

Audit And Accounts Committee: Minutes

Date: 30<sup>th</sup> October 2020

Time: 2.00 pm – 3.24 pm

Place: Virtual Meeting

Committee Members Present:

Councillors: P Hudson, M McGuire, T Rogers (Vice Chairman), M Shellens, (Chairman), D Wells and J Williams

Officers Present:

Ben Barlow Fund Accounting Manager for Minute 272

Fiona Coates Pension Services Financial Manager for Minute 272

Mark Hodgson Associate Partner Ernst and Young LLP External Auditor

Neil Hunter Head of Internal Audit for Minutes 273 and 274

Tom Kelly Head of Finance

Rob Sanderson - Democratic Services Officer

268. Apologies for Absence Declarations off Interest

No apologies were received.

269. Minutes of The Audit And Accounts Committee Dated 22nd September 2020

On Minute 264 titled 'Debt Management Update' Page 6 bullet point 4 in the first line the Vice-Chairman pointed out the figure £4.59 debt over 730 days should read £4.59m.

It was resolved:

That subject to the above correction, the minutes of the meeting held on 22nd September 2020 were agreed as a correct record and would be signed by the Chairman when Shire Hall was re-opened.

Issues raised on the minutes:

- Referencing on page 6 the same debt figure of over 730 days of £4.59 m of which £2.6m was CCG debt, the Chairman asked if there was any update on whether any more of this had been recovered since the last

report? The Director of Finance explained that recovery was a long term project and therefore the figures were currently the same as previously reported. Officer had already committed to bring back a report to the 26<sup>th</sup> January Committee meeting.

#### 270. Minute Action Log Update

Referencing Minute 265 Internal Audit Plan g) the Chief Internal Auditor briefing the Chairman on Audit Plan changes outside of the meeting - this was still an outstanding action which the Chairman still required. **Action:** Chief Internal Auditor / Head of Internal Auditor to provide a briefing on the changes before the next meeting.

It was resolved:

To note the Minute Action Log.

#### 271. Petitions And Public Questions

None received for either by the County Council Constitution deadlines.

#### 272. Pension Fund Annual Report and Statement of Accounts

This report sought approval to the final Statement of Accounts and to note the Annual Report of the Pension Fund for the 2019-20 financial year, (the latter of which had already been approved by the Pensions Committee) and to view the findings of the External Audit ISA 260 document included as one of the appendices to the report.

The report author Ben Barlow highlighted that he had already had a pre-meeting discussion with the Chairman who had made grammatical improvement suggestions which would be taken on board and included in a final published version of the document. He highlighted that the audit itself had gone very smoothly despite the Covid-19 restrictions with the Annual Report and Statement of Accounts having already been received twice by the Pensions Committee and once previously this Committee.

Mark Hodgson the External Auditor for the Cambridgeshire Pension Fund introduced the EY 'Audit Results Report' for the year ended 31<sup>st</sup> March' included as Appendix 2 (the ISA 260 report). He confirmed that there had been no major issues apart from changes to the risk assessment as a result of the Covid-19 crisis as previously discussed at the July Committee. He was able to update the meeting that the outstanding matters listed in the report had been completed since report publication and he was now in a position to sign off an unqualified audit opinion on the Pension Fund Financial statements ahead of the statutory deadline of 30<sup>th</sup> November 2020 but was holding off final sign off until the main Council accounts were received by the Committee in November.

From the Executive Summary he drew attention to the following:

- On page 115
  - The changes to the risk assessment in relation to 'Disclosures on Going Concern'.
  - To events after the balance sheet date and the identified increased risk that might need to be disclosed to reflect the specific circumstances of the Pension Fund.
  - Changes in the materiality level on the measure of net assets resulting in an updated level of £30.15m.
- On page 116 it was highlighted that there were no unadjusted audit differences.
- On page 117 highlighting Private Equity and Infrastructure valuation uncertainties and the estimated asset valuations for Level 3 assets. A more up to date value at 31<sup>st</sup> March than those valuation estimates made at December 2019 (adjusted for cash flow at March 2020) showed the asset balance had been overstated by £16.99 million but this was explained as being a timing difference due to the snap shot date and had been adjusted within the revised financial statements.
- A limited number of audit disclosure differences had been identified in the draft accounts and had subsequently been adjusted by Finance Management. The most significant being the need to include a 'Going Concern' note and to include an additional disclosure narrative in respect of the valuation uncertainty expressed within the valuer's report for Pooled Property Assets.
- No significant deficiencies had been identified in internal controls.
- Page 118 set out the areas of Audit focus undertaken in identified significant risk areas and other areas of audit focus. Apart from the issue already highlighted for 'Going Concern' there were no matters to report.
- Page 122 detailing that the valuation of the Cambridge and County Bank by the management specialist had been found to be reasonable, and was considered to be within best practice range and was materially accurate.
- The representation letter was included as appendix D to the EY report with nothing additional being required from the County Council management side.

Mark Hodgson went on record to thank the finance officers for helping make it a very clean audit with very few required adjustments given the constraints imposed by the Covid-19 crisis since March.

On the Audit Results Report issues raised included:

- Asking would the extra work involved around the Covid-19 crisis affect the fees set out on page 138 as Members noted that no details were provided in terms of the revised scale fee which would impact on the total Fund Fee which was also currently reading 'to

be confirmed'. It was confirmed that there would be an increase in the final fee but the final figure had not yet been calculated.

- In response to a query on whether the Cambridge Building Society was classed as a pooled investment, it was clarified that it was not.
- Referencing paragraph 2.6 reading “*The one-year investment returns as at 31<sup>st</sup> March 2020 was a net market loss of £191.1m. The investment return for the Fund over the financial year was - 5.7% compared to the Fund’s weighted benchmark return of -3.3% reflecting the financial situation brought about by the COVID-19 pandemic and the active investment management decisions made by the Fund*” .there was a request that a comparison should be given on the scale of the loss compared to other similar Funds as it was not possible from the statement to obtain a notional feel for how the fund managers working for the Cambridgeshire Fund had performed during the pandemic compared to others. It was explained that making comparisons between different Pension Funds was very difficult as no two Funds invested in the same way in terms of equity, property etc. The Vice Chairman who was also the Chairman of the Pensions Committee indicated that he had a copy of a benchmarking paper that he was happy that officers share with the Committee. Action: Ben Barlow
- One Member queried whether due to Covid-19 and the restriction in being able to visit offices there was a risk that important areas may have been missed as part of the External Audit compared to the position in previous years when the Auditors were able to visit the physical offices and speak to officers face to face. Mark Hodgson was able to provide assurance that the full suite of documents required to meet the list of audit objectives had been received and in many ways the use of virtual Microsoft Teams meetings etc. had made it easier than if the audit officers had to physically travel to an office and in fact through the virtual meetings platforms more meetings had taken place.

In respect of the Cover report, the Pensions Accounts and Annual Report appendices issues raised included:

- Page 35 - Performance Indicators table – explanation requested on the large increase in the actual management expenses for all three headings compared with the original estimate. This was mainly due to a timing issue with administration costs for expenditure that had been paid within the year which related to the prior year, of which a breakdown had already been provided to the Pensions Committee. For investment manager expenses, the actuals included invoiced costs and fees were deducted from the net investment value. However the forecast only included invoiced costs. ACTION: Fiona Coates undertook to provide details of the breakdown of the invoiced and non-invoiced costs.

- In answer to a query, it was confirmed that no key performance indicators for the Service had failed to meet their legal target with key performance indicator targets being reported quarterly to the Pensions Committee
- Referencing page 48 on Management and Financial Performance citing Huntingdonshire College as an example, but applicable to other employers on other pages, why in some cases were there employee contributions shown but no employer contributions. It was explained that as the Actuarial Valuation was only undertaken every three years they may have overpaid employer contributions previously and were now in surplus so that the employers did not owe contributions.
- On a query in respect of if there was a change in national legislation regarding banning investment p in specific countries how would investment managers working to a specific mandate be able to react and modify their mandate, it was explained that there were protocols in place and any regulation changes would be known by officers in advance and would be submitted to Committee. Fund managers would then be required to provide evidence that they were complying with any such changes and this applied to a change of national policy or fund investment policy. National directives were not ones that changed that rapidly and there would be time to alter fund manager mandates.
- Page 52 - Investment Policy and Pooling - In terms of access pooling a question was raised regarding what percentage proportion of the Access Fund costs and investment costs were down to Cambridgeshire compared to the other 10 funds included in the Pool. The Vice Chairman explained that the costs were divided equally between the eleven funds.
- Page 52 regarding providing an explanation of the line titled 'Implicit / Indirect transactions costs' these were costs not directly paid for e.g. opportunity costs such as loss of income, depreciation and were not a direct cost to the Accounts.
- Page 53 querying why in the text it was stating "*the Investment Strategy Statement approved by the Pension Committee in March 2019 had objectives of reducing the Fund's reliance upon and the associated risks, of a large allocation of equities ....*" but the two pie charts below on the same page showed that the Strategic Allocations from 1<sup>st</sup> April 2019 and the Strategic Allocations chart for 31<sup>st</sup> March 2020 showed that equities had increased from 58% to 61.1% It was explained that at the point in time shown, the Fund had not yet finished moving money out of equities into alternative assets as the move takes time. The Vice Chairman was also able to clarify further that there had been a sale of alternative assets and the proceeds from this had been put into passive equities to obtain interest before being re-invested.
- Page 61 - An incorrect figure on the Fund's value had already been corrected in a revised version of the Accounts.

- Page 64-65 - it was confirmed that the two blank pages with the heading 'Audit Opinion' would be where the External Audit Report would appear in the final version of the document.
- Page 76 Pooled Property Fund on the text on the right hand side of the page reading "*At this time it was not possible to accurately predict the scale of the impact of COVID-19 on the economy and as a result 2019-20 Pooled Property valuations have been based on information prior to the outbreak, on the assumption that the value will be restored once property markets resume*" the Chairman suggested an estimated time span would have been useful.
- Page 78 - Note 14 questioning the huge fall on equities showing £377,322 million at 31<sup>st</sup> March 2019 and only £1 million as at 31<sup>st</sup> March 2020 – this was due to a transition during the year and of residual equities were left in the Account which had now been sold.
- Page 90 Under the heading 'Other Price risk-sensitivity analysis' the Chairman queried the use of the phrase in the second paragraph reading "one-standard deviation movement" – the officers would check but believed it was CIPFA wording. Action: Fiona Coates
- Page 93 – explanation was requested regarding the last line reading "*During the year the Fund partially hedged the currency exposures on its equity investments by transferring into currency hedged share classes of its passive equity funds*" - It was explained that this was to protect its value due to the fluctuation of currency rates. The wording in the paragraphs had been changed following concerns expressed by the Chairman at the July meeting that the previous wording suggested that fund managers were gambling rather than undertaking calculated measures to protect holdings.

It was resolved unanimously to:

- a) Approve in principle the Final Statement of Accounts and note the Annual Report of the Pension Fund for the 2019-20 financial year on the basis that the final version would be included in the main accounts report due to be presented to the November Committee meeting.
- b) Note the findings of External Audit documented in the ISA260.

## 273. Whistleblowing Policy Annual Report

The Committee received Internal Audit's annual report produced to help identify any patterns of concern, and in order for the Committee to be able to assess the effectiveness of the Policy. Although the report had already been circulated to the Committee by e-mail in July, (as part of the requirements of the Virtual Meetings Protocol that Committees should not receive information only reports), due to concerns expressed by both the Vice-Chairman and the Chief Internal Auditor, this report and the next report were included on the agenda to allow the Committee to review and comment on both, before, as their designation had been changed to reports for decision, formally approving them.

The Committee was informed that the Whistleblowing Policy (included as Annex A to the report) had been revised and updated in January 2020 for key officer contact information and the Public Concern at Work to Protect. As the report did not detail what changes had been made to the key officer contact information, the Chairman requested that this should be provided in an e-mail outside of the meeting. **ACTION: *Neil Hunter to look into and write to the Chairman*** Details were also provided of a publicity campaign undertaken to promote the Policy and to help provide a greater awareness of whistleblowing processes.

In line with the Policy to gauge staff awareness of the Policy, a staff survey was carried out in December 2019. One hundred randomly-selected members of staff were asked to complete an online survey with 42 responses received. The results showed that 95% of staff were aware of the Whistleblowing Policy and 98% of staff confirmed that they would feel confident in raising a serious concern either with their line manager, another senior member of staff, or via the Whistleblowing Policy.

The report highlighted that Internal Audit had been advised of 21 cases raised under the Whistleblowing process in 2019/20 with the table in 5.1 of the report showing a breakdown of their outcomes without disclosing any .confidentialities.

In discussion issues raised included:

- Whether a 42% response rate was considered sufficiently robust and asking how many reminders had been sent. One reminder was sent and the response rate while it was conceded could be higher, had to be tempered by realism, as it was not compulsory for staff to have to respond.
- Stating that it would have been useful to have details of what number a 100 represented from the total County Council workforce and also to have analysed whether a 42% response suggested that only 42% of those surveyed were in fact aware of the Policy.
- There was a request that in future presentational changes to the Policy should be shown in a side bar, as it was not possible for the Committee to see what changes had been made from a previous version of the Policy.
- Suggesting that it would have been useful to provide a reason why the number of cases had increased to 21 from what had been 14-16 cases in a previous report as this appeared to be a significant increase (and could also have highlighted whether any referrals could be linked to the Pandemic). Officers saw any increase in referrals as being positive as it demonstrated that staff felt empowered to be able to put forward complaints and also could be seen as a gauge of the success of the publicity campaign reaching out to more staff. Officers would be more concerned if the number reduced to zero.

The officer undertook to take on board the comments made in order to help improve the next annual survey and the future presentation of the report to Committee.

Having considered and commented on the report,

It was resolved unanimously:

To approve the report and the revised Whistleblowing Policy.

## 274. Internal Audit Draft Annual Report 2019/20

The Public Sector Internal Audit Standards require that the Chief Internal Auditor presents an annual report to the Audit & Accounts Committee to receive his opinion regarding the state of the Internal Control Framework within Cambridgeshire County Council forming part of the evidence supporting the Authority's Annual Governance Statement for 2019–20. The annual opinion was required to be based on an objective assessment of the framework of governance, risk management and control and included an evaluation of the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

The Chief Internal Auditor's opinion had been derived from an assessment of the range of individual opinions arising from assignments contained within the risk-based Internal Audit Plan. It had taken account of the relative materiality of the areas, and Management's progress in addressing control weaknesses. He highlighted that the COVID-19 Pandemic had affected a number of planned audit assignments but believed that sufficient work had been completed to allow an evidence based opinion to be given. He also confirmed that in line with Public Sector Internal Audit Standards (PSIAS) requirements he was able to confirm that the Internal Audit service had operated with an adequate level of resource to deliver an annual audit opinion and that the Internal Audit operated independent of the organisation and there have been no compromises of Internal Audit's independence in its operation during the year.

The Chief Internal Auditor's opinion as set out in the report was as follows:

*"On the basis of the audit work undertaken during the 2019/20 financial year, an opinion of satisfactory assurance is awarded. This remains unchanged from 2018/19. This opinion is caveated as the key financial systems audit reviews of Payroll, Treasury Management, General Ledger, Bank Reconciliation and IT System controls were not completed in the financial year 2019/20 due to Covid-19 pressures."*

Issues raised in the consideration of the report included:

- Asking why the opinion was not classed as 'good'. It was explained that



some areas had only been able to show limited assurance and also as a result of Covid-19 restrictions, Internal Audit had been unable to complete key financial systems as referenced in the Internal Auditor opinion set out above. The opinion was based on the fact that full audits had been undertaken in 2018-19 when good or satisfactory assurance had been received. The referenced systems would be reviewed again as part the Internal Audit reviews to be undertaken in 2020-21. Members however remained concerned that as there had not been a full audit in those areas for what would be going on to two years if they awaited the normal timescales they could potentially be waiting another 6-9 months to receive updated information. As a result, the Committee requested that interim reviews should be undertaken on all key financial systems that had not had a completed review during 2019-20. **Action:** the Head of Internal Audit to forward the request to the Chief Internal Auditor.

- Paragraph 4.2.2 Table 2 titled 'Key Financial Systems Audits 2019-20' - The Chairman highlighted that for the Debt Recovery 2019-20 audit this was still showing as limited for Compliance, the same audit rating as in 2018-19 while noting the Environment element had improved from limited to satisfactory. The Head of Internal Audit explained that from the 2019/20 audit there was already a suite of recommendations for suggested improvements that would be monitored in the normal way and with the Audit for 2020-21 already scheduled.
- Anti-Fraud and Corruption Paragraph 4.6.5 Table 3 – A query was raised on open cases shown and whether they had now been closed. An update would be provided in the Quarterly Internal Audit Report to be reported to the November meeting. **Action:** Head of Internal Audit
- Page 192 - Regarding the National Fraud Initiative matching exercise, the Chairman queried whether for all the effort undertaken to detect fraud as set out in the table in paragraph 4.6.12 it was worth the time and effort involved for what appeared to be relatively small savings / overpayments and whether a year off from such activity would allow resources to be re-directed to higher yielding saving areas. The officer pointed out the notional savings also needed to be taken account of the fact that where prosecutions were undertaken and publicised, these often had a deterrent effect. Paragraph 6.14 did highlight that NFI required councils involved in the pilots to record outcomes from the matches and place a monetary value where possible to reflect any overpayments / savings arising for the correction of their records. **ACTION:** The Head of Internal Audit would take the Chairman's suggestion back to the Counter Fraud Team.
- Para 4.7.2 - Cybersecurity and Public Sector Compliance (PSN) - in reply to a query on what cyber security weaknesses had been found, details could be provided in an email outside of the meeting on the progress of the agreed actions to address the control weaknesses identified in the Cybersecurity and Public Sector compliance review as this was not appropriate to be discussed in a public meeting.

- Paragraph 4.7.3 reading *“IT Service Desk Review (Draft report issued). At draft report stage the adequacy of system and compliance opinion for this audit were both Limited. This was due to Service Desk performance not meeting Key Performance Indicators (KPI) targets at the time of audit. From our discussions with the new LGSS Head of IT in January 2020, we were informed of good progress”* In response to a question on what the issues had been, they involved two of the Help Desk KPI’s regarding speed of responses and abandoned calls which had been addressed through staffing level changes. There was another scheduled audit in the 2020-21 Plan.
  
- Appendix A - Highways Contract Open Book review 2019-20 - the Chairman was aware of the first part of this review and was concerned regarding the over-recovery of costs which suggested that the Council had overpaid for services received from the contractor, and was now seeking to recover costs. The Head of Internal Audit highlighted that there was still an ongoing Stage 2 audit and work was proceeding with a third party which was commercially sensitive. As a result of concerns raised, linked to ongoing issues regarding contract monitoring, the Committee requested that a report should come back to the November Committee and the Service Director invited to attend the 24<sup>th</sup> November to explain the reasons for why overpayments had been made leading to a position where the Council was seeking to recover monies already paid out. If necessary, due to any business sensitive commercial considerations, this would be taken in the exempt/ confidential section of the agenda. **Action: Executive Director Place and Economy / Service Director for Highways and Transport.**
  
- Appendix A Summary of Completed Reviews – As raised at the previous meeting and at earlier meetings, a Member of the Committee highlighted that the Manor Farm Tenancy Investigation was still outstanding. The Committee had been informed at the last meeting that the Manor Farm Tenancy investigation had been completed and all stakeholder comments received, the last having been received the day before the September Committee meeting. However, the Committee was still not being given any indication when the report would come forward to Committee. Members, including the Chairman, expressed their frustration that there was still no report after two years and that they had not been given any meaningful details on the results of the investigation. One Member highlighting that while the stakeholders had been provided with a draft copy of the report to comment on, the Committee Members were still not privy to its contents. The Chairman indicated that he was aware that as a result of stakeholder feedback some changes had been made to the report and a further fact checking exercise was being undertaken, but commented that he had also not been provided with the details of the revised report. As a result of the strong concerns felt by the Committee members regarding the continued delays and lack of transparency in keeping the Committee fully informed and also a desire to receive a report before Purdah that could be debated,

if at all possible, in public, there was unanimous approval that the Council's Chief Internal Auditor and (as the Committee was being told at the last meeting that there were still ongoing legal exchanges between certain parties which were preventing a finalised report being presented) the Monitoring Officer should prepare a report for November. This should explain the reasons for the delay in the report coming forward and include the investigation report itself. **ACTION: Chief Internal Auditor / Monitoring Officer.**

It was resolved unanimously:

- a) To approve the Annual Internal Audit Report.
- b) To receive an update report on issues around overpayments on the Highways Contract Open Book Review 2029-20
- c) To receive the finalised Manor Farm report including the reasons for the long delay in its production.

## 275. Forward Agenda Plan

Following a further review by Group Leaders in respect of including information reports on the agenda, they had updated their advice to agree that Committees should have the discretion going forward on what to include on the formal agenda and what could be circulated by e-mail. One Member suggested that he was happy to leave it to the Chairman / Vice Chairman to decide as part of any informal pre-meeting / agenda meeting process. This was endorsed by the whole Committee.

In terms of the current agenda Plan for the November meeting, as already agreed, there should be additions in relation to Manor Farm and an explanation of the overpayment on the Highways Contract.

On those reports listed which were of an information / monitoring nature, the Safe Recruitment Update and Transformation Update should be included on the formal agenda for consideration at the meeting, with the other information reports circulated by e-mail.

On the issue of reports still to come forward as listed in red at the end of the Forward agenda plan, the Chairman had indicated earlier in the meeting that it was his understanding that BDO had arranged a meeting with the Chief Executive to go through the remaining outstanding questions.

The Director of Finance on being asked the question, was able to give assurance that the Accounts would be ready for the scheduled November meeting and that there would not be any need for any additional Committee meetings to be arranged.

The Chairman also asked that Democratic Services truncate future agenda plans to only show the meetings up to the next local elections to May 2021.

It was resolved:

To note the Forward Agenda Plan with the changes agreed.

276. Date of next meeting 2.00 p.m. 24<sup>th</sup> November 2020

CHAIRMAN  
24<sup>th</sup> November 2020