Agenda Item no.4

Audit and Accounts Committee: Minutes

Date: 9th February 2023

Time: 2.00pm – 3.40pm

Place: New Shire Hall, Alconbury Weald

Present: Councillors C Boden, N Gay (Vice-Chair), A Sharp, P Slatter and G Wilson (Chair)

Officers: Dawn Cave, Mairead Claydon, Tom Kelly, Stephen Moir and Linda Walker; Alison Balcombe, Stephen Howarth, Dean Leather and Ellie Tod (relevant agenda items only)

Mark Hodgson, Jacob McHugh (EY); Scott Knight (BDO)

105. Apologies for Absence and Declarations of Interest

Apologies were received from Councillors McGuire and Whelan.

The Chair extended a special welcome to Councillor Slatter, attending her first meeting. He also thanked Councillor Taylor for all her work on the Committee since 2021.

There were no declarations of interest.

106. Petitions and Public Questions

There were no petitions or public questions.

107. Minutes of the Committee meeting held 24th November 2022

It was resolved unanimously to approve the minutes of the Committee meeting held 24th November 2022.

108. Committee Action Log

The Action Log was noted.

With regard to item 104, a briefing note had been circulated to several Members of the Committee on 07/02/23, updating Members on the HACT/FACT situation. Given the confidential subject matter, it would not be discussed at today's meeting, but the Chair indicated that he would like to discuss this matter further at a future meeting.

With the Committee's agreement, the Chair changed the agenda order, taking the Financial Reporting and External Audit Update report first, to enable BDO's Head of Audit and Assurance to take part in the meeting.

109. Financial Reporting and External Audit Update

The Committee considered an update on progress with the Council's external audit, particularly the progress of the 2021-22 external audit and those of previous financial years.

Members noted the section of the report dealing with objections from local electors in relation to previous financial years. Local electors could raise objections to the accounts asking for an item to be declared as unlawful, or raising matters which may require a report in the public interest or statutory recommendations. The Council currently had two objections outstanding relating to financial years ending 2017 and 2018, when BDO was the external auditor, and four subsequent objections for the subsequent years, within EY's tenure. A representative of BDO had attended the Committee meeting in May 2022 to discuss the objections and timescales. Most recently, the Service Director for Finance and Procurement and Chief Executive had met with Scott Knight, BDO's Head of Audit and Assurance, in January 2023.

The Chair welcomed Mr Knight to the meeting. He asked him (i) what work was still outstanding? (ii) whether there was anything BDO needed from the County Council and (iii) when this work would be completed?

Scott Knight, BDO's Head of Audit and Assurance, advised that he had been contacted by the County Council's Chief Executive and Service Director for Finance and Procurement regarding their frustration at the pace this matter was proceeding. He had agreed to look into it, and had interviewed the relevant individuals. He acknowledged that the processes had taken far longer than they should have done, and that BDO had not delivered in a timely way. Mr Knight had apologised and said this was not the type of execution BDO should be delivering, and it did not meet BDO's standards. This issue had been impacted by the relevant BDO officer being absent with a serious illness. The officer had returned to work on a phased basis, and concluding this matter was their priority. The current situation was that a response had been drafted, which was currently in the legal review phase, after which it would go to PSAA for review. Whilst it was difficult to specify when this would be concluded, he anticipated that it would be a matter of weeks. He commented that it was embarrassing how long this matter had dragged on, and he confirmed that BDO were not waiting for any information from the Council.

The Chief Executive advised that the Council had corresponded separately with PSAA, who were aware of the Council's frustration, and were cognisant of the need to expedite this matter when it reached them.

A Member thanked BDO's Head of Audit and Assurance for taking responsibility for this particular item, for investigating it, and acknowledging the delays were greater than they should have been. The Chair commented that he had noted the comment "a matter of weeks" in terms of the timescales going forward, which he hoped would be the case. He thanked BDO's Head of Audit and Assurance for attending the meeting. *(Mr Knight left the meeting)*

Turning to the External Audit for the 2021-22 financial statements, officers advised that this process was still ongoing, but nearing completion. In addition to the updated draft set of accounts that had been presented to the Committee, further appendices had been published since the agenda had been despatched, including EY's provisional audit results report. Most queries from EY had been dealt with, and an unqualified audit opinion was anticipated at the end of the process, as reflected in the provisional audit results report. The External Audit report made some helpful recommendations, with some initial management responses provided in the Annex. The outstanding areas were quite technical, some requiring liaison with external bodies such as the Council's valuers and This Land Ltd.

Several adjustments had been made as the audit had progressed, and those relating to key financial statements were included in the report. If an adjustment was required regarding the valuation of the solar farm asset, this would be done discretely. There were several unadjusted items where management had exercised discretion not to adjust, and the rationale for those instances were included in the report. Members noted the ongoing issues nationally regarding Infrastructure assets, where there had been a Statutory Override in relation to CIPFA Code.

Officers proposed the following additional recommendations (b) and (c):

b) *receive the external auditor's provisional results report*

c) *delegate authority to the section 151 officer and the Chair in consultation with the Vice Chair and Cllr Boden to sign the final Statement of Accounts, and to make any related declarations and representations taking account of the final audit results report to be received from the external auditor and agreed adjustments, contingent on receiving an unqualified financial statements opinion.*

Councillor Boden indicated that he was happy with the additional recommendations set out above.

The Head of Finance gave his thanks to hardworking colleagues in the Corporate Finance team, especially Ellie Tod and the Closedown staff. The Chair echoed the thanks to Ellie and the team.

The External Auditor advised that good progress had been made with the 2021-22 audit, with a relatively low level of audit differences found, both corrected and uncorrected. There were currently corrected differences of £5M (cumulative), and uncorrected differences of £6M (cumulative). There were several key areas still to be concluded, which included long term debtors and the recoverability of the loan to This

Land Ltd, Property Plant and Equipment valuation work, and conclusion of work in relation to Covid-19 grant accounting. The Statutory Instrument and Code adaptation for infrastructure assets should resolve the issue encountered last year, but this still needed to be finalised. All those procedures needed to be completed before a full and final audit result could be presented.

The Chair asked about the local resident's objections. The External Auditor advised that one objection had been received relating to the 2021/22 Statement of Accounts. This was being assessed alongside those objections in respect of the 2018/19, 2019/20 and 2020/21 financial statements. It had been concluded that the objection raised did not have an impact on EY's ability to issue their opinion on the Statement of Accounts. The Chair asked if this implied that the issues raised in the objection were not valid? The External Auditor advised that this was an incorrect conclusion to draw, as the auditor's opinion was a true and fair assessment based on the financial statements, but assessing those financial statements as true and fair did not preclude the acceptance of the objections as valid. The objection could relate to elements that were presented in the accounts in a true and fair way, but the objection could still be valid. He outlined the measures open to him in relation to an objection which included (i) deeming an item to be unlawful; (ii) issuing a public interest report in relation to governance matters; (iii) issuing statutory recommendations. In this case, the External Auditor judged, at this stage,that there was nothing in the objections that prevented him from issuing a true and fair assessment of the financial statements.

Arising from the report:

- a Member observed that there was no reference in the report to the nature of the objections, and as a new Member, she was unfamiliar with the background. It was noted that this was a longstanding issue, and the Chair would provide the Member with the appropriate information. Action required. Another Member observed that the objections provided no hindrance to the External Auditor provisionally providing an unqualified audit report;

- in response to a question on timelines, the external auditor advised that a timeline had been agreed in relation to concluding and determining objections for each of the four financial years for sending a statement of reasons to both the objector and the Council. This process includes an internal and legal review. The external auditors were also required to submit the statement of reasons to PSAA, so that they could address their own legal processes;

- in response to a question on the Value For Money (VFM) work, it was confirmed that there were outstanding VFM issues. Work had commenced on these matters, but a period of time after the objections had been concluded would be necessary to review and issue all VFM conclusions for all four years. The timetable for this would be agreed following consultation with the Chief Executive and the Service Director for Finance and Procurement;

- a Member commented that he was pleased that the external audit process had successfully reached this stage. He felt this reflected that a well-prepared set of financial statements had been produced by officers, that there had been a well-planned, smooth audit process by the external auditors, and that there was good cooperation between the two parties. He commented that credit was due to both the External Auditors and the officer team for the work undertaken to date;

- a Member requested that when the final accounts were reported to the Committee, a list was also provided of unadjusted differences that had emerged from the audit, including an explanation on the decision not to adjust them. It was agreed that these would be provided to the next Committee meeting. Action required;

- a Member was disappointed to note that the narrative report was 27 pages long and quite impenetrable, despite the original objective that the narrative would provide a simplified summary of the accounts so that they were easily understood by laypeople. He asked if consideration could be given to providing a more concise narrative report in future so that it met that objective, and suggested that a target could be set of a maximum of twelve pages for the narrative report. Noting these comments, officers agreed to continue to review the narrative going forward, but pointed out that the guidance on the activities that should be covered in the narrative was quite detailed, and the County Council was a complex organisation. The Member commented that the government's objective was simplification, but it had resulted in more work and time being spent to produce a longer report. He observed that the longer a report was, the less likely members of the public were to read it. Another Member commented that brevity was not always better, and sometimes a certain level of detail was necessary;

- with regard to Statutory Override in relation to infrastructure assets, a Member observed that there appeared to be a delay in the implementation of the legislation, rather than a reversal. He asked if officers were prepared for the introduction of the legislation. Officers advised that if the Override ceased, there would be an information gap, requiring a substantial amount of work;

- a Member queried the recoverability of the loans to This Land Ltd, which totalled approximately £113M. He asked the External Auditor for more detail on the methodology that would be used, and the degree to which the outcomes would be robust, and the level of assurance that would be provided going forward. The External Auditor advised that he was waiting for management's assessment of recoverability, including their assessment as to whether that level would be reasonable. Officers confirmed that the Council and This Land Ltd had made good progress in the last 12-18 months in terms of the transparency of financial information, governance, risk management and financial projections. Strategy and Resources Committee had recently considered the sensitivities that This Land Ltd was exposed to, and an additional risk was registered in this audit in terms of considering the This Land loans from an IRFS credit loss perspective.

However, it appeared the underlying position of This Land Ltd was strengthening compared to its financial outlook 12-18months ago. The company's business plan and cashflow projections extended over 8-10 years and so it was the long-term average inflation rates over the next that period which were critical for the company rather than the short term position. This Land Ltd was also exposed to high construction price inflation, and changes to housing market conditions and house values. Those components were regularly considered by the company and factored into the forward projections and forecasts that were produced by for the County Council and provided to External Auditors;

- with regard to the recommendations by the External Auditor for further work, it was noted the initial responses were included in paragraph 2.2.2 in the subsequent annex. In response to a query on the CIPFA disclosure checklist, officers confirmed that these were covered through other processes, but they would look to see if this work could be reformatted for future years.

It was anticipated that the final audit results report should be available by the end of March.

It was resolved unanimously to:

a) note and comment on the report;

b) receive the external auditor's provisional results report;

c) delegate authority to the section 151 officer and the Chair in consultation with the Vice Chair and Cllr Boden to sign the final Statement of Accounts, and to make any related declarations and representations taking account of the final audit results report to be received from the external auditor and agreed adjustments, contingent on receiving an unqualified financial statements' opinion.

110. Debt Management Update

The Head of Finance Operations presented an update on the current debt position. The report format now included information on the level of debt compared to the revenue raised.

The current debt position was £23.3M which represented a £1.6M reduction compared to the same period in 2021-22, despite increased billing of approximately £8M. The improved recovery rate included a significant reduction in NHS debt, by £3.8M from last year, reflecting the joint work with partner agencies. Adult Social Care (ASC) debt had increased by £3.1M, all of which related to delays in formal processes such as Court of Protection, Power of Attorney and settlement of clients' estates. These processes were outside the Council's control and were experiencing long timelines, although resolution times had shown some improvement recently.

Debt recorded under Place & Sustainability also appeared to have increased dramatically over the last year, but £1.5M of the £1.6M shown had only recently been billed, and the vast majority had subsequently been received.

Collection rates for 2021-22 had been strong, with 96% of all revenue being collected, with 90% collected within 90 days. For the first six months of 2022-23, the collection rate was 94%.

The amount written off over last twelve months remained quite low (0.41% of revenue raised).

Arising from the Debt Position section of the report, individual Members:

- observed that ASC debt had risen from half to over two-thirds of total debt, and there was nothing to indicate that the position would be enormously easier in the coming year. The Member asked for greater granularity on ASC to be provided, given the size of this debt. The Chief Executive agreed, and said that having that deeper dive information available at Committee would be helpful, especially the age profile of debt, specifically aged debt of 90+ days in this category. Officers confirmed that they would include this information in the next report. Action required;

- congratulated officers on reducing the NHS debt, given the well documented issues last year;

- queried the percentage of invoices printed and posted. It was confirmed customers were moved over to electronic invoicing where possible. ASC electronic invoicing was gradually increasing, as this was often managed by family members;

- asked about the age profile of the "unapplied" £1.5M. It was confirmed that "unapplied" referred to income that had not been applied to a specific invoice, and that more detail on the age profile could be provided, but Members were assured that most of it was current;

- asked whether "write offs" listed were actually "provision for doubtful debts" rather than write-offs, and whether an age profile could be produced, highlighting longer term debt outstanding, alongside information on the policies for provision for doubtful debts. It was confirmed that these were definitely write-offs rather than provisions. The bad debt provision was calculated by the Finance team applying an appropriate methodology based on collection experience. Officers agreed it would be useful to provide more detail on aging and profiling of debt. Action required;

- It was confirmed that the Council still accepted cheques.

Turning to the Service Improvement Plan, it was noted that 13 of the 26 actions had been implemented, the most significant being the statement style reminders, which set out the balance on the account. This had led to a 10% increase in the number of customers paying and some very positive customer feedback. Members noted how the process had been rolled out in phases, the ASC element having been implemented first, as it was the priority.

The following points were noted:

- the number of invoices sent out by post continued to be reduced. ASC invoices accounted for the most paper invoices, and work was ongoing with ASC colleagues to further reduce this;

- a debt improvement plan had been implemented with ASC colleagues. An initial workshop had been held to understand the themes and process areas, so that the specific pinchpoints could be identified and the end to end process could be mapped out. The language used between teams often differed, so work was taking place to ensure consistent language was used for customers;

- the Debt Team had commissioned Unit 4 to perform a review of the ERP debt system. The main aim was to ensure that the Council was making the most out of the system to maximise recovery within existing resources, improve automation and enhance reporting, for both customers and staff;

- due to the cost of living crisis, some of the calls being received were increasingly difficult, and professional staff training on how to manage challenging phone calls was being rolled out so this that process was easier for both staff and customers.

A Member noted that in the past, he had expressed concerns about how communications with individuals and carers were managed, and he was pleased to note that progress was being made. He suggested it would be helpful for officers to contact all Councillors and ask them if they had constituents who had reported difficulties in communications with ASC in the last twelve months. Hearing about customers' experiences could be very helpful in addressing issues and making the customer experience better going forward. Action required: Head of Finance Operations.

It was resolved unanimously to note the actions and approach being taken to manage income collection and debt recovery.

111. Internal Audit Progress Report

The Committee received a progress report on Internal Audit, for the period to 31st January 2023, which included the draft Internal Audit Plan for 2023-2024. Members were reminded that the Audit Plan was flexible and was reviewed quarterly, but in advance of the new financial year, a more comprehensive review of risk assessment process had been carried out. The draft Plan had also been considered by the Corporate Leadership Team (CLT). A further significant review of the Audit Plan was planned in Spring, scheduled to coincide with the considerable organisational changes taking place, enabling the new Executive Directors and Monitoring Officer to input into the Plan.

The report referenced outcomes from the recent CLT Risk and Assurance meeting in January. The most significant change made following that meeting was the inclusion of a new corporate Climate Change risk (Risk 12). CLT had also agreed to reduce the likelihood score for Risk 3 (“The Council does not have enough budget to deliver agreed short and medium term corporate objectives”) from 4 to 3, to reflect the fact that a balanced budget had been proposed. It was confirmed that CLT had had the opportunity to look at both the core and flexible aspects of the Plan, and were satisfied with the Plan. The Chief Executive had subsequently adjusted the Plan in terms of broadening the “safe recruitment” risk to “safe employment”, to incorporate all employment practices for staff and volunteers.

Arising from the report, individual Members:

- asked about the fixing of potholes, which was a major concern for Members, and was not referred to directly in the Plan. Officers referred to the Highways Improvement Programme which included the fixing of potholes, which was reported regularly to the Highways and Transport Service Committee. Additionally, a key change upcoming this year was the implementation of the Highways Asset Management System. It was noted that there was also some internal audit coverage as part of the core Plan through the audit of the grant certification of the Pothole and Challenge Fund, which included some sample testing, and also audit of the Local Transport Capital Block funding, some of which was spent on potholes;

- observed that whilst a balanced budget had been agreed for 2023-24, the budget risk related to the short and medium term remained, and there was an “enormous black hole” for future years. Officers commented that they would not characterise those shortfalls as a “black hole”, but an understood gap in future years’ budgets, in line with all local authorities nationally, which would be addressed through income savings or other changes;

- asked if Annex B (outstanding management recommendations) could be listed in priority order, i.e. highest risk first, in future reports. Action required.

A Member expressed concerns about the general direction of travel in terms of the risk scorings on the Risk Register. Noting that it was clear that it had been re-examined quite robustly, it was worrying that some key risks were scoring 15 and did not show any indications of improving, especially where these risks had significant consequences e.g. the risk of harm to people as a result of them not receiving services they need. He commented that the granularity of the risks was not set out in the Risk Register, and he felt that it was important for Members to understand the detail, given the terrible experiences of some local authorities in recent years. He gave examples including areas where scores had increased, and commented that this was a warning system to Members and was a matter of considerable concern.

Responding, officers commented that in terms of methodology, the 15 score was in line with the Council's risk appetite, i.e. those risks that were manageable. More broadly, there were detailed Directorate Risk Registers that sat beneath these Risks, with detailed mitigations and controls in place, which were regularly considered by the respective Service Committees. It was suggested that more narrative should be included when the Risk Register was next considered by both the Audit & Accounts and Strategy & Resources Committees. On some of the scoring, it was probably reflective of CLT's view of where the Council currently was, the constraints faced and the increased level of risk. These constraints and risks were probably no different to those experienced by any other local authority, especially those with upper tier safeguarding responsibilities. It also reflected the regular in depth consideration of those risks by CLT.

The Member acknowledged these comments, but stressed the issue of granularity, noting that some of the risks ranked 5 included potential risks such as the death of a child, young person or vulnerable person. More detail was required on the expected likelihood, and the actions and mitigations being taken to reduce those risks. The Chief Executive agreed to discuss these matters further with the Head of Internal Audit and the Head of Diligence and Best Value, especially around global Risk 8, "Failure to Deliver Key Council Services".

It was resolved unanimously to review, comment on and approve the proposed Internal Audit Plan for 2023/24, outlined at Section 6 of the report.

112. Audit and Accounts Committee Terms of Reference Review

Members considered a review of the Committee's Terms of Reference, which had been re-evaluated in light of CIPFA's recent Position Statement on Audit Committees in Local Authorities and Police, which set out the Audit Committee practice and principles that should be adopted. If agreed by the Committee, the Terms of Reference would to be considered at both the Constitution and Ethics Committee, before approval at full Council.

The report also included a proposal for the Committee to undertake a self-assessment of its effectiveness. This would involve a working party to be convened, involved the Head of Internal Audit, Chief Executive, Monitoring Officer and Chief Financial Officer being involved in that process.

Arising from the report:

- a Member commented that he was reassured by the proposed changes, most of which strengthened the powers and scrutiny the Committee could exercise;

- Members noted the specific requirement to report to Full Council, relevant Policy and Services Committees, and the Constitution and Ethics Committee on issues requiring further action, at 2.8 in the Terms of Reference;

- a Member suggested that the working party to review the self-assessment of effectiveness could be expanded to include individuals such as the External Auditor;

- the Committee discussed the appointment of external members. A Member commented that it was important to consider the added value that external appointees could bring, and if more than one external appointment was made, the need to ensure that the appointees had different skill sets/backgrounds. The capacity for external appointees to provide constructive challenge to the Committee was critical;

- Members noted that whilst the new Director of Legal & Governance and Monitoring Officer did not start in post until 27/03/23, some of the preparatory work could be commenced in advance of that date, and the Interim Monitoring Officer could also contribute to that process.

It was resolved unanimously to:

(i) review, comment on and endorse the updated Terms of Reference for the Committee, for submission to Constitution & Ethics Committee and full Council;

(ii) agree the proposals for the review of Committee effectiveness set out in Section 4 of the report.

113. Audit and Accounts Committee Agenda Plan

It was resolved unanimously to note the Agenda Plan.