

Annual Report of the Audit and Accounts Committee

To: Audit and Accounts Committee

Meeting Date: 31st October 2024

From: Head of Internal Audit and Risk Management

Electoral division(s): Not applicable

Key decision: No

Forward Plan ref: Not applicable

Outcome: The Audit & Accounts Committee agrees an annual report on its activity which will be presented to Full Council on the 10th December 2024.

Recommendation: The Committee is asked to review the proposed annual report to Full Council and agree any changes required.

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1. Background

- 1.1 The Audit and Accounts Committee exists to provide independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 1.2 As part of their role, the Committee provides an annual report to Full Council outlining the work of the Committee over the past year.

2. The Audit and Accounts Committee in 2023/24

- 2.1 The Audit Committee is a key component of corporate governance and provides an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement.

Membership of the Committee:

- 2.2 The Audit and Accounts Committee had seven members and met six times in the 2023-24 financial year, with all meetings held in public. The Annual Council meeting held on 16th May 2023 agreed to appoint Councillor Wilson as the Chair and Councillor Gay as the Vice Chair for the Municipal Year 2023-24.
- 2.3 At the Audit and Accounts Committee meeting in July 2022, Members agreed to seek up to two apolitical, non-voting members to be co-opted to the Committee. Following an open advertised recruitment process, on 28th July 2023 the Committee approved the appointment of Mohammed Hussain as an independent non-voting member of the Audit and Accounts Committee.
- 2.4 The intention of this decision was to position the Council well to comply with any future legislative changes and to meet the aspirations of the CIPFA Position Statement on Audit Committees in Local Authorities and Police, which recommends that Committees include an independent or apolitical member. The Committee felt that introducing this arrangement at Cambridgeshire would be a valuable addition to the Council's governance arrangements.

Committee Terms of Reference:

- 2.5 The Committee has been structured around the following responsibilities:
 - Considering and approving the Annual Statement of Accounts;
 - Ensuring that the financial management of the Council is adequate and effective;
 - Ensuring that the Council has a sound system of internal control, which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk;
 - Reviewing annually the Council's system of internal control and agreeing an Annual Governance Statement;
 - Ensuring that the Council has an adequate and effective Internal Audit function.

- 2.6 Members of the Audit and Accounts Committee in conjunction with key officers conducted a self-assessment exercise against the CIPFA *Position Statement on Audit Committees in Local Authorities and Police* (2022) on the 8th September 2023. Present at the review were Councillors Wilson, Gay, Seeff and Sharp, along with the Head of Internal Audit and Risk Management and the Service Director of Legal and Governance. The aim of this was to review the Committee's current governance and practice against good practice, and to evaluate the impact and effectiveness of the Audit Committee.
- 2.7 In general, feedback on the effectiveness of the Committee was positive with only some areas highlighted where it was felt that there was potential to improve arrangements further. It was felt that the Committee membership was knowledgeable and skilled, with good working relationships with external and internal audit and the Chief Financial Officer (CFO), and that meetings were well chaired with good engagement from the Committee. The Committee was felt to operate effectively in an apolitical manner, with the right balance of membership.
- 2.8 Where areas for improvement were identified, these findings and corresponding action points were developed into an Action Plan and this, along with the detailed outcomes from the review, was presented to the Audit and Accounts Committee on 1st December 2023, with a follow-up report providing updates on the implementation of actions on 28th March 2024. Key actions included an update of the Committee's Terms of Reference; implementing a shared drive to enable Audit and Accounts Committee members to access full copies of all final Internal Audit reports; and reminding other Committees that they can refer matters to the Audit & Accounts Committee for its consideration or action.

3. The Committee's relationship with Internal Audit

- 3.1 A key part of the Committee's role is to both challenge and support the Internal Audit service. The Committee has supported a flexible approach from the Internal Audit team, which ensures that planned coverage is continually re-assessed to direct audit resource towards areas of emerging risk, rather than a static plan agreed some months before. The Committee has taken a proactive role in this approach, both by reviewing the proposed plan of work for Internal Audit, and requesting updates from Internal Audit and Council services on implementation of actions.
- 3.2 In its role of overseeing the work of Internal Audit, every ordinary meeting of the Audit and Accounts Committee was provided with updates on progress in delivering the agreed Annual Audit Plan. For the 2023-24 financial year, the Head of Internal Audit produced an [Annual Internal Audit Report](#) setting out her annual opinion on the Council's control environment, which was presented to the Committee on 30th May 2024. The annual opinion is summarised as follows:

On the basis of the audit work undertaken by Cambridgeshire's Internal Audit team during the 2023/24 financial year, it is the Head of Internal Audit's opinion that overall Internal Audit can provide moderate assurance over the system of internal

control in place at Cambridgeshire County Council for the financial year ended 31st March 2024.¹

This opinion is derived from an assessment of the range of individual opinions arising from work completed in 2023/24 by the Cambridgeshire Internal Audit team, taking account of the relative materiality of each area under review and the findings; assessment of other evidence and assurances about the organisation's arrangements for internal control and managing risk; and ongoing review of management's progress in addressing control weaknesses. Full details of the work completed by Internal Audit in-year are set out in the remainder of [the Internal Audit Annual Report].

I would particularly highlight the following key pieces of evidence on which my opinion is based:

- *Assurance opinions from Internal Audit reviews in 2023/24 showing a predominance of 'moderate' audit opinions. A single audit (Dedicated Schools Grant Safety Valve programme) identified findings which were deemed to have the potential for a 'major' organisational impact if the identified risks materialised. See Section 4.1 of the Internal Audit Annual Report for more details.*
- *Procurement and contract management continues to represent a key area of risk and focus for Cambridgeshire County Council, and this has been reflected in the Internal Audit plan and the findings of audit work completed throughout the year. The Council has undertaken a range of actions to strengthen the control environment around procurement and contract management throughout 2023/4. See Section 4.5 of the Internal Audit Annual Report for details.*
- *Project/programme management and change has been highlighted as a risk area for the authority, based on audit work completed in 2023/4. A range of actions to strengthen both revenue and capital project management controls have been agreed as an outcome of these audits, with actions due for implementation in 2024/5, and this risk area will therefore continue to be a focus for the Audit Plan in the coming year. See Section 4.9 of the Internal Audit Annual Report for details.*
- *Review of the organisation's Code of Corporate Governance and the evidence supporting the Council's Annual Governance Statement, including Director's Assurance Statements. These documents demonstrate a sound core of organisational governance, while highlighting some areas within the corporate framework which require further development. The Council has progressed the implementation of actions identified within the 2022/3 Annual Governance Statement throughout the year, resulting in a range of improvements to organisational governance.*

¹ The opinion of 'moderate' assurance reflects the service's standard definitions for assurance opinions, indicating that audit work has identified that there are control weaknesses that present a medium risk to the control environment; and that the control environment has mainly operated as intended, although errors have been detected. For more detail and full definitions of the assurance opinions in use, please see Section 3.2.4 of the Internal Audit Annual Report.

- 75% of agreed audit actions due for implementation in 2023/24 have been completed by the organisation. This is an improvement on the implementation rate of 62% for 2022/3 and 64% for 2021/22, despite a higher number of actions being due for implementation in 2023/4 compared to the prior year. Each action completed represents an improvement in the Council's systems of internal control. See Section 4.1 for more details.
- Reviews of Key Financial Systems for which Cambridgeshire County Council is the Lead Authority have historically demonstrated a good or moderate assurance across all systems. At the time of writing, the 2023/4 Pensions Administration report has yet to be issued in draft by the Cambridgeshire audit team; draft opinions for the Accounts Payable and Income Processing audits are awaited from Lead Authority partners; and the Debt Recovery review has only just started fieldwork. This does reduce the assurance that can be given over these systems compared to the 2022/3 Annual Report; however, some assurance can be taken from the detailed prior-year audits of these areas carried out by the Cambridgeshire team, and the 15 actions which have been confirmed as implemented in 2023/4 to address the findings of previous audits of Accounts Payable, Income Processing and Debt Recovery. See Section 4.2 of the Internal Audit Annual Report for more details.

During 2023/24, the Council's Internal Audit service:

- Operated in conformance with Public Sector Internal Audit Standards (PSIAS) requirements, and undertook a self-assessment against PSIAS during the course of the year. See Section 7.2 of the Internal Audit Annual Report for more detail.
- Had unrestricted access to all areas, systems and information across the authority.
- Received appropriate co-operation from officers and Members.
- Operated independent of the organisation, as per the Internal Audit Charter, with no compromises of Internal Audit's independence this year.
- Had only just sufficient resources to enable it to provide adequate coverage of the authority's control environment. See Section 7.3.3 of the Internal Audit Annual Report for more details.

As a result, there are no qualifications to the 2023/24 Head of Internal Audit position statement. It should be noted that no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

3.3 The issues referenced in the Head of Audit opinion are outlined in more detail in the full Annual Internal Audit report. In 2023/24, the Audit and Accounts Committee continued to receive regular updates throughout the year from Internal Audit.

4. Proactive Work of the Committee

The following section provides a summary of the proactive work undertaken by the Committee over the last year. This aspect of the Committee's work is vital, and has assisted in improving the effectiveness of the Council's overall corporate governance arrangements.

4.1 Corporate Governance

- 4.1.1 The Council's Annual Governance statement is compiled on the basis of the findings of Internal Audit reviews throughout the year, assurance statements from executive and corporate directors, and input from senior management and members of the Committee. The 2023-24 Annual Governance Statement was reviewed by the Committee on 30th May 2024, prior to final sign-off and inclusion in the Council's annual Statement of Accounts.
- 4.1.2 The 2023-24 Annual Governance Statement included an action plan to further strengthen the Council's governance arrangements. The implementation of this action plan will be monitored via the new Statutory Officers Group and reported to the Audit and Accounts Committee.

4.2 Council Finance and Statement of Accounts

- 4.2.1 Throughout 2023-24, the Committee has maintained its oversight of Council finances to assess progress in delivering the Council's Business Plan. The Committee regularly receives reports on specific risk areas. In 2023-24, this included reports on debt management and consultants and interims.

Objections from a local elector relating to the accounts for 2016-17 and 2017-18

- 4.2.2 On 29 January 2024, the County Council's previous external auditor, BDO LLP, determined the outcome of two objections it had received from a local elector (received in 2017 and 2018). Objections are where a member of the public asks for the auditor to consider whether an item of account is unlawful or requires a report in the public interest. The Committee was pleased that these matters were concluded, after some considerable delay, and that the auditor decided to take no formal action in relation to the matters raised. This outcome was not appealed by the local elector, and the external audits for these years were certified as complete during February 2024.

Backlog of External Audit Opinions, 2018-19 to 2022-23:

- 4.2.3 The Committee considers and approves the annual Statement of Accounts for Cambridgeshire County Council and receives reports from the Council's external auditors.
- 4.2.4 In April 2024, the Council's former external auditors EY finalised closing procedures for audits of the four financial years from 2018-19 to 2021-22, and issued audit certificates. EY issue a value for money opinion alongside the external audit of the financial statements; following on from the qualified value for money opinion issued by BDO in 2017-18, for the 2018-19 and 2019-20 financial years, EY have also reached an "except for" opinion regarding value for money. This means that the auditor has concluded that in those years

that in all significant respects the Council had in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for:

- Procurement – inconsistent record keeping leading to a weakness in arrangements for working with partners and third parties
- Manor Farm tenancy – a former deputy leader of the Council was subsequently found to have breached the Council’s Code of Conduct in six areas, and there were associated recommendations for the Council. This issue was taken as evidence of weaknesses in arrangements for informed decisions and allowing for challenge and transparency.

4.2.5 Receipt of a succession of audit reports and completion certificates in April 2024 is a significant and welcome milestone for the Council. It is also positive that improvements made to procurement arrangements and governance across the Council, after weaknesses identified in the years ending 2018, 2019 and 2020 have been recognised and have led to the overall conclusion there were appropriate arrangements in place for the years 2020–21 and 2021-22.

4.2.6 Due to the backlog in unaudited local authority accounts in England, the government has set a “statutory backstop” to clear outstanding audits up-to-and-including those for the financial year 2022-23. This requires bodies to publish audited accounts for these financial years, by 13th December 2024. In relation to the External Audit for 2022-23, the draft accounts for this year were presented to the Audit and Accounts Committee on 28th July 2023. However, the Council’s former external auditors EY have not commenced an audit of these accounts and do not intend to. Instead the Council is expecting that EY will disclaim the audit for 2022-23 to indicate that it was not fully completed, and will provide a value for money opinion. An interim report on value for money arrangements in 2022-3 was provided by EY to the Audit and Accounts Committee on 30th May 2024.

4.2.7 It is also noted that the final fees for the audit work and objections from previous years have yet to be confirmed and these are expected to go to Public Sector Audit Appointments (PSAA) for determination.

2023-24 Statement of Accounts and External Audit:

4.2.8 Despite significant challenges created by various factors including the backlog in prior-year audits, Cambridgeshire County Council was one of the 41% of local authorities who did meet the 31st May 2024 deadline for publication of the draft 2023-4 Statement of Accounts. A copy of the draft 2023-4 accounts was presented to the Audit and Accounts Committee on 30th July 2024.

4.2.9 The Audit and Accounts Regulations require publication of final, audited accounts by 30 September 2024 although this is likely to change to 28 February 2025; whilst our new external auditors, KPMG, intend to complete the majority of their standard work by this deadline, they are likely to issue a modified opinion in line with the majority of local authorities in England due to the ongoing issues with the 2022-23 audit noted above. The Council’s Finance team will continue to bring regular updates on this to the Audit and Accounts Committee in 2024-5, alongside updated regarding preparations for the closedown process for the 2024-5 accounts.

Pension Fund:

4.2.10 The Pension Fund's Statement of Accounts (SOA) form part of the Council's Statement of Accounts. These are audited by the Council's external auditors. The Audit and Accounts Committee reviews and approves the Cambridgeshire Pension Fund Annual Statement of Accounts, alongside the Annual Report of the Pension Fund.

4.2.11 The Fund's audited Statement of Accounts for the year ending 31st March 2023 was presented to the Committee on 1st December 2023 and approved.

4.3 Procurement and Commercial Annual Report

4.3.1 On 30th July 2024 the Committee received the Procurement and Commercial Annual Report. The Committee noted that many actions that had been undertaken in response to the Value For Money conclusions for 2017-18 by the previous external auditor, BDO, which had been critical in relation to the Council's procurement arrangements. The 2023-4 Annual Report highlighted the findings of recent Internal Audit reports and the latest External Audit Value for Money opinions, which all demonstrated improvements in procurement governance and practice.

4.3.2 During 2023-24, the Procurement team worked with key stakeholders in Public Health to implement the Provider Selection Regime. 2024-25 will see the implementation of the Procurement Act 2023, which will herald even greater change to procurement practice at the Council.

4.3.3 Following the establishment of the Assets and Procurement Committee, this area of work has now transferred for monitoring to that Committee, although Audit and Accounts will keep a watching brief as part of its work around the control framework.

4.4 Whistleblowing, Fraud and Corruption and Investigations

4.4.1 The Committee received periodic updates on all referrals received under the Whistleblowing Policy in the quarterly Internal Audit Progress reports throughout 2023-4. The Committee also received the Council's Annual Whistleblowing Report on the 28th March 2024, which included information on the annual employee survey to gauge awareness of, and confidence in, the Whistleblowing Policy; updates on publicity and awareness-raising regarding the Whistleblowing policy; and an update on the Council's self-assessment of its whistleblowing arrangements using a benchmarking exercise through Protect, the Whistleblowing Charity. This self-assessment exercise has resulted in the identification of a number of actions to further improve the Council's whistleblowing arrangements, which have been collated into a Whistleblowing Action Plan with regular updates on implementation coming to the Committee in 2024-5.

4.4.2 The Committee also received the annual update on the use of the Regulation of Investigatory Powers Act 2000 (RIPA) at its meeting on 26th May 2023, which confirmed that the Council's RIPA policy had been reviewed and updated, and that no RIPA powers had been used by the authority in the previous 12 months.

4.5 Risk Management

- 4.5.1 Under the Council's Constitution, the Strategy, Resources and Performance Committee is responsible for the development and oversight of the Council's risk management strategy and process. The Audit and Accounts Committee also has important functions in relation to risk, including considering the effectiveness of the risk management arrangements and associated control environment and to seek assurances that appropriate action is being taken in response to risk.
- 4.5.2 During 2023-4, the Corporate Leadership Team and Directorate Management Teams formally considered risk on a quarterly basis. The Audit and Accounts Committee received updates on the risk management approach adopted via reporting from Internal Audit and six-monthly updates on the Corporate Risk Register.
- 4.5.3 On 30th July 2024 the Committee received the Annual Risk Management Report, which summarised activity for 2023-24, highlighting key changes to the Risk Register, and outlining completed actions from the Council's three-year Risk Strategy, as well as new actions that have been identified and added to the Strategy for 2024-5.

5. Significant Implications

5.1 Finance Implications

There are no significant financial implications.

5.2 Legal Implications

There are no significant legal implications.

5.3 Risk Implications

There are no significant risk implications.

5.4 Equality and Diversity Implications

There are no significant equality and diversity implications.

6. Source documents

- 6.1. Reports and minutes of the Audit & Accounts Committee, 2023 – 4.
- 6.2. Available on the County Council's external website:

[Agendas and Minutes](#)