Audit and Accounts Committee: Minutes

Date: 30th May 2024

Time: 2.00pm – 3.57pm

Place: New Shire Hall, Alconbury Weald

Present: Councillors C Boden (from 2.09pm), I Gardener, N Gay (Vice-Chair), G Seeff, A Sharp and G Wilson (Chair)

180. Chair's Announcements

The Chair offered thanks and best wishes on behalf of the Committee to Dawn Cave, Democratic Services Officer, ahead of her retirement.

They welcomed S Brown, KPMG (External Auditor), to the meeting.

181. Apologies for Absence and Declarations of Interest

Apologies for absence were received from Councillor Ambrose Smith, substituted by Councillor Gardener; Councillor Whelan; and independent co-opted member Mohammed Hussain.

Councillor Boden declared an interest at Item 5: KPMG Audit Plan for Cambridgeshire Pension Fund 2023/24 as a member of the Pension Fund Committee, although not a County Council representative.

182. Minutes – 30th May 2024 and Minutes Action Log

The minutes of the meeting on 30th May 2024 were approved unanimously as an accurate record and signed by the Chair.

Clarification was sought about whether any uncollected S106 monies from developers or district councils had been identified, and whether this had been identified as a risk. The Executive Director for Finance and Resources advised that the audit action was for this to be reported to the Strategy, Resources and Performance Committee and this would happen through the Integrated Finance and Monitoring Report in September.

The minutes action log was reviewed and noted.

183. Petitions and Public Questions

There were no petitions or public questions.

184. Draft Cambridgeshire County Council Statement of Accounts 2023/24

The draft statement of accounts 2023/24 had been published on the Council's website by the statutory deadline of 31st May 2024 and included accounts related solely to the Council; group accounts, consolidating the accounts of the Council with those of the Council's wholly owned housing company This Land Ltd; and the accounts of Cambridgeshire Pension Fund. It also included the Annual Governance Statement which the Committee had considered on 30th May 2024. The cover report summarised the core statements. The balance sheet showed an increase in net assets, due mainly to an increase in the valuations of property, plant and equipment and a decrease in liabilities relating to the pension fund. Usable reserves had decreased by around £37m, £10m of which related to planned changes to earmarked reserves and the balance being allocations of capital grant reserves to fund planned capital expenditure, and a decrease in cash and cash equivalents reflected improved treasury management processes. One material error had been identified by the finance team since the accounts were published. This was due to an administrative error and details were included in the cover report. The statutory public inspection period had closed the previous week and one objection had been received which had been referred to the External Auditor. The draft accounts would be subject to audit by KPMG during the early autumn, and with the on-going national issues with local government audit officers were not expecting a full unqualified opinion by the statutory deadline. .

A Ministerial statement had been made earlier in the day about audit backstop dates, with a proposed backstop for the financial years up to and including 2022/23 of 13th December 2024 and 28th February 2025 for the 2023/24 financial year.

The Chair asked whether any details could be shared about the nature of the objection to the accounts which had been received. The External Auditor advised that the objection had been received the previous week and was currently being reviewed. It repeated some previous objections which had been made to the Council rather than being unique to the 2023/24 accounting year, so they would need to assess whether it met the criteria for an objection to the 2023/24 accounts. They would keep the Committee and Executive Director of Finance and Resources updated.

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

- asked about the deadline for the submission and consideration of any post balance sheet event notifications. The External Auditor advised that these would be considered up to the point that they signed the audit opinion.
- noted a reduction in available cash and cash equivalents of £23m at year end compared to the previous year and asked if this was due to debt repayment. The Head of Finance advised that cash had been used to reduce long-term borrowing while interest rates were high. Net current liabilities were going up due to an increase in short-term borrowing. They confirmed that long-term borrowing related to capital rather than revenue projects.

- commented that they awaited the wording of the declaimer on the March 2023 accounts, noting that this would be common across the local authority sector. Their interest was in in any objections and any issues which EY identified. Their understanding that nothing could be carried over beyond that point was confirmed as correct by officers, based on the advice given by EY at the previous meeting.

- the Chair highlighted that the number of maintained schools in deficit had almost doubled over the previous year. The Acting Service Director: Education advised that this was due to a number of complex reasons, and that work was being done in partnership with the finance team to support the viability of maintained schools. This was a high priority, and an active dialogue was taking place with maintained schools.

  A Member commented that an initial report had been considered by the Children and Young People (CYP) Committee and they had asked for more detail to be brought back to that committee later in the year. They expressed the hope that CYP would carry out a deep dive on this issue.

- noted previous concerns that the narrative report had become excessive and asked the External Auditor whether they considered the current format to be sufficient. The External Auditor advised that they could provide feedback on whether it met the requirements from a mandatory and statutory perspective. If there was best practice which could be shared from their experience of the other local authorities which they audited they would be happy to do so, but ultimately this was a decision for the Committee and the Council's management team.

- asked whether any projects were at risk in light of the new Government's objectives and the statement made by the Chancellor the previous day. The Chief Executive advised that the Local Government Association and his senior management team were looking at this, but it was too early to comment. Any changes to the in-year position would be reported to the Strategy, Resources and Performance Committee through the Integrated Finance Monitoring Report. The Audit and Accounts Committee would also be briefed.

The Chair asked whether the External Auditor had any comments or questions at this stage. They commented that the covering letter had been helpful, and that they were continuing to have conversations with the Executive Director of Finance and Resources and his team. They had no further questions at this point, and would bring anything back to the Committee if needed.

The Committee noted the Council's draft Statement of Accounts 2023/24.

185. KPMG Audit Plan for Cambridgeshire Pension Fund 2023/24

Councillor Boden declared an interest as a member of the Pension Fund Committee, although not a County Council representative.

The Executive Director of Finance and Resources stated that the audit plan for the Cambridgeshire Pension Fund 2023/24 had been presented to the Pension Fund Committee (PFC) on 18th July 2024. The PFC had raised a concern in relation to the ISA315 which could increase audit hours by 15-20%, and had asked for this to be brought to the Audit and Accounts Committee's attention. The plan set out key audit risks.

The External Auditor stated that the audit was in process, and this report was being brought for good governance and information purposes as there had been some challenge at PFC. They highlighted that there was no change to the materiality levels for the audit to those used previously by EY, limited to 1% of net assets. The areas of audit focus were also similar, and included a focus on level 3 investments and Cambridge and Counties Bank. They had not identified any particular differences to the approach of past audits, and were not necessarily expecting a disclaimed opinion in the way that was expected with other statements. Following some challenge to the audit fee and ISA315 at PFC they had met with Public Sector Audit Appointments (PSAA) around fee variations to ensure consistency in the way this was applied and to ensure that the additional work undertaken could be justified. That could be brought back to both the PFC and to Audit and Accounts**. Action required**

The Chair advised that he had spoken to the Chair of the Pension Fund Committee to check that they were happy with what was proposed. They had advised that the PFC had considered the audit plan in detail and were comfortable with it.

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

- stated that they had discovered relatively recently that the four major actuaries dealing with local government accounting took different approaches to calculating pension fund liabilities, and so would reach different figures. The most important figure in pension fund accounts was the liability, so if this figure was susceptible to significant change they would like either the PFC or the Audit and Accounts Committee (A&A) to understand this better. The Chair advised that this would be for the PFC to lead on.

  The External Auditor stated that they would come back to both A&A Committee and to the PFC with a fuller answer on this once they had spoken to pensions colleagues. **Action required** To an extent this was unavoidable as the figures were estimates and while the differences themselves would be small the impact on the liabilities could be significant. There was no right answer, but they could determine on a scale whether they considered CCC's actuarial assumptions to be neutral, cautious or optimistic, and could flag if they fell outside of this. Some assumptions might vary, but as long as individually and in aggregate they sat within an acceptable scale this would not necessarily lead to a misstatement. They could be clear in their reporting to both the PFC and A&A where they felt these assumptions sat on that scale, and how that compared to the assumptions being used by other actuarial firms. The External Auditor advised that this should not impact the contributions being made as it was an actuarial accounting judgement that impacted the value of the liability presented in the financial statements rather than being the liability that was used to calculate the contributions.

A Member commented that as the actuarial estimate of the pension fund's liability was used to work out if the pension fund was underfunded it reduced the confidence that the PFC and A&A could have if there was such a variation. It was agreed to invite the Pension Fund Committee to seek greater assurance regarding the meaning of the actuarial figure which was created for the liability, the funding position and what should be done round this. **Action required**

- asked if the Committee would see the conclusions of the External Auditor's specialist valuers assessment of the Cambridge and Counties Bank. They also understood there was some sense that a divestment of Cambridge and Counties Bank might occur, and asked whether this possible without the agreement of the partner, Trinity Hall, Cambridge. The External Auditor advised that they were not aware of whether a divestment was being considered, but that it could be a post balance sheet event if a decision was made. They could request that their report included as much detail as possible regarding the investment in Cambridge and Counties Bank. **Action required** The Executive Director of Finance and Resources stated that the valuation was carried out in the same format and on the same basis as previous years by a third party. That was the evidence that would be provided to KPMG, and they would make an assessment of the robustness and quality of that. Any other matters were for the Pension Fund Committee.

The Committee noted the audit plan for Cambridgeshire Pension Fund 2023/24 and a presentation by KPMG.

186. Consultancy and Agency Spend

A report on consultancy and agency spend was brought to the Committee every six months. Some additional information about interim appointments and the spend on this by individual service areas was included this time as required in a recent Internal Audit report. The report set out the steps being taken corporately to manage and oversee this spend.

The Chair noted that the three highest day rates for interim appointees were in the Adults, Health and Commissioning directorate (one post) and the Children, Education and Families directorate (two posts), and asked how the Committee could know if the rates being paid were reasonable. Officers advised that if the proposed rate was 20% or more above the normal rate for that role a business case was required and this would need the approval of the Service Director: Human Resources. It was acknowledged that there would always be a degree of staff turnover and that interim appointments were not always required.

A Member commented that there seemed to them to be two elements to the costs around this: the extent to which a service was under its staffing complement and so there was less expenditure on salaries, and the degree to which the cost of interim or agency staff matched the money put in as a vacancy factor. They felt that separating these out might provide an interesting answer to the proportion of cost for agency and interim staff compared with the amount made available in the vacancy factor. The Chair asked for an answer on this outside of the meeting. **Action required**

The report on consultancy and agency spend was noted.

187. Procurement and Commercial Annual Report

The Head of Procurement and Commercial presented the Annual Report 2023/24. This covered the team's work during the last year, including the most recent internal and external audit opinions which were improved compared to the previous year. An improving picture was reported on KPI169 (% of waivers submitted within 5 days of their start date) and the Corporate Leadership Team continued to receive monthly updates on this. The new Provider Selection Regime for health related procurements had gone live in January 2024, and the team was in the process of implementing the changes required by the Procurement Act which would come into force on 28th October 2024.

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

- described KPI169 as a lagging indicator, while noting the work which had been done to improve current and future procurements and address what had previously been quite a poor situation on procurement. Unfortunately, waivers would sometimes be needed when circumstances changed, but they considered the issue was on a positive trajectory. Previously there had been a concern about process, but they believed that to a greater extent that had now been resolved. They questioned whether the focus now should move to higher value procurements. The Head of Procurement and Commercial's understanding was that the overall value of waivers was going down but they undertook to provide the value of waivers outside of the meeting, including those involving larger sums. **Action required**

  The Chief Executive commented that whilst both volume and value should be kept under scrutiny it was right to pay particular attention to the highest value waivers. He endorsed the cultural change and embedding of due process being driven by the Head of Procurement and Commercial and this was being reinforced to all management teams in conjunction with the Monitoring Officer to ensure appropriate ownership.

- commented that one critical procurement measure was the variance between the contracted figure and the actual outturn cost, although they were unsure how easy that was to identify. Officers advised that the award report to chief officers would report any difference between the expected costs and actual procured costs. The Chief Executive advised that variances from the contracted figure would need to be agreed with the service as well as the procurement team and that controls were in place to prevent this happening on an on-going basis.

- learned that the Environmentally Conscious Guide to Procurement had been published recently and that responsible officers would always be referred to the relevant guidance when undertaking a procurement. This area was not yet being actively monitored, but officers were looking at what analysis could be done.
- noted that a report had been submitted to the Assets and Procurement Committee which summarised the implications of the Procurement Act 2023. A copy would be circulated to committee members for information. **Action required**
- commented that concerns had been expressed over time regarding the balance between cost and quality in relation to procurement exercises. They felt that in attempting to balance these two aspects the gradation on quality was often greater than on cost, which led to a bias towards quality in comparison to cost. They asked whether more thought or Member training around this would be useful. The Head of Procurement and Commercial advised that an evaluation protocol had recently been shared with responsible officers. One methodology related to price point, and this was currently being trialled as an evaluation protocol. There was also a route to market procurement plan which provided an additional layer of internal challenge. Training on evaluation modelling could be included in Members' procurement training going forward. **Action required**
- commented that officers who were not procurement professionals could struggle to engage with those professionals effectively if they did not understand the procurement process well enough. They found this worrying, and whilst things were moving in the right direction they would want to keep watch on this.

The Chair stated that it seemed that the position on procurement was improving, and asked the Head of Audit and Risk Management for their views and any concerns. They advised that the control environment in procurement had improved significantly. More automated controls had been put in place which could not be bypassed and the outcomes of more recent audits had found an increase in compliance for the highest value contracts which demonstrated a positive direction of travel. There was nothing at present which they wished to highlight to the Committee.

The Committee noted the Procurement and Commercial Annual Report.

188. Internal Audit Progress Report

The Head of Audit and Risk Management presented a report covering the period to 30 June 2024. This highlighted:

- the number of audit reports finalised or issued in draft since the last report, including those reporting limited assurance.

- the implementation of agreed audit actions. 75 audit actions remained outstanding, down from 80 in May 2024. Three essential audit actions had become overdue since the last report. Since publication, one action relating to the dedicated schools grant (DSG) Safety Valve had been completed, leaving two essential actions outstanding.
- two actions had been downgraded by Internal Audit to advisory recommendations.
- an Information Management Board meeting in the autumn was expected to close several outstanding actions.
- it was hoped to launch an eLearning module on whistleblowing for staff in the autumn.
- the approach to key financial systems audits.

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

- commended the excellent quality of the reporting.

- suggested that it would have been helpful to see more detail in relation to the findings relating to the DSG Safety Valve audit, given the amount of money involved. They had reviewed the minutes of the Children and Young People Committee (CYP) and found no mention of data accuracy, SMART targets or measurable aims. Their understanding had been that problems with the Safety Valve were external, but from this it looked like there were internal problems too. They asked whether CYP had been informed of these failures and, if not, suggested the committee should be made aware.

  The Chair asked for clarification of which matters in relation to the DSG Safety Valve were a matter for the Audit and Accounts Committee and which were for CYP. The Acting Service Director: Education stated that a confidential report and training had been provided to CYP members on entering the Safety Valve agreement, including a full discussion around what entering the programme meant. The Safety Valve deal was currently being re-negotiated with the Department for Education (DfE) given the significant rise in demand in Cambridgeshire, and many other local authorities. There had been regular communication with CYP Spokes on this and they understood that a report would be taken to that committee in the autumn to report progress, aligned with the re-submission to the DfE in October. In relation to data accuracy, the service had been implementing a new system over the last year and was working with the IT team to have a system that could accurately forecast data as that would be important in the re-negotiation with the DfE. They highlighted the greater resilience the new system would deliver, and the increase in the level and complexity of special educational needs that was being seen nationally as well as in Cambridgeshire. The system's capacity to deal with this increased demand was lagging, but in Cambridgeshire a new Assistant Director of Inclusion had been appointed to provide additional leadership capacity in this area and a new Service Director: Education would be joining the Council the following week.

In discussion, Committee members agreed that these overdue audit recommendations should be drawn to CYP's attention as part of the planned Safety Valve report in the autumn. On being proposed by Councillor Boden, seconded by the Chair, it was resolved unanimously:

> To refer the two essential audit recommendations relating to the Dedicated Schools Grant Safety Valve to the Children and Young People Committee for review as part of the planned Safety Valve report in the autumn.

- questioned whether there should be a brief explanation of the nature of the closure of whistleblowing reports in addition to details of the number of closed cases. The Head of Audit and Risk Management stated that a summary of any whistleblowing reports which had led to an internal audit investigation were brought to the Committee when the investigation was closed. However, some cases were closed for technical reasons like they related to another local authority or were found to be without substance following a preliminary investigation, and this detail was not reported. The Chair asked that a couple of lines of explanation should be provided for all closed cases in future. **Action required**

- Members learned that a review of the complaints process was being conducted and it was expected that this would be reported to the Strategy, Resources and Performance Committee.

It was resolved unanimously to:

a) consider and comment on the Internal Audit progress report.

b) refer the two essential audit recommendations relating to the Dedicated Schools Grant Safety Valve to the Children and Young People Committee for review as part of the planned Safety Valve report in the autumn.

189. Annual Risk Report

The Committee received the Annual Risk Management Report 2023/24. The same report had been taken to the Strategy, Resources and Performance Committee (SRP) on 9th July 2024. SRP was responsible for the development and oversight of the Council's risk management and strategy, while the Audit and Accounts Committee was responsible for considering the effectiveness of risk management arrangements and the associated control environment, and for seeking assurances that appropriate action was being taken in relation to risk. The Risk Management Policy at Annex B had been refreshed and was subject to an in-year review by the Corporate Leadership Team, but no changes were proposed currently. The Risk Strategy 2024-26 at Annex C had also been refreshed and updated.

The Chair confirmed with committee members that there were no requests to discuss exempt Appendix A: Corporate Risk Register.

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

- welcomed the improvements made so far on the risk management journey in relation to the effectiveness of the risk management process, and also the recognition in the report that there was still further to go. However, the report did not contain an effective risk appetite strategy. Now that a more mature risk management process was in place they felt there was a need for greater granularity in relation to evaluating risk appetite. They acknowledged that this was a complex area, but at present RAG ratings bore no relationship to Members' appetite for risk. They were not suggesting this change could happen straight away, but it seemed to them a logical way for this to develop. The Head of Audit and Risk Management explained that risk appetite within the risk management policy was currently defined at a high level of 16 across the board to make staff aware of a set trigger level. They understood that a risk management workshop was being arranged for SRP where this could be explored further.

The Chair thanked Members for a useful discussion, which could be fed back to SRP and others by Internal Audit.

It was resolved unanimously to:

a) note and comment on the Annual Risk Management Report (Appendix 1) and Corporate Risk Register (Annex A);

b) endorse the Risk Management Policy (Annex B), and updated Risk Strategy (Annex C).

190. Committee Agenda Plan

The Committee agenda plan was noted.

[Chair]