4 gave limited assurance were mainly related to project management and change, and to procurement, contracts and commissioning. There had been considerable development of the control environment in year. There had also been an improvement in the number of audit actions implemented, with 75% of actions implemented during the year, an improvement on the previous year (62%).

Individual Members raised the following points in relation to the report:

- for key financial systems audits still outstanding from North and West Northamptonshire Councils, the Chair asked whether any actions were required to expedite this process. It was noted that West Northamptonshire Council had previously advised of their resourcing issues, and for this reason the Cambridgeshire team had agreed to undertake the Debt Recovery audit, which remains ongoing. The Executive Director of Finance and Resources reassured the Committee that he was keeping this issue under close review;
- a Member noted that there were a number of actions where the status was listed as "to be confirmed", and asked whether this matter should be addressed by the Chief Executive and senior managers. Officers advised that there had been improvements, but sometimes there were still issues e.g. where a key officer had left the organisation. The Committee was reassured that senior managers were regularly reviewed and held to account;
- Members discussed the overall "Moderate" assurance, and the potential for this to improve in future. Senior officers commented that whilst a better overall assurance would be welcome, the Moderate assurance needed to be seen in the context of the recent wholesale changes to the Corporate Leadership team, reflecting the fundamental change of direction that the Council was taking. There had been significant improvements in the number of audit actions closed. A Member commented that ultimately the Committee's concern was that the Council may be losing money or incurring additional costs as a result of less than optimal systems. The Chair responded that he was reassured by both external and internal reports which indicated that the Council was on the right track;

- the Committee thanked the Head of Internal Audit and Risk Management and her team for their professionalism and independence;
- noting the summary of outstanding recommendations overdue for 12 months in Annex B, a Member noted that one action relating to Fire Risk Assessments was classified as a “high” risk with a target date in excess of twelve months overdue. Officers confirmed that this action had been addressed, but in terms of the audit process, the action completion needed to be formally evidenced and signed off. The Member observed that there were still seven “high” recommendations overdue for more than three months; and seven overdue for more than twelve months. The Chief Executive confirmed that he was not comfortable with that situation, and where officers agreed dates when audit actions should have been completed, very good reasons were required to justify any slippage. He confirmed that he expected to see the number of items ranked High to reduce steadily, and similarly medium and lower rated actions outstanding should also reduce;
- in response to a query on the Insurance Strategy, officers advised that a new Head of Insurance had recently been appointed, and production of a Strategy was one of his priorities. It was anticipated that good progress would have been made by the time of the Autumn Committee. It was confirmed that the Strategy would be considered at an officer meeting, which had oversight of the Insurance function;
- with regard to customer feedback outcomes, a Member asked if the right questions were being asked, given the lack of feedback. The Head of Internal Audit and Risk Management agreed that this was probably a fair challenge, and explained that despite simplifying the survey a few years back, there was still a low rate of return;
- a Member queried the position where actions had been closed, i.e. whether there was any checking that the agreed actions continued to be implemented. Officers confirmed that this would be picked up when an area was re-audited. However, there was a robust process of checking that actions had been implemented in the first instance before they are marked as ‘complete’ by the audit team, and actions were unlikely to be undone except in specific circumstances e.g. where there had been major changes in a service’s processes;
- a Member queried one of the medium risks in 2022-23, under income processing there was a discrepancy in the CCC ZAR10 control account. The order of magnitude and nature of the discrepancy were queried. Officers agreed to provide a written response. **Action required.**

It was resolved unanimously to:

consider the Annual Internal Audit Report for 2023 – 24 and be made aware of the Head of Internal Audit & Risk Management’s opinion on the state of the Internal Control Framework within Cambridgeshire County Council.

178. Draft Annual Governance Statement

The Head of Internal Audit and Risk Management presented the draft Annual Governance Statement (AGS) for 2023-24. The final version of the AGS, reflecting any changes raised by Committee Members, would ultimately be signed off by the Chief Executive, the Leader of the Council and the Chair of the Committee. The AGS was a statutory document, and that final version would eventually form part of the Annual Statement of Accounts.

The AGS summarised the extent to which the Council was complying with its Code of Corporate Governance, i.e. the processes and procedures in place to enable the Council to carry out its functions effectively, including details of any significant actions required to improve the governance arrangements in the year ahead. The Committee’s views were sought as to whether the document was consistent with its perspective on the internal control of the Council, and on the definition of significant governance and control issues.

Arising from the report, individual Members:

- raised the issue of the delivery of Cambridgeshire’s Local Productivity Plan. The Member believed that this was unnecessary, but queried the governance route given that it was a legal obligation. It was confirmed that Cambridgeshire’s Local Productivity Plan would be considered at the Strategy, Resources & Performance Committee on 9th July 2024. The Executive Director for Finance and Resources had been in communication with the relevant government departments about this requirement;
- queried the structure of the report, suggested that the conclusions in section 3 should come towards the end of the report. Officers agreed to pick up on this point. Action required;
- queried the *“implementation of complaints plan in adults, health and commissioning”*, and asked why this was not applied across the Council? Officers advised that this related specifically to additional work being undertaken in Adult Social Care complaints, and had been highlighted as a key area for strengthening governance. It was further noted that there were a broader set of changes being implemented as a result of the Local Government & Social Care Ombudsman guidance. It was confirmed that all corporate complaints procedures were being reviewed and a project plan was in place for delivery of those changes. The Committee agreed that this should be incorporated into the Action Plan. Action required;

- observed that whilst there was no separate scrutiny function, cross party committees should be scrutinising decisions. The Service Director of Legal & Governance agreed that the scrutiny element was encouraged within the committee system, but could be more robust. This would be a focus in the Member induction programme in 2025, and good progress and practice within Health scrutiny were noted;
- noted that many target dates were 31/03/25. It was confirmed that this year end date represented the formal reporting date, and the annual review would be reported at May 2025 Committee meeting. Throughout the year there would be follow up reviews e.g. through CLT;
- queried whether the Council had an appropriate attitude to risk appetite, as risk was not always something that should be mitigated. Officers commented that some parts of the organisation were better placed to manage risk. There was an ongoing process to improve awareness, not only in terms of training, but also culturally.

In respect to a query, Emma Larcombe (KPMG) confirmed that key themes in the AGS were as expected.

It was resolved unanimously to:

consider whether the draft AGS at Appendix A and the Action Plan at Annex A are consistent with the Committee's own perspective on internal control within the Council and the definition of significant governance and control issues given in paragraph 3.3. Suggested amendments can then be actioned in advance of the AGS's inclusion in the Council's accounts.

179. Audit and Accounts Committee Draft Training Plan

The Committee considered an updated proposed training programme to support Members' awareness and understanding in carrying out their functions.

Some of the previous year's training programme had been deferred. An extended training programme was being proposed, delivered through both in person/hybrid sessions and e-Learning.

A Member observed that there may be substantial changes to Committee membership following the elections in 2025, in which case some of the fundamental items may need to be brought forward. It was noted that most of these modules would be included in the e-Learning.

It was resolved to:

- i. note the report;

- ii. consider both the format and content of the draft training plan attached at Appendix 1, noting any changes in that or timings.

180. Audit and Accounts Committee Agenda Plan

Members considered the forward agenda plan.

It was confirmed that each of the Executive Directors would be attending the Committee in future and providing an overview of their Annual Assurance Statement and progress with their outstanding internal audit actions.

In response to a query on FACT/HACT, it was confirmed that a briefing note had previously been circulated to the Committee on this issue.

There was a discussion about Debt Management. The Head of Internal Audit and Risk Management advised that a draft opinion on the relevant internal audit should be available in time for presentation to the July Committee meeting.

A report on Section 106 would be added to the Agenda Plan for the July Committee meeting.

It was resolved to note the Agenda Plan.