Audit and Accounts Committee: Minutes

Date: 26th January 2021

Time: 2pm – 5pm

Place: Virtual Meeting

Present: Councillors I Bates (substituting for Cllr D Wells), P Hudson, M McGuire, T Rogers (Vice Chairman), M Shellens, (Chairman), J Williams and G Wilson

Officers: Alison Balcombe, Gillian Beasley, Dawn Cave, Tony Cooper, Liam Fowell, Graham Hughes, Neil Hunter, Tom Kelly, Richard Lumley, Fiona Macmillan, Chris Malyon

External Auditor: Mark Hodgson (EY)

296. Apologies for Absence Declarations off Interest

Apologies were presented on behalf of Councillor D Wells.

With the Committee's agreement, the Chairman agreed to make a number of changes to the agenda order, including taking the Farms Audit Update in the Internal Audit Progress Report first.

297. Internal Audit Progress Report

The Chief Executive referred to the section of the Internal Audit Progress Report relating to the Farms Audit. At the extraordinary meeting on 23rd December 2020, the Committee agreed to appoint Mazars LLP to complete the Farms Audit. Following initial liaison, data sharing protocols and conflict of interest checks were put in place, and Mazars were sent all of the papers that had been provided to the Chief Executive and Internal Auditor. Officers and the Chairman had met with Mazars on 4th January 2021, and the Chief Executive had been meeting with Mazars at least twice weekly since then, and was in daily contact with the legal team, ensuring every request from Mazars was met without delay.

The Chief Executive appreciated the imperative to complete this audit, and following discussions with the Chairman, was recommending two additional extraordinary meetings of the Audit & Accounts Committee to deal with this audit: a full day on 5th March, and a follow up half day on the morning of 26th March, which was the latest possible date the Committee could meet before purdah. The Chief Executive reassured Members that she would personally keep the audit under close review, providing all the information needed so that Mazars could do the work to the required professional standards and within timescales.

A Member thanked the Chief Executive for all her hard work, but said he was still very disappointed, as the report had been expected in December. He asked if it would be possible to bring the full day meeting forward to February, to enable full and transparent discussions to take place well before purdah. Another Member supported these points, and commented that the timeline presented gave no room at all for further delay, and this matter needed to be concluded before the elections.

It was confirmed that the report from Mazars would be received by officers and the Committee five clear days prior to the additional meeting on 5th March. In the interest of transparency, this would be presented complete and without officer comments. In terms of assessing potential confidentiality, the Monitoring Officer advised this was a two-stage process. The decision on whether a report should be marked confidential because it contained exempt information and should not be published with the agenda is one for officers and then the decision on whether to exclude the press and public from the committee meeting is for the committee on the day. Officers must work backwards from the prospective decision and apply the relevant legal tests. It was confirmed that the report would be issued in unredacted form to the Committee, but it was not possible at this stage to advise on whether the report contained exempt information, as the report was not yet available. A public interest test would need to be applied by the committee. If, on the Monitoring Officer's advice, the report was considered to be confidential as it contained exempt information, but having considered the legal advice and having applied the public interest test, the Committee decided *not* to exclude the Press and Public at the meeting, the report would be published with immediate effect.

It was confirmed that at the full day meeting on 5th March, the Committee would consider the report and make recommendations on actions to be taken. The purpose of the meeting on 26th March would be to review the action plan coming out of the 5th March meeting and progress made by that date.

One Member felt that there should not be a three week gap between meetings, and suggested an additional meeting take place between those dates. Another Member suggested that officers would need to take time to act and respond to the actions agreed following the meeting on 5th March, and this may include actions or information required from external bodies, and it would be wrong to rush this through and push officers too hard. The Chief Executive commented that the action plan coming out of the meeting on 5th March would probably be quite detailed, and time would be required to address those action. Another Member commented that whilst the timetable proposed was not ideal, having listened to the Chief Executive and Monitoring Officer, he felt that it was appropriate.

Picking up the points made about public interest, a Member asked if the Monitoring Officer could give that advice in advance of the report being circulated, so there could be transparency on what would be in the public domain and this was agreed by the Monitoring Officer.

Another Member commented that he would be concerned if the report was heavily redacted, as he felt that this was County Council business and in the public interest, especially given the delays involved in the process to date. The Chairman acknowledged these concerns but commented that a decision could not be made before the report and Monitoring Officer advice was available. It was stressed that whatever the outcome, the full report would be available to the Committee.

The Chairman commented that in his 7.5 years' tenure as Committee Chairman, this was the most serious and complex item the Committee had considered. Whilst he was not entirely confident that the proposed timetable would not be further delayed, he acknowledged that regrettably the process had been delayed for entirely legitimate reasons. He praised the hard work of officers involved, especially the Chief Executive, in trying to meet the timescales, but queried whether the Committee would get closure on this issue prior to the May elections, if they took place.

The Chairman formally sought the Committee's views on whether an additional date was required between the 5th and 26th March. Three Members voted in favour of additional date, and three against. The Chairman therefore used his vote to opt for an additional meeting, and asked the Clerk to identify a suitable date if possible. Action required.

(Gillian Beasley left the meeting)

298. Petitions and Public Questions

There were no petitions or public questions.

299. Debt Management Update

The Head of Finance Operations presented a report on progress with debt management.

It was noted that following the disaggregation of LGSS, the Debt Team was now part of the Finance Operations function (Lead Authority Cambridgeshire County Council) under the leadership of the Head of Finance Operations. Debt Management was therefore now within the management purview of the County Council's Chief Finance Officer. As a result of these management changes, the report also outlined areas for improvement and actions taken to date.

The overall debt position was currently £16.96M, which was an increase of £2.14M since this was last reported to the Committee. £2.07M of that £2.14M related to six outstanding invoices that had been issued in October. It was agreed the detail of those six invoices would be circulated to the Committee. Action required. Of the £16.96M outstanding, £3.7M comprised potential write offs, unallocated credit notes, instalment/payment plans, amounts secured against a property, and disputed invoices, leaving a total of £13.26M.

There was a query regarding "pre 18/19 overdue debt". Officers advised that the team was performing a forensic review of data, and resources had been allocated to focus on that aged debt (730 days+). It was stressed that it was not just the value of the debt but the volume of debt, and that understanding what lay behind this would put the Council in a better position going forward. Officers acknowledged that aged debt was less collectable, and the team was trying to identify the trends behind this, which they would report back to the Committee in due course.

It was observed that there appeared to be a problem with the headings in the table at paragraph 2.1 of the report, in relation to the periods covered, and officers agreed to correct these for future reports Action required.

A Member queried the CCG debt, noting that 87% of the debt related to previous financial years, and that CCG finances were very challenging. It was confirmed that most of this debt this related to nursing care. Officers advised that the NHS provided significant income to the Council, which fell into two categories: one related to 'blocks' for areas such as Learning Disability and the Better Care fund, and also the current payments related to the pandemic. There were few problems in those areas, with any late payments usually being measured in weeks. The more difficult issue was where amounts related to nursing care for individual clients, and there were two issues with those individual packages: firstly, there was challenge from the NHS from a policy perspective, i.e. that the NHS should actually be paying for the care of those individuals. There were also systematic issues in terms of how payments were actually made. Progress was being made, and officers were working constructively with the CCG, but there remained significant operational challenges. At this point in time, there was no specific provision over and above the normal bad debt provision to write off those amounts, as progress was being made with the CCG, but this would be kept under review. There was a small degree of offsetting in the other direction, but there was no sense that more drastic action needed to be taken.

Noting the statement in the report that "significant movement before year end" was expected in this area, the Chairman asked the Head of Finance Operations to provide an update to the Committee on this point for their 23rd March meeting. Action required.

With regard to outstanding payments from the CCG for individual clients, a Member asked how old those outstanding invoices were, and at what point they would be written off? Officers advised that most of this related to nursing care, rather than a recurrence of the previous issue. This would continue to be pursued, but would not be concluded by year end. A Member asked how CCG recorded these debts in their accounts. Officers did not know, but suggested it would probably be via an accrual, as it was not a cashflow or accounting issue. Officers advised that they were working through these issues in detail, but it was a very slow process, as the CCG continued to request different pieces of information. It was confirmed that there had been high level discussions with the CCG's Director of Finance and Chief Executive, and there were periodic meetings with the CCG regarding outstanding work, with significant progress having been made over the previous six months. In response to a Member question on why more robust action was not being taken against the CCG, officers responded that there was potential for the impact to be felt by individual clients, which was clearly undesirable. Some outstanding payments from the Council to the CCG had been withheld, and officers reassured the Committee that in relation to this year's funding, nursing care issues were now resolved, as the CCG was now contributing directly to the nursing homes, so the issue would not recur again in future.

With regard to debt performance, the in-year collection rate was 6.1% lower than the previous year, but still above the CIPFA benchmark. The volume of invoices cleared had increased by 5% to 91%, which was expected to increase. Collection rates for the current financial year by month was noted, and Members noted a decrease towards the end of 2020, which was attributed to payment issues related to the pandemic. In terms of the overall debt position, this had reduced by £7.43M for 2020/2021, whilst for the calendar year 2019/20, the overall debt position had reduced by £6.2M. In response to a Member question, it was confirmed that 1-30 days was not regarded as a debt in terms of debt management.

In terms of the £5.62M debt over 730 days, £1.32M was in active recovery. As previously advised, a forensic approach was being taken to manage this debt. Overall debt movement to 1 December 2020 has gone down by £7.43M, and 52% of that related to debt over 1 year old, demonstrating how aged debt was actively being pursued and recovered.

It was noted that in the table entitled "Collection rates – 2019/20", the title "no. of invoices" had been duplicated in two successive rows – officers agreed to correct this for future reports to "invoices issues" and "invoices closed" respectively. Action required.

In terms of Income processing under Accounts Receivable, this data had not previously been provided to the Committee. This data demonstrated income received which needed to be manually processed by Accounts Receivable. There were two suspense accounts, one relating to the bank statement (e.g. BACs, Standing Orders) whilst the other was for direct banking, in areas such as libraries and transport, i.e. banking cash and cheques. Members noted the current and historic balances, with the current balance reducing to £310K. The direct banking suspense account did not impact on the debtors balance as it was not budgeted income. There were various reasons why there was a lack of information on these receipts, e.g. monies paid on someone else's behalf, and this reflected faults at the individual payee end, where there was no remittance advice, so the sums were unallocated in the income report. Significant progress had been made, but the remaining transactions tended to be items that were more difficult to identify. There was a monthly reconciliation process, and control account reviews had been set up.

A Member observed that in terms of the sums in the income suspense accounts, October 2020 appeared to be an anomaly. Officers outlined the possible reasons for what was probably a one off payment, and agreed to provide the Chairman with the detail. Action required.

Officers detailed the research performed on aged debt: a service improvement plan had been implemented, and a number of issues had been addressed including concerns on billing accuracy, such as incorrect billing addresses for some of the smaller NHS debts. There were also issues where the budget holder did not raise a Purchase Order, which primarily related to billing between teams. It was noted that workshops were being held to better understand the issues, and an action plan was in place, with specific resource allocated for this purpose. An interim debt officer with significant experience had also been recruited to help resource the team, but it was noted that the new team needed greater understanding of the case management workload before considering whether any further resource was required.

The Chairman noted comments in the report regarding remote working since the beginning of the pandemic, specifically references to a lack of visibility and productivity issues, and he cautioned against a lack of trust in staff. Officers advised that the intention was very much about working with staff.

The Chairman thanked officers for a very comprehensive report.

It was resolved to:

a) Note the actions and approach being taken to manage income collection and debt recovery;

b) Agree that a further update will be provided on the position at the end of Quarter 1 2021/22.

300. Financial Reporting and related matters update

The Committee considered a report setting out progress with the Statement of Accounts for the year ending 31 March 2020, preparations for the year-end process for 2020-21, national updates and context, and other connected matters.

With regard to the 2019/20 final accounts, Members were reminded that at their November meeting they had considered the Statement of Accounts ahead of finalisation, alongside the draft findings from the external auditor for 2019-20. At that meeting the Committee had delegated responsibility to the Committee Chairman and the Chief Finance Officer to approve and sign the final accounts, taking account of the matters outstanding. Regrettably, whilst good progress had been made with those remaining audit procedures, it had not been possible to finalise those accounts. The report set out both the local and national issues, including the wider context of challenges in the audit sector. An update was provided on the outstanding issues. Progress was noted against those areas highlighted at the November meeting as being outstanding. The outstanding issues around borrowing, cash and cash equivalence, and Group consolidation had been resolved between the Council and EY. The remaining issues related to Payroll, where there were further reconciliation issues to be resolved, and the Revaluation reserve, where a technical piece of work was required, which would require the support of a specialist accountant. However, the most significant issue related to valuation adjustments required to Rural Estates, solar farms and Education assets. The specific issues with investment assets in central Cambridge had now been dealt with, but some issues were being resolved relating to other Fixed Assets such as depots, Park & Ride sites. The most significant matter related to schools, and the split between developed and undeveloped land: there had been a significant error in the Council's original published figures, but a proposal on how this could be dealt with had been put forward. This was a simple but highly material error which needed to be tested via EY. This dialogue was continuing but had not yet been concluded on this matter.

Officers reassured the Committee, that whilst the resource position was quite constrained and specific external expertise was required, they were confident that they were 3-4 weeks away from concluding those matters from signing accounts.

In response to a Member question about a press report on twelve Councils at risk of issuing 114 notices, officers confirmed that Cambridgeshire was not at risk, the Council was a going concern, and EY were satisfied with cashflow projections. Mark Hodgson advised that EY had finished their work on Going Concern and concluded there was no material uncertainty.

The report also set out progress with scheduled and targeted areas for delivery of the Statement of Accounts in 2020-21, in light of a number of areas for improvement identified in recent years. It was recognised that the longer it took to complete one year's accounts would have a negative impact on the process in successive years.

Noting the statement "Review and formalise process for property valuations, particularly the roles and responsibilities of Property and Finance teams." as one of the outstanding areas in the preparation for the 2020/21 Statement of Accounts, a Member asked if the follow-up meeting for late January had taken place. Officers confirmed that a number of meetings had happened, focusing on defining responsibilities. This would be the second year with an independent valuer, and the team were keen to ensure that this process was working as effectively as possible.

In response to a question on communications with BDO, the Chairman advised that he had written in strong terms to a senior BDO executive, and received a response the same day. He was expecting further information shortly and would circulate that to the Committee. The issues around the ongoing delay were noted.

There was a question as to whether the disaggregation of LGSS had impacted on the Finance team. Officers advised that the changes had resulted in both opportunities and challenges, with services coming back to the Council in different waves. Clarified accountability was one of the greatest benefits, but a risk was not having the resilience to draw on a wider range of staff when necessary.

One Member asked about the 2019/20 accounts, and in view of the comments about the treatment of grants and reserves, whether that would affect the end of year position in terms of business planning moving ahead. Officers responded that the pandemic had impacted on the audit in 2019/20, particularly in terms of property valuation and material uncertainty, in addition to the operational impact on producing the accounts and audit. More grants had been referred in the current (2020/21) year, and this would form an additional audit burden. The issues such as school classification did not impact on business planning going forward.

The Assistant Director for Property updated the Committee on the Property Asset database. The team currently used a legacy system which was twelve years old, but the data within that system was not up to date. As part of a service improvement plan, a new database would be procured, which would fundamentally list all property assets, and provide a full range of services. This would deliver a more efficient, effective and bespoke financial system, enabling a better service to be provided going forward. The Property team are working with colleagues in IT and Procurement on this, however services have been tied up over the last year with COVID responses, such as IT and the accelerated move to remote working across the Council.
The Property Asset database would be a large, complex IT project, and there were procurement timetables and constraints that needed to be considered too.

One Member asked whether “the entire estate” included Farms estates and movable assets (artefacts/valuables). It was confirmed that the latter was not included, but all property and buildings such as the Farms estate were included. It was also noted that the majority of valuable artefacts had been disposed of, and there was an inventory of any remaining artefacts.

With regard to the new system, one Member urged officers to work with peer authorities and seek collaborative opportunities when attempting to identify a suitable property asset database. Officers confirmed that they had been working with other authorities including Cambridge City Council to simplify and expedite the process. It was noted that when the K2 system had been procured with Northamptonshire County Council, there had been issues around the suitability of that system for Cambridgeshire’s requirements, and the team were keen to avoid similar issues going forward.

The Chairman observed that for several years the External Audit had highlighted the lack of property database. He asked the External Auditor, Mark Hodgson, whether he had any advice to offer on asset registers? Mark agreed that there were well known products available and peer authorities had procured similar systems. Having an Asset Register in place key driver in the timely preparation of both the accounts and the audit.

It was resolved to note the report.

301. Internal Audit Update Report

The Head of Internal Audit and Risk Management presented a report that provided an update since the previous meetings. He reminded Members that following the outbreak of the pandemic in March 2020, it had been agreed to pause the agreed 2020/21 Audit Plan and to fully align resources to risks being managed by the County Council, consistent with the service's Business Continuity Plan. This has been achieved by increased consultation and through direction by the Council's Deputy Chief Executive and Chief Financial Officer. The pandemic continued to impact on audit work, but the audit programme was dynamic and there were areas where the audit process could actively assist services.

Work on key financial systems needed to be prioritised in the current financial quarter. The position on other areas was noted:

- Key Performance Indicators, Key Policies and Infection Control Grant 2 – these were all at draft report stage and would be considered at the March Committee;
- Schools Finance Monitoring and LGSS Law Client Side – both these audits were in progress;
- Treasury Management – this audit report had been drafted and was almost complete;
- Accounts Payable, Accounts Receivable and Debt Recovery – these audits were due to be completed by March;
- Community Capital Fund – this was in progress;
- Highways Contract OBR – this would be considered in the confidential session later in the meeting;
- Foster Overpayments recovery review, and SEND – both these audit were being progressed and were towards the draft stage;
- Daily Spend – Over £20K, and Teaching Apprenticeship Grant – both audits were at draft stage.

Members noted management actions listed in the appendix to the report, and progress against these.

Members noted that local authorities were mandatory participants in the National Fraud Initiative (NFI), so Internal Audit would be participating in NFI in 2021/22.

Work in risk management was progressing, but the update had been rescheduled to the March Committee meeting due to operational pressures. The Committee was reassured that risk management continued to be considered regularly at JMT meetings.

Appendix A of the report highlighted current progress. All those audits removed from the 2020/21 Plan were being assessed against risk methodology, and tracked quarterly. A Member asked about the PFI Rebate, which was marked as completed, and how much work that had involved. It was agreed that officers would report back. Action required.

In response to Member queries, it was confirmed that:

- the draft report had been issued to the "County Farm processes and procedures", which was a separate matter to the ongoing audit relating to Manor Farm. The Head of Internal Audit explained that last year the team had been asked by the Service to provide a consultancy type overview of the service, in terms of internal controls, risk management, etc., so this was essentially an advisory piece of work. It was confirmed that it was likely that details of that wider review would be included in the Manor Farm audit;

- grant was allocated every year for pothole action fund.

- the General Ledger audit had commenced, and the final report was expected before the end of March;

- the Pensions audit had not commenced;

- the new "Less than best process and rent reviews" related to Early Years;

- there had been slippage in the Ely Bypass Review, and this issue needed to be considered by both Constitution & Ethics Committee and full Council;

- that the revised target date for the Foster Contract Management audit was 31/03/21;

- that "CCC client modelling for This Land" basically related to the Council securing the anticipated outcomes from its relationship with This Land.

It was resolved to note the report.

302. Exclusion of Press and Public

It was resolved:

to agree that the press and public be excluded from the meeting on the grounds that the report contained exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed in discussion, as it contained information relating to the financial or business affairs of any particular person (including the authority holding that information)

303. Internal Audit Progress Report - Highways Contract Appendix

The Committee received an update on the Highways Contract.

It was resolved to receive a further update at the March meeting.

304. Minutes of the Audit and Accounts Committee meetings 24th November and 23rd December 2020

It was resolved to note the minutes of the meeting held on 24th November and 23rd December 2020 as a correct record.

305. Minute Action Log Update

It was resolved to note the Minute Action Log.

306. Forward Agenda Plan

To note the Forward Agenda Plan with the changes agreed.