

SPECIAL MEETING - AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: Thursday, 31st October 2019

Time: 2.00 pm – 3.50pm

Place: Room 128, Shire Hall, Cambridge.

Committee Members Present:

Councillors: S Crawford (from 2:50 p.m.), P Hudson, T Rogers (Vice Chairman), M Shellens, (Chairman), D Wells and J Williams

Apologies: Councillor M McGuire

Officers Present:

Ben Barlow – Pension Services Financial Manager	Michelle Parker –Accountant
Fiona Coates – Pension Services Financial Manager	Rob Sanderson - Democratic Services Officer
Mark Hodgson - Associate Partner Ernst and Young LLP	Martin Savage – Group Accountant
Tom Kelly – Head of Finance/Deputy Section 151 officer	Eleanor Tod – Strategic Finance Manager
Jon Lee – Head of Integrated Finance	James Veitch – Democratic Services Officer Trainee

Jacob McHugh - Assistant Manager, Ernst and Young LLP

220. APOLOGIES FOR ABSENCE DECLARATIONS OF INTEREST

Apologies were received from Councillor M McGuire

There were no declarations of interest

221. PETITIONS AND PUBLIC QUESTIONS

None received

Before considering the reports on the agenda, the Chairman updated the Committee that they were still waiting on the conclusion of the objection on the 2017-18 accounts from BDO. He queried what the position was if BDO never provided them with this information. He raised his concerns as it had an impact regarding the completion of the 2018-19 Statement of Accounts and stated that he was reluctant to sign off an incomplete set of accounts.

The Head of Finance informed the Committee that he had communicated with the Manager at BDO earlier in the week and there was further phone call scheduled between Cambridgeshire County Council's (CCCs) 151 Chief Finance Officer and the Manager at BDO. He suggested that this was progress and that the Committee could be confident that BDO recognised the two open objections as well as the value for money opinion on the 2017-18 accounts. BDO had been most recently been looking into one specific issue, Officers had requested that a written update on this issue be provided to the Committee from BDO, but this had not yet been provided.

The Committee were reminded that Public Sector Audit Appointments (PSAA) had been notified of this delay, The PSAA complaints procedure stated that customers must exhaust the internal complaints procedure of the External Auditor. The next step might therefore be that the Chairman could write to BDO on behalf of the Committee and the Council formally requesting a timescale of completion of the matters still outstanding.

The Chairman raised the following:

- sought clarification regarding the duration of time it had taken BDO to conclude the objections. The Head of Finance confirmed that the objections was made over two years ago and no conclusion had yet been reached.
- with approval from the Committee, agreed to send a letter to BDO once they had completed the audit. The Vice-Chairman suggested that they should also produce a draft letter to be sent to the Secretary of State for Housing, Communities and Local Government when they received a response from BDO. **Action: Chairman**
- Informing the Committee that for the sixth year running, he had failed to sign the audit off by the deadline date set by Central Government.
- expressed his concerns regarding the number of items identified as still outstanding on the ISA 260 report from EY. He commented that it was not likely that he would be able to sign off the final version of the accounts following the present meeting. A Member queried as to where the responsibility lied for this lateness. The Chairman clarified that there had been a number of contributing factors affecting the delay in signing off the final version of accounts. This included: the resourcing issues present at CCC and at EY, and issues arising in May 2019 which had led to a missing the publication deadline by 11 days. The Associate Partner, Ernest and Young commented that they had also been trying to complete a number of other audits which had implications on the timing of completing this audit.
- suggested that the Committee should offer their support to the Finance Teams in order to ensure that they had the necessary resources.

Individual Members raised the following issues:

- queried whether BDO have been paid for the work. The Head of Finance informed the Member that they had currently paid BDO the standard fee scale for their work on the accounts. BDO had alluded to potential overrun fees, but no figures had yet been suggested.
- stated that they should be learning from the issues that had arisen this year to make sure it did not happen again. The Chairman agreed and commented that it was the first year using EY and significant work had been undertaken to resolve the issues surrounding ERP Gold. The Head of Finance informed the Committee that Officers would be bringing a report back to them in January 2020 regarding the improvements they needed to make to resourcing and preparation for the Accounts. He commented that until this financial year the Council had been on an improving trajectory regarding getting the accounts signed off by the deadline. He stated that in future year's performance should improve.
- reiterated these views and stated that next year they needed to ensure deadlines were met. The Chairman clarified that as a result of Central Government shortening the deadline for the accounts to be signed off by two months, Officers had been undertaking a great deal of pre audit work.
- commented that the Local Government Association (LGA) had written to the Secretary of State highlighting the delays in account sign off experienced by Councils, especially in the East of England. The response received suggested that the deadline date for accounts sign off might in the future be moved to the end of September. A Member suggested that the Committee should be lobbying to get the deadline moved back to the end of September as the July deadline had caused significant pressure on Officers. The Chairman agreed and stated that he would welcome this suggestion made by the Secretary of State. The Head of Finance commented that there was currently a review of the local audit regime taking place.

222. EXTERNAL AUDITOR'S ISA 260 OF THE COUNCIL'S ACCOUNTS

The Chairman agreed to take this as a late report under the Chairman discretionary powers available to him under the Local Government Act 1972 as the report was not available five working days before the meeting. This was on the basis of the urgency to receive this report and the revised Accounts, the reason for urgency being that it had not been finalised and presented to CCC officers until after the publication of the original agenda (to allow them to provide additional information to help in being able to provide an unqualified opinion on the accounts)

The Committee received a report providing a summary and update of Ernst and Young's LLP (EY) audit conclusion in relation to the audit of

Cambridgeshire County Council (CCC) for 2018/19. The Associate Partner, EY LLP stated that as the Council was a large and complex entity it had caused a number of audit challenges. These challenges included: the changes in arrangements to close down, the new ERP Gold system, new valuers to review and value CCCs asset portfolio, a new firm of external auditors and a shorter time frame for preparing and finalising the accounts. Throughout the audit EY had received full co-operation from Officers at CCC. He commented that the requirements for auditing standards in the public domain were significant and therefore the deadlines for this year had been difficult to meet.

He informed the Committee that he was providing them positive assurance that the revised financial statements found in the report, subject to the completion of some areas, were accurate and that he would be able to sign off an unqualified opinion. The Associate Partner, EY LLP highlighted the audit adjustments found on page six of the External Audit report (Appendix 1 attached to the minutes) and the information found at Appendix D to the same report.

Individual Members raised the following issues in relation to this report:

- queried the audit adjustments made to the 'Group Accounts' and the effect this would have on the figures found within the accounts. The Associate Partner, EY LLP stated that the Group Accounts figures would change by £1.7m and therefore the figures found in the accounts would change.
- sought clarification regarding the deadline EY had given Officers at CCC to send them the Minimum Revenue Provision testing documentation. The Associate Partner, EY LLP confirmed that they had requested the documentation by the 30th October 2019, and that that the documentation had been sent by the same date.
- commented that it appeared that EY and Officers at CCC had been working together effectively to solve the audit problems.
- drew attention to the incorrect classification of the school under Property, Plant and Equipment audit with further explanation on page 31 of the ISA 260 report appendix.
- requested clarification regarding how the school asset building was incorrectly included as an 'Operational' asset occurred. A Group Accountant explained that the Account's Team had received the incorrect information and that they would be putting measures in place to ensure that this did not occur in the future. Another Member later asked whether it had been the Estates Team providing the incorrect information. It was clarified that this was not the case.
- requested a further explanation of the difference between an operational asset and an asset under construction. The Associate

Partner, EY LLP explained that when a school was being built it was 'under construction' and once it opened and pupils attended it was classed as 'operational'. He clarified that the Wyton School asset had been moved from an under construction asset to an operational asset on the balance sheet.

- requested clarification regarding how CCC's 'land and buildings' were understated by £15.553m and whether this had been an accounting error or the Estates Team providing incorrect information. The Head of Integrated Finance informed the Member that every year only a proportion of the Council's estates were revalued and always led to a question on the value of those assets which had not been part of the re-valuation exercise. He commented that there were proposals to move to a system where the Council's assets were revalued every year.
- The Chairman asked the Member whether he would like the Estates Team to be invited to the Committee as he still had concerns regarding property records. In reply the Member commented that they should inform the Commercial and Investment Committee that the issue regarding revaluing property assets had been raised and that Committee should seek assurance that the Estates Team had up to date property records. Councillor Hudson indicated that he would bring this to the attention of Chairman of C and I Committee. The Head of Finance agreed this was a good idea and stated that in next year's update reports, they would highlight the effectiveness of the transfer of information from the Estate's Team to the Finance Team. The Members commented that either this Committee or C&I needed to be made aware of the work the Estate's Team were performing in order to resolve this issue for next year's accounts.
- queried This Land Ltd.'s financial year end being December. The Head of Finance commented that 'This Land Ltd' had the ability to decide their own financial year end. By having a different year end date it allowed them to be further ahead with their audit, but conversely also adds a complication in terms of consolidating up to the CCC balance sheet date.
- sought information regarding the 100 errors identified on the draft financial statement provided for audit and whether this would happen again next year. The Associate Partner, EY LLP stated that they had cleansed the pro forma set of accounts that would be used for next year significantly and therefore would expect this to lead to less errors being identified next year. A Group Accountant commented that a significant number of errors had been identified were due to incorrect page numbering on the accounts. The Head of Integrated Finance commented that as they had been behind in terms of the account deadline, officers had not had enough time to perform their usual assurance review process hence the mistakes had not been identified. A Member commented that they hoped that as a result of the Council's

review of the audit procedure with EY, they could agree how to resolve these errors for the next year.

- Page 9 queried the £1.261m overstatement made on the Council's Street Lighting PFI and the methodology used. A Group Accountant explained that a more fundamental review of the whole PFI model was required as to do just that part would require a duplication of effort. It was confirmed that this would be correct for next year.
- Page 10 - queried the status of the objection made to the current financial accounts from a member of the public. The Associate Partner, EY LLP stated that they had not yet determined whether the objection was valid.
- Page 20 - sought more information regarding how an increase in the next pension fund liability of £24.980 m had led to an increase in the Council's Unusable reserves. A Group Accountant explained that this amount had to be reversed out of the accounts so it was not included as part of the Council Tax request. They were effectively holding pots with timing differences and not reserves in the generally understood use of the word.
- Page 21 – reference was made to Heritage Assets not having been valued since 2008 with EY suggesting this was too long a period and was seeking management representation on whether there was not better valuation sources that could be used. The Head of Finance indicated that the reply to EY on this would be that it was not economically justified to deploy resources in this area.
- Page 22 - queried the errors found in the previous auditor's working papers regarding the categorisation of capital grants. The Associate Partner, EY LLP stated that the errors that had been identified by BDO had not been replicated in this year's accounts.
- Page 22 - sought clarification regarding the entry on exit packages disclosure adjustments. It was explained that the disclosure did not initially include information on those individuals whose payroll data was not processed through the Education Personnel Management schools payroll system. The Associate Partner, EY LLP stated that this was from those schools who did not have EPM as a provider. As a result they had not received confirmation on whether these schools had exit packages
- requested clarification on the importance of International Financial Report Standard (IFRS) 16 – Leases. The Associate Partner, EY LLP commented that it had the potential to be material when it replaced International Accounting Standards (IAS) 17 in 2021. Therefore there would have to be a review of the leases being affected by the change in accounting standards. The Head of Integrated Finance suggested that this change would have a significant impact on the leases found

within schools as the Council would have a significant liability. The Chairman suggested that it would be a challenge for next year's accounts.

- queried the prospective date when it might be possible for the financial statements work to be concluded, the Accounts signed off and the audit certificate issued. The Associate Partner, EY LLP commented that this was dependent on the Council having a completed set of accounts. This was now expected to be in late November early December. EY had scheduled this work for early December.
- Page 31 of the appendix - Requested further information regarding the 'Credit and Debit: Balance Sheet and Comprehensive Income & Expenditure Statements'. The Associate Partner, EY LLP confirmed that this audit adjustment did affect the balance sheet but it was not a cash loss on the balance sheet.
- Page 32 - sought clarification on the figures found under Revenue Grant Income. The Associate Partner, EY LLP confirmed that there had been a typo of the last two bullet points on the section, and should state £26.272m and not £27.531m.
- queried whether EY were satisfied that the mistakes found on page 32 were just mistakes and not attempted fraudulent misreporting. The Associate Partner, EY LLP stated that they were satisfied that they were mistakes with no information to suggest that they were fraudulent.
- queried why the McCloud and Sargeant rulings were contained in this set of accounts as the McCloud judgement was given on 28th June after the period of the Accounts. It was explained it retrospectively affected part of the Service's costs up to 31st March. The Vice Chairman, who was also the Chairman of the Pensions Committee, explained that the Service had already put £9-10m aside in anticipation of an adverse McCloud judgement.
- Page 42 - asked whether line four regarding service provided by EY was a correct statement. The Associate Partner, EY LLP believed that it was.

It was resolved to:

receive the External Auditor's report

223. COUNTY COUNCIL STATEMENT OF ACCOUNTS 2018-19

The Committee received a report presenting the audited Statement of Accounts for 2018-19. The Head of Integrated Finance drew the Committee's attention to the covering report and highlighted the Lessons Learnt section. Referencing paragraph 4.2 'Resourcing', he stated that the Head of Finance was seeking to recruit a further Closedown Accountant, nine applicants had

applied. He suggested that the LGSS review could also have implications on resourcing and this would be a risk going forward. He also stated that even though this was the first year using ERP Gold, using the system had smoothed the process of producing the accounts. However, they needed to make sure for the next set of accounts that they had adequate time to perform their internal audit review process.

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

- Page 21 – suggested that the Council involvement with LGSS had caused problems. The Head of Finance commented that LGSS had saved the Council money over the years. He commented that the Finance team was in a strange position as part of the team were still in LGSS and some were not. The Vice-Chairman informed the Committee that there was an LGSS meeting today that was discussing the future of the service.
- Page 21 – on a query on whether Democratic Services had been repatriated back to the Council, this was confirmed.
- queried whether the new Finance Officer were being employed would by CCC employees. Officers confirmed that this was the case.
- Page 27 – sought clarification regarding the table and whether the figures were based on an assumption of negative Revenue Support Grant (RSG). It was suggested that if this table was not based on negative RSG then they would see an improvement on the figures. The Head of Finance stated that they had improved the RSG position by £3.5 million and were increasingly certain that negative RSG would not occur next year. The Head of Integrated Finance explained that the negative RSG only represented one element of the further review of fairer funding.
- Queried whether the Council would continue to receive the same level of grants from Central Government next year as the Council had benefitted from the additional adults grant. The Head of Finance explained that they had to treat all grants differently. He stated that the figures in the Accounts did not reflect the additional funding announced in the spending review in September 2019. The announcement of the General Election had created further uncertainty regarding funding allocations to local government. The Member suggested that he would rather see figures in the Accounts that reflected the worst case funding scenario. The Head of Finance explained that the figures found in the report were the most appropriate ones to use as they were agreed by Full Council. The figures in the report were probably the worst case scenario as all fiscal projections had now improved.
- Page 38 – queried the decreasing level of usable reserves and suggested that he would like to see the reported figures beyond the previous two years. The Head of Integrated Finance explained that the

movements on this table related to the capital receipts reserves and the capital grant fund reserves.

- Page 56 and 59 – sought clarification regarding Officers' Remuneration and Senior Employees pay information. The Head of Integrated Finance drew the Chairman's attention the middle paragraph on page 56 that gave information regarding the definition of a senior officer. He also confirmed that the table on page 59 did not represent senior officers.
- Page 57 –sought clarification regarding the salary figure for the Director: Legal and Governance (Monitoring Officer). The Head of Integrated Finance explained that this figure related to the current monitoring officer. The 'Monitoring Officer (via LGSS Law Ltd) on the next row down was in relation to the previous Monitoring Officer.
- Page 58 – requested information regarding whether the Council pay the salary of the Chief Executive of the Greater Cambridgeshire Partnership (GCP). The Head of Finance clarified that they were, but the money came from a shared budget between the Council, South Cambridgeshire District Council and Cambridge City Council. The budget was ring fenced and funded by a separate central government grant, and the Council disclosed this information as the salary payment went through the County Council accounts.
- Page 62 – informed the Committee that the Final Dedicated Schools Grant (DSG) balance carried forward was a deficit of £7.171million compared to the £720k deficit brought forward from 2017-18 as the High Needs overspend continued to rise. The Chairman commented that he did not see how this would be recovered. The Head of Integrated Finance stated that this was a national issue and could be seen in the School Forum report where the overspend on the High Needs Block was around £7million. At the end of the 2019-20 financial year the Council's deficit would be around £15-16m. The Department for Education (DfE) had currently been consulting to ring fence any DSG deficits so they did not impact the General Fund figures. The DfE recognised that they were not funding this area nationally.
- Councillor Crawford sought additional information regarding the DSGs mechanism. The Head of Integrated Finance confirmed that he would explain this outside of the meeting. **Action: J Lee**
- Page 68 – queried whether they could use the usable capital receipt reserves to reduce the amount of borrowing performed by the Council. The Head of Finance highlighted that the Commercial and Investment (C&I) Committee had a strategy specifically around the deployment of capital receipts as a more favourable return could be made on reinvesting capital receipts in new assets rather than reducing borrowing.

- Page 78 – sought clarity regarding the reduction of £2million in Heritage Assets. The Group Accountant confirmed that they had been transferred to the Cromwell Museum Trust.
- Page 80 – requested more information regarding the Categories of Financial Instruments table. The Head of Integrated Finance stated that this table was a sub set of the balance sheet which purely related to financial instruments. Some of the numbers in the table could be read back across into the Balance Sheet. The Group Accountant commented that other liabilities would not be able to be read across, such as pensions, as it was not a financial instrument.
- Page 80 – queried the £-94,512 figure found at the bottom right of the table. The Head of Integrated Finance stated that there was a Chartered Institute of Public Finance and Accountancy (CIPFA) requirement to present the information in this way.
- Page 83 – sought clarification regarding the contents of this page. Officers agreed to take this outside of the meeting. **(ACTION: Jon Lee to speak to Councillor Shellens outside of the meeting)**
- Page 94 – Referencing that the Section 106 contributions increased by 25% last year asking whether this money would have to be dispersed. A Member also asked where this money would be spent. The Head of Integrated Finance suggested that he wasn't sure that the Council had ever given any unspent Section 106 monies back to a developer and would take the queries away and respond outside of the meeting. **(ACTION J Lee).**
- Page 99 – queried why the interest payable had risen to £1.8million. The Group Accountant and The Head of Integrated Finance stated they would take this away to confirm. **ACTION (M Savage / J Lee).** The Group Accountant suggested that this was partly due to the adjustment made from EY's expert review.
- Page 100 – raised concerns regarding the £500million total costs for the Waste Private Finance Initiative (PFI) contract.
- Page 103 – requested clarification regarding how the total £144.5m was being funded beyond the £121.1m funding received from PFI credits. A Group Accountant confirmed that the on the next page (Page. 104) there was a table that provided a breakdown of the contributions from the school.
- Page 106 - Impairment costs – requested examples for this section of the report. The Head of Integrated Finance explained that when they were building assets, while the building was being constructed the Council would be incurring costs, once it was completed they would get it valued to see the impairment cost. In response to a further question

the Head of Integrated Finance commented that the Council had a statutory duty to build schools.

- Page 118 – Regarding Lender Option Borrower Option (LOBO) loans the Head of Integrated Finance confirmed that there was one such loan and that the maturity date was 2076.
- Page 124 – Confirming in answer to a question that the number of employees in the Pensions Team was decreasing.
- Page 126 – Guided Busway - queried whether the ongoing dispute with the contractor would ever be finalised. The Head of Finance commented that it was currently still the subject of litigation and no date could be given.
- Page 127 – storage and preservation of the County Archives - queried whether the move to Ely would occur. The Committee was informed that it had taken place.
- asked whether the Council's art collection had be valued, what the assets were worth and the cost involved to look after it. A Group Accountant explained that a review had been completed and had identified which pieces should be retained. A Group Accountant made the point that the cost of an independent valuation was not worth it in terms of its cost compared to the value of the collection. The Head of Finance suggested that the Member, as the lead for Cambridgeshire Music could raise this query directly with Cambridgeshire Music.
- Page 144 – queried why this was left blank and whether the Committee had seen the Pension Fund Audit Report. The Pension Services Financial Manager confirmed that the Committee had seen this report and that it was left blank until the accounts had been signed off and agreed by the Chairman. The Associate Partner Ernst and Young LLP clarified that the Pension Audit Report had been presented to the Committee in July 2019.

Pension Accounts

- Page 151 – Taxation section - queried the possible impacts Brexit would have and whether the Fund would lose investment interest and whether it would it be taxed. The Pension Services Financial Manager suggested that it was difficult to answer, but it would depend of the type of investment, where the investment was held and the Fund's ability to claim the tax. The Associate Partner Ernst and Young LLP suggested that it depended on the fiscal policy post Brexit. The Pension Services Financial Manager stated that he could seek further assurance, but it was felt that the uncertainty was something that would remain and any consultancy advice would just be an opinion.

Councillor Hudson, seconded by Councillor Williams proposed to delegate authority to the Chairman and Vice-Chairman of the Audit & Accounts Committee, in consultation with the Section 151 Chief Finance Officer, to sign the Accounts, for the Committee's part once the outstanding areas described in the external auditor's report were completed. This proposal was passed unanimously.

It was resolved to:

delegate authority to the Chairman and Vice-Chairman of the Audit & Accounts Committee, in consultation with the Section 151 Chief Finance Officer, to sign the Accounts, for the Committee's part, once the outstanding areas described in the external auditor's report were completed

CHAIRMAN
28TH NOVEMBER 2019