

Audit and Accounts Committee Minutes

Date: 1st December 2023

Time: 2:00-4:09pm

Place: New Shire Hall, Alconbury Weald

Present: Councillors C Boden, N Gay (Vice-Chair), G Seeff, A Sharp, A Whelan and G Wilson (Chair); Mohammed Hussain (co-optee)

Officers: Dawn Cave, Mairead Claydon, Emma Duncan (virtual) and Michael Hudson; Janet Atkin, Alison Balcombe, Ben Barlow, Sarah Brown (KPMG), Fiona Coates, Clare Ellis, Richard Gibson, Tom Kelly, Emma Larcombe (KPMG), Dean Leather (virtual), Jacob McHugh (EY) (virtual) (relevant agenda items only)

144. Apologies for Absence and Declarations of Interest

Apologies were received from Councillor McGuire and Stephen Moir.

Councillors Boden and Sharp declared non-pecuniary interests as Members of the Cambridgeshire Pension Fund Committee and Investment Sub-Committee.

145. Minutes of the Committee meeting held 28th September 2023 and Action Log

It was resolved unanimously to approve the public minutes of the Committee meeting held 28th September 2023.

In relation to item on the Action Log, there would be updates on a number of items, including the BDO situation, later in the meeting.

The Chair advised that he had raised the issue of the workload of the Internal Audit staff at the East of England Audit Group, where it was acknowledged that similar difficulties were being experienced by many local authorities.

The Action Log was noted.

146. Petitions and Public Questions

There were no petitions or public questions.

147. Debt Management Update

The Committee considered an update on the Council's Debt Management position.

Whilst the percentage of debt collected within 90 days was meeting the target level, the amount of overdue debt had increased by £7M over the last 30 months. The total overall debt position was £29.8M as at 31st October 2023, which represented an overall increase of £3.8M compared to the same period in 2022/23. The current debt position had reduced to £23.3M at 30th November, so progress was being made. Adult Social Care client debt had seen a £3.6M increase over the last twelve

months across all age brackets, with a £1.9M aged debt (greater than one year old) pressure. The main reasons for overdue debt in Adult Social Care matters related to Court or Protection and Power of Attorney matters, where clients had lost the ability to deal with their financial affairs themselves. Collection rates were encouraging, but bad debt provision had increased to reflect the pressure on Adult Social Care, and there were a number of actions that had been put in place.

Arising from the report:

- a Member welcomed the appointment of the new Strategic Exchequer Manager, which was a major opportunity for the Council to gain tighter control over its debt position. He accepted that for many Adult Social Care debt issues, the Council had little control. On the overall aged debt position, a Member noted the quantity of unapplied receipts, and suggested that greater resource needed to be identified to ensure that nothing was unapplied for longer than necessary. Officers confirmed that these unapplied receipts could usually be linked to the customer, but not the specific invoice, and this was a particular issue with the NHS, as they did not include the relevant references in their remittance advice. The Member suggested that attempts could be made to change these unapplied debt processes, especially by the NHS, ideally through automated processes, and asked if it would be appropriate to raise this matter at a higher level with the NHS. Officers responded that the unapplied debt position was improving, and there were further metrics on income allocation that could be circulated to Committee, with a breakdown by period. **Action Required;**
- a Member asked about the metrics for tracking performance, and whether a second metric was required, relating to absolute debt level. It was confirmed that 85% was the target, and the absolute level was also measured, and it was the absolute level that was off track. It was agreed that it would be helpful for future reports to distinguish debt that had just become overdue compared to more aged debt i.e. 90 days plus. **Action required;**
- a Member asked if anything could be done before invoices were raised, such as more detailed assessments to identify those cases where the client would not be able to pay, to ensure that debt would not arise in the first instance;
- in response to a Member question, it was confirmed that all of the £29.8M debt was overdue;
- a Member asked if there was anything that could be done about the Court of Protection issues. Officers advised that both the voluntary sector and Council functions did a very good job in providing advice and guidance around issues such as lasting Power of Attorney, but the main issue related specifically to those families who could not manage those finances, where there was Court of Protection involvement, which delayed the process. The Member asked about the assessment process, and whether a more detailed assessment at an earlier stage would be helpful? Officers explained that for most clients, the financial assessment was carried out in line with the Care Act requirements. When there was a backlog, this did not adversely affect the clients, as the client was not liable for backdated charges. Some clients or representatives chose not to undertake a financial assessment, i.e. did not disclose their financial circumstances, in which case they would be liable for full costs. However, those clients often re-engaged in the assessment process when debts fell due. It was

agreed that further information would be provided on this point. Action required;

- a Member asked if *all* of the Court of Protection issues were outside the Council's control? Officers commented that there may be a small number of complex cases, or cases where officers had not completed the forms within timescales, but those cases were very much in the minority;
- in relation to the Adult Social Care Debt Analysis, a Member noted the inherent difficulties of Court of Protection cases, especially those awaiting probate. However, he was concerned that there was £2.4M debt not being chased because a service response was awaited, which appeared to account for 15% of cases over two years old. Officers confirmed that as part of the deep dive, a number of actions were in place, including working closely with service areas, with a clear escalation route. The Member observed that this should result in a significant reduction in the "awaiting service response" category;
- in relation to the "pending" write-offs, a Member asked about the policies for making provision, and for writing off debts, as the amounts involved were quite significant. He asked if those written off debts were still pursued, where appropriate. Officers confirmed that written off debts would not be pursued, but that was very much the end of the process: "doubtful" debts continued to be pursued.

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

148. Consultancy and Agency Spend

The Committee considered a report on the Council's use of consultants and agency spend. Members were advised that the approval form was submitted to the relevant officers prior to any procurement activity taking place, and therefore it was not possible to directly compare approval amounts to spend. However, the report set out a number of case studies to illustrate how the approval forms were being progressed. All consultancy requisitions were submitted to the Procurement and Commercial team for approval, ensuring those consultancy requisitions have consultancy approval forms.

Members noted that spending on agency workers and interims in the Children's, Education and Families directorate remained high, and that the period covered by the report coincided with the separation of these teams from joint arrangements with Peterborough City Council. For that reason, a number of vacant posts had been filled with interims on a temporary basis while permanent recruitment took place.

Arising from the report:

- a Member queried the governance and control for the Greater Cambridge Partnership (GCP). It was confirmed that that organisation was governed by the Council's Contract Procedure Rules, so the governance arrangements were the same. It was confirmed that the £1M cited was a maximum limit on the approval forms;

- a Member queried the costs of consultancy for the separation of arrangements from Peterborough City Council, noting this had been a Joint Administration decision. Officer confirmed that that expenditure was agency spend rather than consultancy spend, and it was confirmed that as a result of that uncoupling, there were some additional costs that were highlighted, scoped out and subsequently approved by the Staffing and Appeals Committee. The relevant costs related to senior vacancies that had subsequently been filled, e.g. at Service Director level, but this had been a substantial cost at that time;
- it was confirmed that there was no annual budget for agency and consultancy staff, but that these roles were paid for out of Services' own revenue workforce budgets in most cases, with the exception of a small number of capital projects. It was noted that due to the Council's budgetary pressures, expenditure controls had been set up with effect from 04/12/23, so there would be internal controls on all recruitment (permanent, agency or consultancy), which would be scrutinised by senior officers.

The Chair praised the procurement training for Members, and asked if similar training could be set up for agency and consultancy staff. Officers advised that there was a consultancy policy available, and officers would be happy to write a Member briefing paper. Action required.

It was resolved unanimously to note the information in the report and the action being taken.

149. Pension Fund Annual Report and Statement of Accounts 2022-23

The Committee considered the final Pension Fund Annual Report and audited Statement of Accounts. Introducing the report, officers reminded Members that the sign-off of the Annual Report was the responsibility of the Pension Fund Committee, and that Committee would be considering the Annual Report at a meeting later in the month. The Pension Fund Statement of Accounts was the responsibility of the Audit and Accounts Committee.

Key points highlighted in the presentation included:

- contributions had increased from previous years in line with expectations;
- transfers in from other pension funds was cash positive, i.e. more transfers in than transfers out. This area was very much demand led and beyond the control of the Pension Fund;
- benefit payments had increased, reflecting inflation and the number of active pensioner numbers;
- Management Expenses were largely unchanged, with the small decrease being due to financial market movements and changes to asset allocations;
- there had been a decrease in overall returns as at 31st March 2023, due mainly to the Ukraine conflict, inflation and other global events. However, this decrease had not been as bad as anticipated;

- investment assets showed a decrease, reflecting the position of financial markets. Investment liabilities were largely unchanged;
- draft accounts had been reviewed by the Pension Fund Committee, and the final accounts would be considered by that Committee on 20th December;
- Members were pleased to note that the Pensions team had recently won a Public finance award.

In response to concerns previously raised by the Audit and Accounts Committee in relation to the Cambridge and Counties Bank, a Level 3 investment, a report had been considered at a recent meeting of Pension Fund Investment Sub-Committee, and a report would be presented to the next meeting of the Audit and Accounts Committee.

On behalf of the Committee, the Chair congratulated the team on their recent award, and thanked them for their work.

At the invitation of the Chair, Councillor Whelan spoke as Chair of the Pension Fund Committee. She echoed the Chair's comments, especially around the excellent news of the award, and the speed in which accounts had been completed and the audit undertaken.

A Member was pleased that the review of Cambridge & Counties Bank had concluded that that investment was a sound asset. He noted that it was jointly owned by Trinity Hall College. Another Member, who had previously queried the appropriateness of this investment, commented that he was much better informed and reassured, having considered the Investment Sub Committee report, and believed it would be very helpful for that report to be considered by the Audit and Accounts Committee, with as much as possible of the report being considered in public session.

Jacob McHugh of EY advised that this had been an exceptionally smooth audit, and he thanked the Pensions finance team. He highlighted the two corrected, very small differences. The £15.7M downward valuation of the Cambridge & Counties Bank was not an issue per se, but this had not been posted through the original financial statements at the draft stage. The second adjustment related to the timing difference due to the March valuation information being received by the Pension Fund to put through the accounts. He concluded by saying that this had been a smooth, clean and timely audit.

It was resolved unanimously to:

1. approve the Final Statement of Accounts and note Annual Report of the Pension Fund for the 2022-23 financial year;
2. note the findings of external audit documented in the Audit Results Report.

150. Financial reporting and related matters

The Committee considered a report which covered an update on several items relating to the Council's financial reporting across several financial years.

There had been little progress in relation to the objections received in 2017 and 2018, which officers continued to follow up with BDO. BDO had advised they were targeting a 31/12/23 deadline, with an update due on 15/12/23. It was noted that the Executive Director of Finance and Resources had drafted a letter to the relevant parties, signed by Councillors Wilson, Gay, Whelan and Boden. The Executive Director advised that following the Committee's request, he had approached the relevant bodies, namely DLUHC (Department for Levelling Up, Housing and Communities), NAO (National Audit Office), FRC (Financial Reporting Council), PSAA (Public Sector Audit Appointments) and CIPFA (Chartered Institute of Public Finance and Accountancy). The advice had initially been to wait to see what was happening in terms of the Select Committee on audit backlogs. However, no outcome had yet been forthcoming, and officers felt that it was inappropriate to delay this matter any further, so would therefore be writing to all of those organisations. The senior partner at BDO had been contacted, and advised on the course of action being taken. Disappointment had also been expressed to BDO that despite reassurance to this Committee earlier in the year that this work was their top priority, they had subsequently advised that other audits were taking place. The Council would also be engaging legal advice on this matter.

A Member asked about the BDO fee uplift, and if it could be refused due to lack of performance? Officers advised that any uplift needed to go through PSAA, who were being kept aware of the Council's dissatisfaction, and that appropriate action would be taken to challenge future fee increases. A Member commented that this situation was potentially embarrassing for BDO, but also for the Council. He fully endorsed the actions being taken by the Executive Director for Finance and Resources, but felt it was important to put on record that the Council was not responsible for the delays that had taken place, and that the Council had always responded very quickly to requests from BDO for information. He asked if it was appropriate for the Committee to publish the letter to BDO on the Council's website, and the Executive Director agreed to seek the Monitoring Officer's advice on this matter. It was confirmed that BDO would be copied into the letter to the various national bodies. **Action required.**

For the 2022-2023 accounts, it was noted that there had been no national movement since the Committee last met around dates, including skipping years and backstop dates. EY had progressed the Pensions audit and work was being undertaken in relation to going concern and cashflow. The Committee noted the work that was currently being progressed.

For 2021-22, EY had provided a progress report. There were a small number of remaining areas, some which were quite intricate, where progress was being made. EY outlined the audit results report, the areas outstanding, and expected completion dates for those items. With regard to the largest area of outstanding work related to long term debtors, specifically the valuation of the This Land debtor, EY were confident that this would be swiftly concluded. It was noted that 12 of the 13 outstanding risks were now closed. Good progress was being made with the VFM work. In conclusion, timely closure of the 2021-22 audit was anticipated.

It was confirmed that the reference in the Executive Summary to *"issues identified through our audit"* were for the Committee's attention, which were deemed important and ultimately required a management response. It was confirmed that these had been addressed earlier in the year, e.g. specialist valuation of the solar asset, approach to asset registers, approach to disclosure of interest, and these were being taken forward.

A Member asked how far Artificial Intelligence (AI) would be used in audit work. EY confirmed that AI was being used more in audits on the data analytics side, in areas such as payroll, reading invoices, etc. Further guidance was awaited on the 2022/23 audit position. Another Member commented that the judgements on the data were key in audit work, and these would not be done by AI for some time.

A Member commented that this had been a very good audit so far, and paid particular praise to the Council's finance staff, and the Chair agreed. Officers welcomed these comments, especially as Finance staff were dealing with multiple years' audits.

Members noted progress with the current year, and that the change of auditors would bring different challenges. A number of issues including Property and Valuation issues which was identified as high risk areas were highlighted, where good progress was being made. KPMG colleagues were in place to begin planning work which was very encouraging.

KPMG representatives were welcomed to the meeting, and they praised the engagement that had taken place so far. They confirmed that there would be representation from KPMG at future Audit and Accounts Committee meetings.

The Chair thanked officers, EY and KPMG for their contributions.

It was resolved unanimously to note the report and receive the appended progress report from EY regarding 2021-22.

151. Internal Audit Progress report

The Committee received a progress report on Internal Audit, for the period to 31st October 2023.

Presenting the report, officers highlighted the following areas:

- Audit reports which had been finalised and draft reports issued, including actions agreed;
- an update on staffing and resources, noting that appointments had been made to senior audit posts;
- TIAA had been appointed as a co-source partner, and were currently undertaking a number of audits;
- the Cabinet Office had confirmed that the Council had reobtained its Public Services Network security certification, meaning that outstanding 'essential' audit action was now closed, and thanks were passed on to IT colleagues;
- a new process was being introduced whereby Executive Assistants in respective directorates were involved in the provision of information and chasing up on individual audit actions, reducing the volume of routine work for the Internal Audit team;
- there were more whistleblowing cases, including a number of cases which required full audit reviews or investigations. A Whistleblowing Report would be considered at the next Committee meeting;
- with regard to key financial systems audits, a Payroll audit report of "Satisfactory" had been received. It had also been confirmed that the Cambridgeshire audit team would be undertaking Payroll and Pensions audits for lead authorities in

2023/24, and walk through testing on these audits would commence in December.

It was confirmed that the results of the Section 106 audit could be circulated to the Committee when it became available. The final report was being delivered by TIAA Ltd and expected on 22/12/23. Action required.

A Member advised that he had previously expressed concern on the contract management of the Healthy Child Programme and Integrated Drugs & Alcohol Systems contract management, and he was puzzled why there had been a failure to move forward on this in the appropriate timescale. Whilst welcoming the information on this matter set out in section 7.2 of this report. He asked if the revised target date of 30/04/24 looked like slipping, a report could be provided to the Audit & Accounts Committee. The Member further requested that the information in paragraph 7.2 be referred to the Adults and Health Committee. The Committee agreed to this request. Action required.

A Member asked about the VAT partial exemption, specifically whether the Council was close to the partial exemption limit. Officers agreed to provide that update nearer to the year end, but confirmed that the Council was not near that limit currently. The Member observed that a significant change would be required in order to reach that limit, and asked why the calculation was required quarterly. Officers advised that there had been some instances in other local authorities where limits had been breached, and whilst unlikely, they were keen to avoid this situation.

A Member noted the limited sample size used in the Payroll audit, which had been rated as "Satisfactory". Officers confirmed that this audit was undertaken by West Northamptonshire Council, and essentially the review was done as two audits, payroll administration and payroll control account reconciliations, and it was the latter area which the two Essential recommendations related to. It was confirmed the payroll audit undertaken this year by the Cambridgeshire audit team would include a greater volume of sample testing.

In response to a question on progress against the audit work programme, officers confirmed that whilst there had been some delays due to resource pressures, it was expected that with the new staff and TIAA resource, good progress would be made going forward. In addition, the new administration of implementation of action monitoring by executive assistants would provide Executive Directors with greater oversight of actions in their area, and this would be undertaken more frequently. The Executive Director of Finance and Resources confirmed that this process was in place.

It was resolved to review the proposed revised Internal Audit Plan for 2023/24, outlined at Section 6 of the report.

152. Corporate Risk Register

The Committee considered the Corporate Risk Register. It was noted that the Strategy, Resources and Performance Committee was responsible for the development and oversight of the Council's risk management and strategy. The Audit and Accounts Committee also had 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 was

being taken in response to risk. It was noted that the Corporate Leadership Team (CLT) had at their Risk and Assurance meeting reviewed the risk matrices and scoring system being used, and agreed to retain the current risk matrix and methodology.

A Member highlighted the shortcomings of a linear 5x5 matrix system, and commented that failing to have a more weighted risk matrix system could produce distortions. His main concern was the potential severity of different '5s' e.g. safeguarding issues for children, and the lack of a "never" event, which almost superseded the matrix approach. He felt that the matrix by itself was not sufficient. He commented that the safeguarding risk in the October 2023 overview could effectively be regarded as the "tip of the iceberg", with most of the processes invisible to Members. He was very concerned that the Council continued to have a strong focus on protecting vulnerable children and young people. He asked if consideration could be given to providing some of the lower level indicators to the Committee, where risks were at a higher level than the risk appetite. The Executive Director commented that the Committee's remit was for the overall strategy, management of the specific risks were the responsible for the individual Policy and Services Committees, such as CYP Committee in this example.

The Chair encouraged Members to undertake the Risk Management training.

It was resolved unanimously to note the Corporate Risk Register as presented to the Strategy Resources & Performance Committee on 31st October 2023.

153. Audit and Accounts Committee Review of Effectiveness

Members considered the outcome of the Committee's review of effectiveness, which had taken place in September, in line with CIPFA guidance.

There had been a lot of positive feedback about how Committee functioning, and an Action Plan which captured the actions coming out of that review. All actions were due to be completed by 31st March 2024.

With regard to governance, and specifically the delineation between this Committee and Constitution and Ethics Committee, the Director of Legal and Governance commented that good governance was the responsibility of all Members and senior officers. She detailed a number of items that may be added to the Committee's Terms of Reference. She also observed that Max Caller, the renown local government legal expert, had commented that all the local authorities in serious financial difficulties may have reached that point for different reasons, but poor governance lay at the heart of the matter in all cases. The Audit and Accounts Committee had a broader remit than the Constitution and Ethics Committee, and it was important that Members ensured nothing was falling "between the gaps". Part of that process was not only seeking reassurance that the appropriate systems were in place, but that there was a supportive culture too.

It was resolved to agree the Action Plan at Section 3 of this report, which has been developed through the Review of Effectiveness.

154. Committee Agenda Plan and Training

The Committee considered the Committee Agenda Plan.

A Member advised that at a recent meeting of Assets and Procurement Committee, there had been a report on the risk assessments of the Council's 750 major contracts. Noting the statement in that report that "*Contract risk assessments is an ongoing process and it is hoped that within the next 6-12 months the team will have a comprehensive list of the Council's highest risk contracts to ensure that their Contract Managers are supported as far as possible.*", the Member was concerned that the Council should move forward more quickly on this important issue. He requested an update report to the May Audit and Accounts Committee on the Procurement team's progress with this issue, especially the examination and prioritisation of mitigation plans for the highest rate contracts. The Executive Director of Finance and Resources advised that a report back would be going to the Assets and Procurement Committee in the summer and he would ensure the appropriate information was fed back to the Audit and Accounts Committee at either its May or September meeting.

Action required.

It was resolved to note the Agenda Plan.