

EXTRAORDINARY AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: 14TH October 2016

Time: 10.00 – 10.55 a.m.

Place: Room 128, Shire Hall, Cambridge

Present: Councillors: S Crawford, R Henson, P Hudson, M McGuire and M Shellens, (Chairman)

Apologies: Councillors: B Chapman and Peter Topping (Vice Chairman)

Action

253. DECLARATIONS OF INTEREST - None

**254. BDO ISA 260 REPORT - CAMBRIDGESHIRE COUNTY COUNCIL
REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE AUDIT TO
THE YEAR ENDED 31ST MARCH 2016 – UPDATE VERSION ISSUED
7TH OCTOBER 2016**

The Chairman agreed to take this as a late report as it had not been available at the time of the initial agenda despatch. The reason for urgency was the need to consider it in conjunction with the Council's Accounts report in order to be able to sign off the Accounts at the end of the meeting.

As part of his introduction the Chairman expressed his anger and concern regarding the fact that when agreeing the current revised extraordinary meeting date, having already had to cancel one additional meeting in late September, he had expected that the reports would be available in good time. However, the sheer volume of update reports and continued updates from BDO, including several being tabled that morning, had made it impossible for him or the rest of the Committee to have had time to properly read through the most recent changes in advance of the meeting. He did not consider that the process had been economic, efficient or effective and would require a serious review to ensure there was not a repeat in future years. He added that he did not wish to spend any further time at the meeting discussing matters relating to the process as this would be taken up at a separately scheduled debriefing meeting. He indicated that he would be taking officer advice on whether at the end of the meeting the Committee would be in a position to agree that he could sign off the Accounts.

Lisa Clampin tabled three additional one page documents explaining that these were intended to be received as a supporting written summary of the verbal update being given at the meeting.

It was confirmed that the updated ISA260 report being presented had been sent out to Committee Members in an e-mail on 7th October, followed by hard copies sent out at the beginning of the week.

With reference to the 'Update on Key Audit and Accounting Matters' one page update document, at the request of the Chairman, Lisa Clampin went through the various headings (the full tabled document is included as Appendix 1 to these minutes):

Corrected Misstatements - the update provided a position statement before 7th October and since 7th October. Lisa Clampin highlighted that since the 20 September committee meeting the following issues had been identified and were reflected in the narrative of the revised ISA260 report issued on 7 October:

- £8.489m capital grant in relation to Growing Places Funding had been incorrectly recognised as received in advance. The correction of this error reduced the Council's reported deficit by £8.489m. This had been included as a correction in the latest version of the Accounts.
- The Cashflow Statement had been re-worked following a material error identified in the prior year of £42.496m and to amend the current year figures to reflect the correction of other errors identified in the other parts of the financial statements which impact on cash flows. These changes had been included in the updated version of the Accounts.

Other matters arising since 7th October, and therefore not reflected in the updated ISA260 report being presented, included identifying £29.078m Revenue Expenditure Capitalised Under Statute (REFCUS) having been incorrectly netted off as income in the Comprehensive Income and Expenditure Statement (CIES). This was material and had been amended, but had no impact on the reported deficit in the CIES. £73.200m REFCUS had been found to have been incorrectly netted off in the previous year's CIES. This had since been amended and a narrative note included in the latest version of the Accounts. This change had no effect on the bottom line.

Unadjusted Misstatements - Three had been identified (detail on page 37 Appendix II) but were not being corrected, as County Council management considered them to be immaterial. This was confirmed by BDO. An update of Appendix II 'Audit Differences – Unadjusted Audit Differences' was also tabled (attached as Appendix 2 to these Minutes) which took account of the changes. On this appendix the figure of £1,178m on the DR Expenditure line was an extrapolated figure based on one invoice to Anglian Water for £29k which BDO reported should have been accrued. However, given the County Council was only made aware of this as an issue the night before the Committee, they had been unable to investigate, comment or respond. The Chief Finance Officer was willing to accept it, but would not amend the Accounts, due to its immaterial value.

Significant Deficiencies in Internal Control – BDO informed the Committee that as a follow up to the significant deficiency in internal control reported in the prior year by the previous external auditor, they had considered a number of potential compensating controls highlighted by the Council. One of which was segregation of duties in the requesting

and processing of journals. Before 7th October, audit analysis of journals identified that some manual journals had been posted by budget-holders to their own cost centres. BDO highlighted this as being contrary to the normal procedure of financial officers posting journals requested by budget holders. They considered this had resulted in a lack of effective segregation of duties. Their recommendation was to restrict budget holders from posting manual journals to the cost centres for which they were responsible. The Chief Financial Officer indicated that he did not accept that it was a significant deficiency as a journal entry did not extract money out of the organisation, but simply moved it about. For this reason, unless the Committee instructed him otherwise, he did not intend to change the Council's control processes. His explanation was accepted by the Committee.

Other Internal Control Weaknesses – these were as listed, but were not significant weaknesses and following the Committee meeting, BDO would be meeting with officers to agree recommendations going forward. Council officers indicated that the comment reading “Also the Council was unable to provide a user list for the Swift (adult social care system)” now required updating, as it had been provided that morning.

**BDO/
Sarah
Hey-
wood**

Information Remaining Outstanding – The action stated was that evidence to support the teachers' pension contributions included in the financial statements was still awaited (Payroll report confirming the employee and employer contribution made towards the teachers' pension scheme).

The third tabled page was an update to the 'Summary of Report Findings' audit work status page of the report, included as Appendix 3 to these Minutes. This showed the position as at 13th October. A further oral update indicated:

- that all audit work was now complete other than the Teachers' pension contributions information referred to above. This was not expected to give rise to any significant issues.
- The 'Whole of Government Accounts' was to follow. This was normal practice.

The Chairman asked Lisa Clampin of BDO if in her opinion the Accounts could be signed off. , Lisa Clampin confirmed that they could, as all material misstatements identified by the audit had now been addressed.

It was resolved:

To note the report.

255. FINAL ISA 260 REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE AUDIT FOR THE YEAR ENDED 31ST MARCH 2016 – UPDATED VERSION ISSUED 6TH OCTOBER 2016

It was indicated that Richard Perry from the LGSS Pensions Office had given his apologies, as the revised report had relatively minor changes

since its presentation to the September Committee.

As an oral introduction it was explained that there were very few changes from the report presented to the September Committee meeting, but those that had been made, were listed on page 2 of the revised document.

On page 12 'Outstanding Matters' an oral update was provided against each of the further audit response as follows:

1. 'Receipt of the amended annual report and financial statements' - confirmed it had been received and there were no issues.
2. 'Final Front- End narrative Annual Report' - confirmed it had been received and there were no issues.
3. 'Completion of our Internal Manager and Partner Review Process' The Audit was complete.
4. Subsequent Events Review – This was now complete.
5. Management Representation Letter to be approved and signed - this would take place immediately after the Committee.

The Chairman drew attention to the following:

- Page 3 second paragraph reading "We will issue an updated report should any further significant issues arise from completion of the remaining audit procedures and resolution of outstanding issues". The Chairman suggested that this was a contradiction to the 'Summary of Audit Findings' on page 13 of the report as the latter stated that every aspect of the Audit Work had been completed, with the only issue outstanding being the narrative report, which would not result in any additional significant issues needing to be addressed. **It was confirmed that this was an error and would be changed. Action.**
- Same comment for Page 5 Summary first bullet second line under the heading Audit Scope and objectives reading "subject to the resolution of the outstanding matters set out below"
- Same comment in the text on the same page under the heading 'Audit Opinion' reading "Subject to the successful resolution of outstanding matters set out on page12 (which was largely procedural) we anticipate issuing an unqualified opinion on the Fund's financial statements for the year ended 31 March 2016."

**Lisa
Clampin
(LC) /
David
Eagles /
DE)**

LC/ DE

LC / DE

In respect of the above, the Chairman on asking the question if BDO still believed they could issue an unqualified opinion, received positive confirmation that this was the case.

- Page 6 under the title 'Conclusion and Recommendation' the first paragraph reading "Our Audit work in relation to testing a sample of journals is in progress" was out of date and required changing.

LC / DE

- Page 11 - '5. Written representation which we seek' this would need amending with a re-issued document stating that there were no outstanding matters as it was confirmed that the representation letter had been received that day. **LC / DE**
- Page 13 – It was confirmed that the Narrative Report had been received the previous day so needed to change from red indicating 'not started' to green indicated that it was 'complete'. **LC / DE**
- Page 21 Appendix II Audit Differences - third bullet no comma required in the first line after the word "funds" and before the words "and bodies" **LC / DE**
- Page 21 fourth bullet last line reading ".. in next years accounts" was missing an apostrophe. **LC / DE**

Lisa Clampin highlighted that in the last bullet on page 21 BDO had suggested that not all disclosure requirements had been met regarding the valuation of the Cambridge and Counties Bank. This would require further discussions between David Eagles and Paul Tysoe. The Chief Finance Officer made the point that the valuation of the Bank was open to different interpretations. **DE/ PT**

It was resolved:

- To note the report.
- To request an updated version of this and the previous BDO ISA 260 for the Accounts Report, correcting the errors identified, to be provided to Democratic Services for the minutes and the website. **Action: Lisa Clampin / David Eagles**

256. STATEMENT OF ACCOUNTS 2015-16

The Chairman agreed to take this as a late report as it was not available at the time of the initial agenda despatch as discussions were still ongoing. The reason for urgency was the need to sign off the Council's Statement of Accounts as soon as possible having already missed the statutory deadline date.

The cover report set out developments since the September meeting resulting from discussions between Council officers and BDO to resolve the remaining audit queries. Subsequently a number of changes had been made to the Statement of Accounts as listed in the cover report. In addition, a further update document was tabled at the meeting (included as Appendix 4 to these Minutes) which provided the following listed replacement pages highlighted appropriately to show the changes since the version sent to Members on 8th October and reflecting as agreed with BDO:

- page 28 Comprehensive Income and Expenditure Statement

table

- page 30 Cash Flow Statement
- page 52 Notes to the Core Financial Statements
- page 53 Notes to the Core Financial Statements
- page 54 Notes to the Core Financial Statements
- page 73 Notes to the Core Financial Statements
- page 77 Notes to the Core Financial Statements
- page 78 Notes to the Core Financial Statements
- page 79 Notes to the Core Financial Statements

The changes had resulted in an increase in the gross expenditure and income figures by £29m in 2015-16 and £72m in 2014-15 but this had no effect on the bottom line.

On page 30, the Cash Flow Statement, attention was drawn to an additional line under investing activities titled 'cash payment for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI (Private Finance Initiative) contracts (Principal)'. This now included the movement on the PFI liability which had been included in the line titled 'other receipts from financing activities' in the previous Cash Flow Statement.

The REFCUS adjustments outlined above had also been reflected in the updated Cash Flow Statement. Capital Grant Receipts were now disclosed separately on the face of the Cash Flow Statement, rather than being listed as 'other receipts from financing activities' as in previous versions.

A query was raised regarding the Comprehensive Income and Expenditure Statement on the line titled 'surplus on re-valuation of long terms assets £-72,986,000' and how this related to income, as it seemed more like a balance sheet item. It was explained this was the definition required to be used to comply with the Code of Practice, while accepting that it does suggest that it was an expenditure item.

In further discussion as there were no further material changes to the Accounts identified, the Committee unanimously,

resolved:

To approve the 2015-16 Statement of Accounts for formal sign off by the Chairman and Chief Finance Officer.

257. DATE OF NEXT MEETING 2.00 P.M. TUESDAY 22ND NOVEMBER.

Chairman
22nd November 2016