

AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: Tuesday 25th November 2014

Time: 14.00-16.00

Place: Room 128, Shire Hall, Cambridge

Present: Councillors S Crawford, R Henson, P Hudson, M Shellens (Chairman), P Topping (Vice Chairman) and J Williams

Also present: Councillor J Whitehead (Item 99)

The Chairman started the meeting by paying tribute to Councillor John Reynolds, who had sadly passed away.

94. DECLARATIONS OF INTEREST

There were no declarations of interest.

95. MINUTES

The minutes of the meeting held on 23rd September 2014 were confirmed as a correct record and signed by the Chairman.

96. ACTION LOG FROM MINUTES

The Committee noted the actions taken in relation to the minutes from the last meeting.

p3/Minute 70 - CCS – a Member asked for an update on the CCS financial position. Ian Smith did not have any further detail, and agreed to update the Committee by email. **ACTION: Ian Smith to update Committee by email.**

p4/Item 11 – LGSS Draft Statement of Accounts – The Head of Internal Audit confirmed that he was content with this.

p6/Minute 83 – (d) City Deal – The Head of Internal Audit confirmed that this would be brought back to the Committee on an ongoing, embedded basis. A full report would be presented to the next Committee.

p7/Minute 84 - DCLG Counter Fraud Fund – the DCLG announcement, scheduled for November, had not taken place.

p8/Minute 87 – All three items ((a) Leases and the PPE process, (b) late payments to the Pension Fund and (c) Improvement Plan for Internal Controls Section) would come to the January meeting, not the March meeting.

97. CAMBRIDGESHIRE COUNTY COUNCIL AND CAMBRIDGESHIRE PENSION FUND ANNUAL AUDIT LETTER 2013/14

The Committee received the External Auditor's Annual Report, summarising the results of the 2013/14 audit work for members of the authority, and the most significant issues arising from the audit. The Report highlighted the External Auditor's responsibilities under the Audit Code of Practice, including those items still to be completed.

The Committee noted the most significant issues arising from the audit:

- Property, plant and equipment;
- Treatment of Revenue expenditure funded through capital under statute (REFCUS);
- Guided Busway;
- Preparation of the Pension Fund Accounting Statements;
- Cambridge and Counties Bank.

Members also noted other matters reported to those charged with governance:

- PPE Accounts preparation;
- Lack of segregation of duties within the accounts payable cycle;
- Lack of segregation of duties within the accounts payroll module in Oracle;
- General Ledger to Payroll Reconciliation;
- Preparation of Pension Fund Accounts;
- Use of suspense accounts and posting between Pension Fund and County Council general ledgers;
- Late Contributions Income;
- Pension Fund Bank Account;
- Reconciliation of investment manager confirmations to custodian reports.

Fees were higher than previously reported, but lower than last year.

The Chairman asked Julian Rickett, the External Auditor if any other areas should be investigated. The External Auditor confirmed that had there been any further areas of concern, these would have been highlighted.

A Member queried the statement under the Cambridge and Counties Bank heading that "... consideration should be given to applying a differential valuation of the equity and preference shares". The External Auditor advised that whilst they were satisfied with the valuation, there was a suggestion that

a different valuation approach should be taken, as the Bank had now been operational for three years.

It was resolved to:

Note the report.

(Julian Rickett left the meeting)

98. (A) INTERNAL AUDIT REPORT- STREET LIGHTING ENERGY MANAGEMENT

A summary of this Internal Audit Report had been considered at the September Committee meeting, where the Committee had noted that only limited assurance had been provided. At that meeting, the Committee requested an update on this area from Tom Blackburne-Maze, the Head of Assets and Commissioning, on the responses to the issues raised in the Internal Audit Report.

Introducing the update, the Head of Assets & Commissioning advised that the Annual Contract Review for the Street Lighting PFI had been considered by the Highways & Community Infrastructure Committee on 18th November. He added that the Management Responses included an update on the actions identified from the recommendations of the Internal Audit Report, all of which had been actioned and closed.

Members raised the following issues:

- asked how were street lights owned by District, City, Town and Parish Councils dealt with? The Head of Assets & Commissioning advised that there were many street lights which for various reasons were owned by other authorities, including lights owned by a total of 159 Parish Councils. Historically, the County Council paid for the energy and then invoiced the relevant authority. The Asset Register now identified all street lights owned by the County Council. Other authorities were being actively encouraged to upgrade to more efficient street lights, as the PFI contract rolled out;
- how were street lights where ownership was unknown dealt with? The Head of Assets & Commissioning explained that any such cases should be referred to him, and he would investigate to see if any authority was being billed, and arrange for removal if the street light was not being used. In Fenland, the District Council had effectively paid for the energy of all street lights belonging to the Parish Councils, and then invoiced those

Parish Councils. The particular issues in Fenland had been addressed, although many street lights in Fenland were particularly old;

- some street lights had the County Council's asset label/phone number, but did not belong to the County Council;
- what the prospect was of rationalising processes e.g. would the County Council seek to take over all street lights, or did that depend on finances. The Head of Assets & Commissioning advised that such an action was financially prohibitive, but explained that if street lights did not belong to the County Council, there were negotiations with the relevant authority, and that many already had separate arrangements with Balfour Beatty;
- the rollout had not gone as smoothly as it could have done. What lessons could the Council learn as an organisation before undertaking another PFI. The Head of Assets & Commissioning advised that the main lesson was to fully understand all of the implications— in this case, ownership by other authorities was a particular issue, as the initial approach had been on the basis of the vast majority of street lights being under the County Council's ownership. Many of the complications related to ownership/energy billing had not been anticipated. He also confirmed that there were no further PFI contracts on the horizon;
- noting that the action was now closed on the reconciliation of Southern Electric billing, a Member sought reassurance that whilst the procedure was in place, all actions were actually being followed and signed off. The Head of Assets & Commissioning advised that there were three invoices provided by Southern Electric: one for County Council assets, one for Fenland District Council energy assets, and one for other authorities (e.g. Parish Councils). The most recent reconciliation of these had shown all three to be incorrect. They were returned to Southern Electric, credited and cancelled. Over the last four months, these reconciliations had saved the County Council £4,000, which would otherwise not have been identified;
- the Head of Assets & Commissioning confirmed that as part of the current programme, Parish Councils were advised that, when the County Council was replacing its own street lights, then it would be timely for the Parish Council to replace their own, as it would be cheaper for them. Members agreed, but commented that due to precept levels, this was often an unaffordable option for Parish Councils. It was noted that the biggest cost was the UK Power Networks connection and disconnection fees (£600 each time);
- noting that the County Council pays for the power at the beginning of the year, and then undertook a reconciliation at year end (except for Fenland

District Council, who were invoiced monthly), so there was a delay between the Council incurring and recouping costs. However, invoicing Parish Councils twice a year could cause them difficulties;

In response to a question on access to information, and the information held by Balfour Beatty, the Head of Assets & Commissioning advised that risk was outsourced i.e. the liabilities and responsibilities sat with the PFI contractor, and the resources were no longer available in house. The Member acknowledged this point, but commented that the reputational risk remained with the Council – in this regard, risk could not be completely outsourced externally, and the public may reasonably expect to raise issues with a Council officer. The Head of Service acknowledged this point but indicated that the Council had made the decision to outsource this work. He agreed that more work needed to be done with communities so that they understood that street lighting was managed by Balfour Beatty on behalf of the Council, and that Balfour Beatty should be the first point of contact.

Members discussed PFI contracts more generally, observing that in many cases, PFI was a more expensive way of delivering a service. The Head of Assets & Commissioning acknowledged this point, but commented that for the Street Lighting PFI specifically, the County Council was saving money, due to the high level of PFI credits that had been awarded by government.

The Head of Internal Audit noted that there had been a positive and robust response to a relatively critical audit.

It was resolved to:

Note the report.

99. INTERNAL AUDIT PROGRESS REPORT (INCLUDING PROGRESS OF IMPLEMENTATION OF MANAGEMENT ACTIONS) TO 31ST OCTOBER 2014

The Committee considered a report on the main areas of audit coverage for the period 1st September to 31st October 2014, and the key control issues arising.

Councillor Whitehead, Chairwoman of the Children & Young People Committee, and Keith Grimwade, the Service Director: Learning (CYPS), attended to respond to issues raised in the Internal Audit Report on Safe Recruitment in Schools, and the issues of concern raised in that report. The Service Director commented that the main two issues raised in the Internal Audit Report were:

- (i) that across the board, the audit indicated that schools' performance in safe recruitment had declined;
- (ii) specific reference had been made to one school, for which there had been a follow-up audit.

The Service Director stated that between 2004 and 2011, this area had received an overall rating of substantial assurance. The audit in 2012/13 was disappointing, as this rating was not maintained. This had been addressed by the Local Authority writing to the Headteachers, Chairs of Governors and Clerks at all schools, detailing the actions that needed to be taken, and a safer recruitment self-evaluation audit had been developed and circulated to all schools i.e. both maintained schools and Academies. Maintained schools were required to return it, and whilst Academies were not obliged to return it, no Academies had refused to do so. To date, two-thirds had been returned, providing a wealth of data on what schools were doing in this area.

In discussion, the Committee observed that schools had been asked to return the questionnaire before the half term holiday, but only two-thirds had done so, which was disappointing. The Service Director advised that reminders had been sent and ultimately, for maintained schools, the Local Authority was willing to use its powers. He advised that whilst there was no resistance to completing the self-evaluation, but it was a major piece of work, and support and training was available. In light of this, it was disappointing that the 2013-14 audit did not show a reversal. In addition, there were some issues which were easy to fail on but relatively minor e.g. interview notes not initialled or filed correctly, however also significant issues e.g. disclosure/barring checks not being completed, which were fundamental for safe recruitment and a major cause for concern.

Members raised the following issues:

- with regard to the recruitment of teachers, schools were generally very good. However, some schools (notably some primaries), seemed to operate a different system for the recruitment of other staff;
- with regard to enforcement it was noted that the Service Director confirmed that management regarded this issue as absolutely fundamental. For maintained schools, the Local Authority would use its powers of intervention if necessary. For Academies, the Local Authority had no direct powers of intervention, but Academies tended to be secondary schools and the authority retained strong positive relationships with the Academies. It was suspected that the area of greater concern was smaller primaries, where turnover of administration staff was partly an issue;

- was there scope for dealing with whistleblowing from genuine sources? The Service Director confirmed that if anyone had a concern about school recruitment or safeguarding practices, the Local Authority had a statutory responsibility to consider those concerns. All such concerns would go to the LA Designated Officer, who in turn was required to report the outcomes to Ofsted;
- was it likely that those schools who had responded to the self evaluation first were likely to be those with good practice, and the schools who had not responded would include some with poor practice. The Service Director responded that he had personally only reviewed a small number to date, but they appeared to have been completed both positively and honestly. It was confirmed that a spreadsheet analysis was completed by CYP and fed through to the Audit team. This information was also copied to CYP Spokes, and included a record of when responses were received;
- queried how specific schools could be targeted? The Service Director confirmed that the Authority had half termly meetings with schools causing concern;
- asked what information was available on this issue nationally, i.e. whether officers had access to any peer comparator information? The Service Director advised that there was no authoritative evidence, although anecdotal evidence suggested that Cambridgeshire was considerably better than many other authorities;

The Committee noted that the summary report had been undertaken prior to the actions the Service Director had carried out.

Turning to the specific issues at one particular school, the Service Director advised that that school was already subject to a high level of intervention by the Local Authority, with a support plan in place for improvement.

The Chairman thanked Councillor Whitehead and the Keith Grimwade for attending. He asked the Service Director for a written update on the number of responses received, and advised that it would not be necessary for them to come back to Committee to present that information.

(Councillor Whitehead and Keith Grimwade left the meeting)

Members discussed this issue further, and expressed strong concerns, particularly about the acceptance of such a low response rate by the due date on such an important issue, although the Chairman commented that he felt the Service Director recognised the extent of the Committee's concerns. The Committee agreed that this should be the subject of a full audit, and discussed possible methodologies and sample sizes.

In conclusion, the Committee asked the Head of Internal Audit to commence the audit process with a view to providing a full report. This would involve discussions with relevant officers and the selection of a sample of forms, and following up with some schools that had not responded. An update would also be provided on the response rate and the areas of concern by school/issue. **ACTION: Jonathan Idle.**

Reviewing the rest of the Progress Report, Members noted:

- that the Public Health report would be brought to the Committee in January. The Chairman expressed concern that the Audit Committee's internal audit resources were being requisitioned without the Committee being notified;
- that the Early Help review was the first of two embedded assurance reviews which were being conducted into the Early Help Project in Enhanced and Preventative Services. Based on fieldwork, an opinion of Moderate assurance was assigned that the project had commenced with sufficient consideration of key project management requirements. The Moderate assurance reflected that there were areas where controls required further development, and some specific areas for attention were noted, particularly where improvements could be embedded;
- that a Moderate assurance was assigned for the Delayed Discharges review, with a number of areas of good practice being identified, but also some inconsistencies in practice, although significant work had already been undertaken to improve this situation;
- that the Ethics audit had resulted in a number of recommendations, but overall Substantial assurance was assigned over the controls in place for ethics arrangements at Cambridgeshire County Council.

Arising from the report, Members:

- asked for future versions of the Internal Audit Plan (Appendix 2 to the report) to include a column comparing progress in the current audit compared to the previous audit. **ACTION: Jonathan Idle.**
- noted that with the Delayed Discharge review, there were issues and inconsistencies e.g. changes to the way information recorded, issues with the new computer system at Addenbrookes, and the audit report suggested that processes were not in place;
- noted the update on Fraud and Corruption, including a Crown Prosecution Service case where an employee had been charged with four counts of

fraud by false representation, one charge of fraud by abuse of position and one general charge of fraud by failing to disclose the conflict of interest throughout their employment with the Council;

- noted that the team were continuing to investigate the financial management of service users' monies at one of the Council's supported living establishments, following concerns brought to the management's attention through the Whistleblowing Policy.

In respect of the implementation of recommendations, the Head of Internal Audit stressed that the implementation rate for 2013/14 had been 62% and that it was positive to note that via actions taken it had increased to 86%.

It was agreed that at the January Committee meeting, Members would discuss what to do with any unallocated days.

It was resolved to:

- a) Note the progress being made against the approved Internal Audit Plan;
- b) Approve the in-year changes to the Audit Plan;
- c) Note the material findings and themes identified by Internal Audit reviews completed in the period.

100. VALUE FOR MONEY REVIEWS

The Committee considered a report on the detailed plan of reviews to be undertaken within 2014/15.

Members were reminded that Internal Audit used an "Embedded Assurance" approach in respect of major projects within the Council. This involved providing independent assurance through a project life cycle with the intention of providing up to date and ongoing assurance rather than taking a retrospective approach. Following discussions with the Director of Customer Service and Transformation, it had been agreed that the most beneficial way forward would be for Internal Audit to provide independent assurance on major projects, for example assessing the effectiveness of benefits realisation, and to extend the embedded assurance approach into specific key Council transformation projects. More proactive ways of looking at Value For Money could also be explored.

The Chairman asked what the difference would be in resource allocations. The Head of Internal Audit responded that there were benefits and disadvantages – Value for Money studies could be very specific and involve

an in depth review of a service area e.g. 25-30 days, but there could be major benefits to the organisation. The Chairman suggested that one area to explore could be an analysis of the decisions made by Service Committees.

It was resolved:

To note the use of the embedded assurance approach in providing assurance in relation to key Council projects.

101. INTEGRATED RESOURCES AND PERFORMANCE REPORT

(A) GENERAL PURPOSES COMMITTEE – DISCUSSION OF THE REPORT ‘INTEGRATED RESOURCES AND PERFORMANCE REPORT FOR THE PERIOD ENDING 30TH SEPTEMBER 2014

(B) INTEGRATED RESOURCES AND PERFORMANCE REPORT FOR PERIOD ENDING 30TH SEPTEMBER 2014

The Committee considered a report on financial and performance information, to assess progress in delivering the Council's Business Plan.

Arising from the report, Members:

- noted that prudential borrowing (and therefore net borrowing) was down;
- asked what had been learned from the overspends in the LGSS Managed budgets (both County Offices and IT Managed). Ian Smith advised that the County Offices overspend was historic and related to the disposal of Castle Court. He further advised that there were further savings in the 2014/15 budget in terms of other properties to be disposed of, e.g. Hereward Hall. In terms of timescales, these were seen as realistic on the basis of known assumptions. With regard to the IT Managed budget, these targets had been provided by LGSS corporately, and the savings would be achieved across the two organisations. The LGSS Director of IT continued to provide assurances that the savings were achievable. A Member suggested that evidence should be asked for that this assumption was factually based;
- noting the statement that unless the claim rate increased significantly over the next three to six months, that a significant proportion of the Super Connected Cities grant would be unspent and would therefore need to be returned, the Chairman requested that a written response be requested on action being taken to address this situation and ensure that the full allocation was being spent within the required timescales. **ACTION: Ian Smith;**
- Discussed Home to School Transport and the reasons for the overspend, which was approaching £1M. Members requested a report to a future meeting. **ACTION: Ian Smith**

- Agreed that Workforce Strategy needed to be added to the Action Log.**ACTION: Democratic Services.**

It was resolved to:

Note the report.

102. AUDIT AND ACCOUNTS COMMITTEE AGENDA PLAN

The Agenda Plan was noted, which would be updated for those additional reports requested during the meeting.

103. DATE OF NEXT MEETING: 2.00pm Tuesday 20th January