Audit and Accounts Committee: Minutes

Date: 22nd July 2021

Time: 2:00 – 4.10pm

Place: Bluntisham Village Hall

Present: Councillors C Boden, N Gay (Vice-Chair), M McGuire, A Sharp, S Taylor, A Whelan and G Wilson (Chair)

Officers: Alison Balcombe, Dawn Cave, Mairead Claydon, Justine Hartley, Neil Hunter, Tom Kelly, Dean Leather, Michelle Parker and Eleanor Tod

12. Apologies for Absence and Declarations of Interest

There were no apologies for absence

Councillor Boden declared an interest as a member of the Audit Registration Committee of the Institute of Chartered Accountants of England and Wales (ICAEW), but advised that he managed that potential conflict by having no part in the appointment of the Council or Pension Fund's external auditors, and would therefore still participate in items relating to that audit.

13. Petitions and Public Questions

None.

14. Debt Management Update

Members considered an update on the current Debt position. The current debt position, excluding Cambridgeshire and Peterborough CCG, was £16.6M, an improvement of £360K from the previously reported position of £16.96M. In addition to what was reported, an additional £480K was expected due to property sales, which had been delayed during the pandemic.

Members noted the breakdown of debt by Directorate and the trend analysis at the end of the quarter. A Member queried whether the "last year" figure was an overall position for the whole year? Officers advised that the figures were a snapshot of the outstanding debt at one point in time, i.e. "current month" showed what was due as at 30/06/21, "previous month" as at 31/05/21, and "last year" as at 30/06/20. A Member commented that it would be more useful when more than a year's data was available, so that comparisons could be made.

In response to a Member question, it was confirmed that the zero balance for LGSS Law was accurate.

A Member queried the descriptor “unapplied monies”. It was confirmed that this related to receipts that had not been allocated to a particular invoice – i.e. the account may be known, but not the specific invoice. This could be because some customers serve multiple directorates, and the payment therefore covered multiple directorates.

A Member commented that when LGSS was responsible for invoicing, the amount of time taken to apply debts could be quite lengthy - sometimes because of the system, but sometimes because there were disagreements between the two parties. It was confirmed that sometimes there was some base data that was not applied for a considerable period.

With regard to the Overall Aged Debt, it was noted that data was shown by the status of the debt. “Automated Dunning Cycle” referred to automatic reminder letters which were sent out when debts become due, and “DCA” referred to “Debt Collection Agency” where an external agency was chasing debts on the Council’s behalf, after other processes i.e. the Automatic Dunning Cycle and in-house debt measures had been undertaken. The table in section 2.1 of the report illustrated that in May most debt was within the Automated Dunning Cycle, whereas in June most was pre Dunning Cycle, or awaiting Service response, which was where the debt team had requested further information from the Service.

The CCG debt level outstanding had remained fairly static. The Council had been paid just over £2M which had been put into reserves, and this would then offset against invoices as part of resolving the aged debt. It was stressed that most of this debt was quite old, and most issues had now been settled, but processes to avoid a similar situation in the future still had to be agreed, before the remaining payment was made and monies applied to debt on individual invoices.

A Member asked how the £2M received from the CCG was reflected, as it was showing as a reserve rather than unapplied? Officers explained that ‘unapplied’ related to income where the reason for the payment was not clear, whereas the reason for this income was known, but it was unclear which individual invoices it related to.

One Member queried the level of write off required because reconciliation was not possible. Officers advised that the amount of write-off was not expected to be significant and it was agreed that an update would be circulated when available. Action required. It was confirmed that the issue with the CCG related to historic debt, so once the current exercise had been concluded and processes agreed, it should not happen again. It was also noted that it was very unlikely that there was scope for penalties to be applied to the CCG debt, as this was dependent on the contractual arrangements previously agreed.

A Member queried whether the £2M from the CCG was reflected in the tables in Section 2 of the report. It was confirmed that it was not currently included but officers agreed to look at using that type of analysis going forward. Action required. It was confirmed that in the year end figures, debtors would effectively be overstated by £2M, offset by the balance in earmarked reserves. £2M was not considered to be material so there would be no adjustment in the accounts. Whilst appreciating that this was under the materiality level, the Member commented that it felt wrong not to acknowledge this, and it was not in accordance with standard accounting practice. Officers commented that this was a one off issue. It was confirmed that the £2M represented a bulk payment made against a number of invoices, and senior managers from both sides were keen to resolve this historic problem, but until the overall debt position was reconciled between the organisations, the £2M could not be allocated to specific invoices to reduce the debt position. It was agreed that once this issue was resolved, Committee Members would be notified. Action required. It was confirmed that the current outstanding debt for the CCG was approximately £5.6M, less the £2M payment discussed.

A Member commented that for Collection rates, it would be helpful to have a comparison against the previous year. Officers advised that performance figures for the 90 day period could be provided, so Members could assess how quickly cashflow was coming back in to the Council. It was agreed that this would be helpful.

With regard to Service improvements since the new team had taken over Debt in December, Members noted that a 24 point action plan had been put in place. A number of improvements had been made around the Dunning cycle which would not only bring efficiencies but also provide customers with better information, so that they could see their overall debt position. Work was ongoing with ASC on these issues. It was agreed that the Service improvement plan would be shared with the Committee. Action required.

In response to a query on the write-off process, it was confirmed that this process was now driven through workflows in the debt system rather than the previous manual process, and that process was outlined. Ultimately all write-offs were reviewed by the Chief Finance Officer.

A small correction to recommendation (b), changing ‘Q1’ to ‘Q3’ was agreed.

It was resolved unanimously 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 Q3 2021/22

15. Draft Annual Governance Statement 2020-21

The Committee considered the Annual Governance Statement (AGS) for 2020-21. This document would ultimately be signed off by the Chief Executive and Chair of the Strategy and Resources Committee.

The AGS forms part of the Annual Statement of Accounts, and summarises the extent to which the Council is complying with its Code of Corporate Governance, i.e. the processes and procedures in place to enable the council to carry out its functions effectively, including details of any significant actions required to improve the governance arrangements in the year ahead.

A particular focus this year had been the operational issues relating from the pandemic, and this was detailed in Section 3 of the AGS, setting out the strategic and resource consequences, including how the impact of the pandemic on communities had been managed.

It was noted that the Head of Internal Audit had concluded that a strong satisfactory assurance opinion had been reached, based on the Internal Audit work undertaken in 2020-21. The AGS identified many areas of really good practice, but also highlighted areas where improvements could be made.

On the issue of the pandemic, the Chair had sought to clarify the impact of redeployment during the pandemic, i.e. the result of redeploying staff from their usual jobs, and it was suggested that this information could be captured in future reports.

It was resolved that the Annual Governance Statement at Appendix A to the report was consistent with the Committee's own perspective on internal control within the Council and the definition of significant governance and control issues given in paragraph 3.2 of the report.

16. Draft Cambridgeshire County Council Statement of Accounts 2020-21

The Committee considered the draft Cambridgeshire County Council (CCC) elements of the Council's Statement of Accounts 2020-21. The draft version of the Accounts needed to be formally published by Friday 31st July. The revised deadlines for the publication of the draft accounts meant that the Committee had the opportunity to comment on them this year prior to their publication. It was noted that a number of sections were still being worked on, including the section on Fair Value. When published, the group accounts would be included, including This Land and the Pension Fund. It was noted that the Pension Fund Accounts had been presented to an earlier meeting of the Pension Fund Committee

The overall revenue budget position was an underspend of £6.3M; which represented a 1.5% variance to the year-end budget, resulting in the

Council's non-earmarked reserves being topped up by £6.3M. This underspend had recently been reported to the Strategy & Resources Committee as part of the Integrated Financial Management report for the 2020-21 outturn. With regard to the City Deal funding, because the Council had met the relevant milestones, £200M funding had been confirmed over five years, i.e. £40M per year, but the full £200M needed to be recognised in the 2020/21 financial year, even though £40M would be received in the current and three successive financial years.

The External Audit would be starting in October, which was later than usual, and the Plan for that audit would be presented to the September Committee meeting by EY. Because the audited accounts were due to be published before that date (30th September), a statement would need to be issued alongside the accounts. The Committee was reminded that the Redmond Review, which had looked at external audit in the local authority sector, had highlighted the lack of capacity in the external audit market, and issues around fees. The External Audit Plan for the Pension Fund had been considered by Pension Fund Committee alongside the Pension Fund accounts, as that audit was scheduled earlier.

It was noted that the VFM opinions from BDO on historic audits were still awaited. The Council has repeatedly pressed BDO to progress their conclusions in this area and in November 2019, the then Committee Chairman had written formally to BDO to express significant concern at the delay in concluding the process. BDO had apologised but for various reasons, this issue was still not resolved. The Chief Finance Officer and Chief Executive would be meeting with BDO on 27 July to discuss the ongoing delay. The delay in some of the Value For Money opinions from BDO on earlier audits impacted on EY's ability to conclude some of their work. The Committee recorded their frustration that this process was taking so long, and the Chairman offered to write to BDO, raising the Committee's concerns.

Arising from the report:

- A correction was noted to page 10 of the Accounts, specifically the "Revised Net budget" Revenue budget figure, in the table on performance against the 2020-21 Business Plan in the narrative section;

- A Member expressed concern about the timing of the audit, noting that County Councils were in Phase 5 of the process, and Cambridgeshire was later than some neighbouring counties. He asked if the late scheduling of Cambridgeshire was due to EY. He also noted that at the Pension Fund Committee that morning, Members had been advised that EY's audit of the Pension Fund had not yet been concluded, and he was concerned that this may result in delays to the Council's external audit schedule. He added that any such delay could result in issues for staff e.g. scheduling of holidays, so it was important that early notice was given if delays were anticipated, so that the Council could make the necessary arrangements, noting that staff were very loyal and would work around schedules. The Chief Finance Officer advised that there had been a discussion with EY regarding the timing of the audit. In the Eastern region, EY were doing one County Council at a time, and Cambridgeshire was later than a number of other counties, and there was a further phase after the County Council audits. Whilst August would have been preferred, October was seen as an acceptable compromise. Officers were working closely with EY, who were confident that they would be able to start in October as planned. EY were predicting that the audit would be completed within 5-6 weeks, which appeared ambitious. Another Member commented that EY appeared to be having capacity issues with audits across the board, so ongoing dialogue was vital;

- It was noted that in response to the Redmond Review, the government had announced £15M in additional funding in 2021/22 to help Councils meet the anticipated rise in audit fees, so there would be some compensation for the additional cost and burden. Additionally, officers were making the most of the audit not being in August, with the Closedown team focusing on issues that could be dealt with prior to the audit;

- In response to a Member question, it was noted that the This Land accounts were audited by a separate company;

- A Member commented that accounts in the current form are not usable and useful to the general public, being too lengthy and complex. It was noted that nationally, many attempts had been made to make them better had only served to make more work, e.g. the narrative statement. He noted that it was now likely that the guidance would require a simplified version to be produced, in addition to the full version, and this would only create more work;

- With regard to Note 19 on Movement in Reserves, *Adjustments between accounting basis and funding basis under Regulations,* a Member observed that £173.5M of Capital Grants and contributions Unapplied to the comprehensive income and expenditure statement, compared to around £20-30M the previous financial year. Officers advised that this mainly related to the City Deal funding, because £200M had to be recognised this year;

- A Member raised a question around the accounting of the GCP grant. Noting that the £200M grant funding was recognised in the 2020-21 accounts, and also the expenditure, he asked if the accounts also included general local funding through S106 agreements with developers. It was confirmed that this was the case, as the GCP did not exist as an entity in the legal sense;

- A Member commented on the narrative report on This Land. He highlighted the recent media reports alleging financial mismanagement, cronyism, and conflicts of interest relating to This Land. He felt that the narrative report did not reflect ongoing concerns relating to This Land,

and also felt it important that the This Land Accounts were made available to the Committee. It was agreed that the accounts would be circulated to the Committee, when available, and the narrative on This Land would be reviewed. Action required. The Member noted that This Land was a wholly owned subsidiary of County Council, and asked what value could be realised if the Council decided to divest of this subsidiary. Officers advised that it was a complex issue, the amount on loan was currently £113M, and the immediate value of assets was £70-80M, know from recent Due Diligence work, development value of sites was around £400m, but there were medium risks with that business plan, and it was right to acknowledge that there was a risk whilst development was ongoing. It was stressed that This Land had not been independently valued, but the development value of those sites was what provided the longer term value. A Member commented that within the Accounts, work in progress was valued at the lowest possible net realisable value, so it was a misleading situation. Officers agreed, and commented that "Work in Progress" was the dominant feature of the This Land balance sheet. It was agreed that a fuller discussion would take place once the actual accounts for This Land were available, at the September meeting. Action required.

- A Member commented that it was always helpful to have a note when there were exceptionally large figures, to anticipate Member and public questions;

- A Member agreed with the previous comments about the value of these documents, and the complex and impenetrable format, especially for the general public. Officers commented that the additional, simplified statement, had been picked up in the Redmond Review, and that there was a degree of freedom within the guidance on what was included in the narrative statement. Members agreed, commenting that the narrative statement was key for the general public, and balance needed to be struck between length and detail.

The Committee resolved to note and comment on the draft Cambridgeshire County Council elements of the Council's Statement of Accounts 2020/21 prior to their incorporation into the Council's full draft Statement of Accounts 2020/21 which were due to be published by 31st July.

17. Internal Audit Annual Report 2020/21

The Committee considered the Annual Internal Audit Report, which formed part of the evidence supporting the Annual Governance Statement 2020-21.

It was noted that a "strong satisfactory" assurance had been reached. This meant that there were pretty good controls in place within the Council, but there were still some control weaknesses which presented a medium risk to the control environment. The audit coverage for compliance was underpinned by an assessment of the Council's framework of controls, taking account of the relative materiality of the areas under review and management response.

The key piece of evidence in arriving at that opinion were the Council's Code of Corporate Governance Statement, and the Review Key Financial Systems, the latter consistently demonstrating Good or Satisfactory assurance across all systems. Additionally, the organisational response to the pandemic had demonstrated the strength of the Council's business continuity and risk management processes, and the ability of senior management to deal with unexpected challenges.

In previous years, Internal Audit had highlighted a number of contract management issues in individual projects managed by the Major Infrastructure Delivery (MID) Service. A full review of four major contracts was carried out in 2020-21, in addition to the MID capital programme governance as a whole. This review had identified areas for improvement, and management had responded rapidly and positively to those concerns.

The high profile issue of Manor Farm had first been raised in 2019, and the review of this matter had been reported publicly in early 2021. The relevant services had responded positively to the issues identified.

At the last Committee meeting, questions had been raised regarding insufficient narrative underlining the audit methodology. Section 3 of the Annual Report gave some detail of how internal control was reviewed, the assurance levels used and what they meant. Some suggested modifications would be presented to Committee in September, especially around the assurance level 'Satisfactory'.

The report also outlined number of recommendations made in period, and the extent to which those had been implemented, and also the impact of the pandemic.

Sections 6.2 and 6.3 of the report set out the compliance with relevant industry standards, and also the ongoing professional development that the team had undertaken within the year.

On the subject of Manor Farm, a Member queried whether there had been any reflection, as a result of that enquiry, on whether these issues should have been picked up earlier. The investigations that took place showed clearly that the County Farms control environment had not been strong enough for a long period of time, and this raised the issue as to whether there were other areas within the Council where there were similar weaknesses in the control environment. The Member suggested it could be a matter of materiality, i.e. the area was deemed not to be significant enough.

Responding, officers commented that the Internal Audit Plan was sufficiently flexible and dynamic, reporting to both JMT and Audit & Accounts Committee quarterly, to review proposed coverage, and to pick up any emerging areas of concern. As a small team, Internal Audit was well aware that it could not cover every system within the Council, and it was always possible that governance failings may occur in areas the team had not been alerted to, by officers, Members, or other intelligence sources regarding potential governance issues.

Internal Audit could not give assurances that there were not other areas experiencing governance or non compliance issues, but could give assurance that there were systems and processes that supported the Council's governance arrangements which managed risk to an acceptable level.

The Member commented that if Internal Audit failed in respect of County Farms, in terms of there being weak controls in the County Farms team over a long period of time, it was possible that there could be failures elsewhere within the Council. The Chair commented that the Mazars report essentially identified that failings in the County Farms team combined with the behaviour of former Councillor Hickford had resulted in specific issues.

The Head of Internal Audit responded that this was a fair question, and he would welcome a review of how Internal Audit performed on that particular piece of work, and would fully support that type of approach. His own view was that Internal Audit did not fail on the County Farms issue, but if Members were concerned about officer competence within team, he would support a review to assuage that concern. It was not possible to police the whole organisation every year, and resources had to be targeted to areas where governance may be an issue, and areas where Members, officers, or other intelligence directed the team. The audit of County Farms had been done promptly, and recommendations had proactively been put in place.

Another Member commented that with regard to weaknesses within the County Farms team, processes and procedures had been in place, and concerns had been expressed by members of the County Farms team, but those controls had not been managed properly. Moreover, concerns had been raised, but that intelligence had not been acted upon by the relevant officers, and the fault did not lie with Internal Audit.

The Member commented that he had no criticism of either the Internal Audit function or individual staff, but he was seeking to identify whether the Manor Farm issue had resulted in reflection by the Internal Audit team on other potential areas where similar issues could occur.

It was resolved unanimously to approve the Annual Internal Audit Report.

18. Whistleblowing Policy

The Committee considered the Whistleblowing Policy, which had been reviewed by the Internal Audit team in collaboration with HR colleagues. The policy presented was concise, providing clarity on the type of disclosures that were protected by law. The Policy stipulated the types of concerns that could be raised under the Whistleblowing Policy, and signposting to other Council policies where the concerns were not whistleblowing. The Policy had been considered by both JMT and recognised Trades Unions. All Members and members of staff would have access to the policy, and the annual Pulse survey would gauge the understanding and awareness of the Whistleblowing Policy.

In discussion, individual Members:

- Expressed concern that the term 'Whistleblowing' was often misinterpreted. He also suggested that those raising concerns may become discouraged or may not have the confidence to go through with the process. Officers acknowledged those issues, but commented that as an organisation, the Council strived to ensure principles were applied, and the policy made clear what the processes would be;

- Noted that there was a long list of individuals who could be contacted;

- Suggested that a flowchart would be helpful;

- Commented that fortunately, it was unlikely many people would find themselves in a true whistleblowing situation, as ultimately the only protection offered was through the Courts;

- Commented that a truly independent individual such as someone in Internal or External Audit should be the preferred contact, and reassurance given that can discuss in confidence. It was noted that the mailbox for whistleblowing@cambridgeshire.gov.uk went straight to the Internal Audit team and was checked daily. It was noted that this was covered in paragraph 6.6. of the policy, but may need to be strengthened;

- Welcomed the policy, and commented that in some instances, HR was the most appropriate first contact;

- Noted that the Communications team had prepared a media release for both internal and external communications, and this had been cleared with the Chair, Vice Chair and Head of Internal Audit.

It was resolved unanimously to approve the draft Whistleblowing Policy.