



East Cambridgeshire District Council

Minutes of a meeting of the Audit Committee held in the Council Chamber, The Grange, Nutholt Lane, Ely on Tuesday, 16 July 2024, at 4.30pm.

PRESENT

Cllr David Brown (Chair)
Cllr Keith Horgan
Cllr Kelli Pettit
Stephen Joyce – Independent Lay Member

OFFICERS

Ian Smith – Director Finance & S151 Officer
Maggie Camp – Director Legal & Monitoring Officer
Jane Webb – Democratic Services and Elections Manager &
Deputy Monitoring Officer

IN ATTENDANCE

Rachel Ashley-Caunt – Head of Internal Audit (IA)
Mark Hodgson – External Audit (EY)
John Hill – Chief Executive Officer
Anne Wareham – Senior Accountant

1. **PUBLIC QUESTION TIME**

No public questions were received.

2. **APOLOGIES AND SUBSTITUTIONS**

No apologies were received.

3. **DECLARATIONS OF INTEREST**

No declarations of interests were made.

4. **MINUTES**

The Committee received the Minutes of the meeting held on 19 March 2024.

It was resolved:

That the Minutes of the meeting of the Committee held on 19 March 2024 be confirmed as a correct record and signed by the Chair.

5. **CHAIR'S ANNOUNCEMENTS**

The Chair made the following announcements:

1. Audit Committee Lay Member

The Chair welcomed Stephen Joyce, the newly appointed lay member to the Audit Committee.

2. Date of next meeting

The Chair explained it had been necessary to change the date of October's meeting to 5 November 2024.

6. EXTERNAL AUDIT – INTERIM VALUE FOR MONEY REPORT 2022/23

The Committee considered the Interim Value for Money Report 2022/23 (reference Z31, previously circulated).

The Chair asked Mark Hodgson, Associate Partner, Ernst & Young LLP (the Council's External Auditors) for an update on clearing the backlog of audits nationwide. The External Auditor stated that three consultations had been concluded since the last audit committee meeting, carried out by the National Audit Office, DLUCH (Department for Levelling Up, Housing and Communities), and CIPFA. The consultations focused on changes to the Code, the backstop timetable, and the Financial Reporting Framework. As a consequence of these consultations, it was initially expected that legislation would be enacted to put into law a backstop date of September 2024 for the 2022/23 Accounts. However, due to the earlier than expected General Election this had not happened and with no further guidance since the election, the timeline was now far from clear. In these circumstances, the approach to audits for 2023/24 would at this point remain unchanged, as there had been no indication that the proposed backstop date would be eliminated. The completion of the Value for Money work only for 2022/23 was still therefore the plan.

The Lay Member commented that it would be beneficial for Members of the Council to understand that the Audit Committee believed this situation was unsatisfactory, albeit out of Members' control, and that all councils are having the same issue.

The External Auditor introduced the report and Members asked the following questions.

The Lay Member commented that it was reassuring to observe that there were no significant risks or weaknesses in the financial sustainability. He expressed concerns about using reserves to maintain the budget, as this was not a sustainable practice. He sought the opinion of the External Auditor on how far the Council should strive towards achieving an in-year balanced budget without relying on reserves. The External Auditor clarified that maintaining excessive reserves could attract scrutiny from the central government. However, it was acceptable to use reserves, when necessary, as long as a Medium-Term Financial Plan outlined future cost savings.

The Lay Member asked if the External Auditor believed that maintaining a minimum level of reserves equal to 10% of the net operating budget was reasonable and in line with other organisations. The External Auditor stated that 10% was not unreasonable, as it was a significant portion of the in-year expenditure, which offered the Council adequate protection in an emergency.

Government guidance advised against holding excessive reserves, and the external auditors were satisfied that the 10% level of reserves provided sufficient coverage. Financial sustainability was judged over the life of a medium-term financial plan therefore a 3-to-5-year period.

It was resolved:

That the External Audit – Interim Value for Money report 2022/23, be NOTED.

7. **EXTERNAL AUDIT PLAN 2023/24**

The Committee considered a report (reference Z32, previously circulated).

The External Auditor introduced the report and Members asked the following questions.

- Could the External Auditor expand on the statement within “other areas of focus”, which read “We identified a number of audit differences in this area as part of our 2021/22 audit”? The External Auditor explained that the results would be in the audit report for 2021/22. There were some differences in the consolidation of subsidiary companies that needed to be included in the group accounts. These differences were audited separately and were beyond the Council's control, so it was important to ensure there were no timing or consolidation differences in the current year.
- Regarding the audit process overview section, what was the rationale behind not testing key controls, despite the approach being primarily substantive? The External Auditor clarified that there were two main audit approaches: control-based testing with additional substantive testing, or 100% substantive testing without controls. In cases where there were numerous IT systems involved, the most effective audit approach was to test back to invoices using a purely substantive approach. This was because gaining significant assurance over the operational effectiveness of controls within the system, as well as the surrounding environment included access controls and IT security controls, which would require specialised resources and make the audit process inefficient. The Director, Finance added that Internal Audit also tested key controls.
- Further information was requested regarding the size and risk associated with ECTC and ECSS in the scoping section for the current year. The External Auditor clarified that any subsidiary deemed material in size would be included in the scope and required specific or full-scope procedures. ECTC, being potentially impactful if incorrectly consolidated, fell under this category and posed risks. On the other hand, ECSS, although not significant in size, contained balances that were important factors to consider.
- The External Auditor clarified that they were confident in achieving the new November 2024 deadline date for the Audit Results Report.

Following a question from the Lay Member, the External Auditor explained that the reason for distinguishing between planning materiality and performance materiality lies within their practical differences. He clarified that this differentiation was mainly based on terminology. Planning materiality represented a high-level threshold above which a true and fair opinion could be provided even in the presence of errors. On the other hand, performance materiality was a subset of planning materiality. By testing to either 50% or 75% level of materiality, it was statistically ensured that there were no significant uncorrected discrepancies within the accounts, thus achieving sufficient assurance.

The Lay Member expressed concern about confirming the opening balances to 2023/24 since the accounts for 2022/23 accounts had not been finalised and enquired about ways to reduce this risk. The External Auditor clarified that this was a common practice within the sector, and he explained that if the law required a deadline before the previous year's audit could be completed, the audit would include a disclaimer opinion related to the deadline. This meant there would be no assurance on closing balances, which would impact the opening balances for the following year. The External Auditor mentioned that it typically took three audit cycles to resolve a modified audit opinion, with a disclaimer opinion being one of them. The Government's "Reset and Recovery" proposals aimed to ensure opening balances. The Lay Member acknowledged that Members could not change this, but it would be helpful for them to be aware of the situation.

The Lay Member sought assurance that the audit was conducted efficiently to ensure minimum cost and disruption to the Council. The External Auditor explained that the use of data analytics was a crucial method that helped minimise the amount of substantive testing needed to provide sufficient assurance. This method captured all transactions in a year and utilised IT tools to categorise transactions based on risk and size which helped reduce the sample size required.

It was resolved:

That the External Audit Plan 2023/24, be NOTED.

8. **DRAFT STATEMENT OF ACCOUNTS 2023/24**

The Committee considered a report (Z33, previously circulated).

The Director, Finance introduced the report and Members asked the following questions.

The Lay Member commended the Director of Finance and his team for providing a well-organised and transparent set of accounts. He had already shared his thoughts with the Director, about the potential impact of the pension fund deficit becoming a surplus, suggesting that this could be explained more clearly. Additionally, he noted that the Council had a considerable underspend

in year on revenue and capital. The Lay Member expressed his support for the accounts and was pleased to endorse them.

It was resolved:

That the Draft Statement of Accounts 2023/24 be NOTED

9. **DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24**

The Committee considered a report (reference Z34, previously circulated).

The Chief Executive introduced the report and highlighted that Members had until 13 September to submit comments they wished to be included.

It was resolved:

That the Chief Executive formally consults with Members and substitutes of the Audit Committee to enable a final draft of the Annual Governance Statement 2023/24 to be presented at the next Audit Meeting in November 2024.

10. **ANNUAL INFORMATION GOVERNANCE REPORT**

The Committee considered an overview of the Council's activity in respect of how it has discharged its responsibilities in matters relating to information governance during 2023/24.

The Director, Legal and Monitoring Officer introduced the report. Members made comments and asked questions as follows:

The Lay Member stated that the report was effective, easy to understand, and functioned as anticipated. However, he mentioned that cyber security arrangements were missing from the report. The Director, Legal agreed this could be added in the future.

It was resolved:

- That Cyber security be included in future reports.
- That the Annual Information Governance Report be NOTED.

11. **INTERNAL AUDIT ANNUAL REPORT AND OPINION 2023/24**

The Committee considered a report (reference Z36, previously circulated) providing the Chief Internal Auditor's annual assurance opinion on the Council's governance, risk, and control framework for 2023/24 and the basis for this opinion.

Rachel Ashley-Caunt, Head of Internal Audit presented the report and Members provided comments and asked questions.

Regarding the issues identified with ARP, the Chair noted that the Council had a representative on the Board of ARP and it should be ensured he was fully briefed on any concerns regarding controls at ARP.

The Lay Member added that the report was well-written and easy to understand.

Had there been any progress made regarding the Payment Card Industry Data Security Standard (PCI DSS) section marked red? The Head of Internal Audit replied that the audit was finalised in October and had not been repeated. She verified that all the tasks outlined in the Action Plan following the audit had been completed.

The Head of Internal Audit explained that the term “generally consistent” referred to the initial part of the report, where no concerns had been raised and this remained the position; there had been some progress and ongoing enhancements in the risk management process. She expressed satisfaction that there were no exceptions or concerns regarding the risk management procedures.

The Lay Member asked about any new reports in the fraud reporting mailbox and how was it promoted. The Head of Internal Audit mentioned a Fraud Awareness Week held every November to coincide with the International Fraud Awareness Week, with promotion on social media and the website. The mailbox is monitored daily and there have been fewer than five cases reported since its establishment.

It was resolved:

That the Annual Internal Audit Report and Opinion for 2023/24 be NOTED.

12. **INTERNAL AUDIT PROGRESS REPORT**

The Committee considered a report (reference Z37, previously circulated) advising the committee of the work of Internal Audit completed during the financial year to date and the progress against the Internal Audit Plan.

The Head of Internal Audit presented the report and Members provided comments and asked questions.

The Lay Member pointed out that the Housing Risk item failed to address the lack of a strategy, which he found concerning; he had anticipated this issue would be addressed in some way. The Director, Finance, who also serves as Chair of the Risk Management Group, expressed willingness to talk about this matter during a future meeting.

It was resolved:

That the progress made by Internal Audit in the delivery of the Audit Plan and the key findings be NOTED.

13. **INTERNAL AUDIT STANDARDS**

The Committee considered a report (Z38, previously circulated) noting the changes and implementations arising from the Global Internal Audit Standards.

The Head of Internal Audit presented the report and Members provided comments and asked questions.

The Lay Member requested clarification on the idea of professional scepticism. The Head of Internal Audit explained that audits did not accept anything at face value or make assumptions; everything must be supported by evidence and every audit report is reviewed.

The Lay Member asked if there were any gaps or weaknesses in what the Audit Committee should be doing. The Head of Internal Audit stated it was positive to note that some of the requirements included in the report were good practice but not mandatory and the Committee had picked these up as part of the recent self-assessment and was happy that the key points were being covered. The forthcoming Guidance for Local Government Audit Committees would be helpful when published.

It was resolved:

That the main changes and implications arising from the Global Internal Audit Standards be NOTED.

14. **CORPORATE RISK MANAGEMENT MONITORING REPORT**

The Committee considered the latest Corporate Risk Register.

The Director, Finance presented the report and pointed out that the Council's website now includes a section on risk management. This section provides information on risk management processes, framework, and the most up-to-date risk register. Members shared their thoughts and raised questions during the discussion.

Members enquired about the meaning of acronym TA. The Director, Finance assured Members that he would provide this information later. Members also enquired about the target date for A8, to which the Director, Finance also promised to provide an answer at a later time.

The Director, Finance clarified that officers would attend a training course on 17 September conducted by procurement officers. CCC will update contract procedure rules to address any new issues arising from the new Act. The Risk Management Group will review and incorporate these updates into the Register.

The Lay Member praised the risk management report for its clear format and asked if lead indicators were being monitored for key controls in risk A5. He also enquired about whether social housing and council tax benefits service through ARP was considered a key control. The Director, Finance responded that he

would raise these comments at a future meeting of the Risk Management Group and where agreed build into the Risk Register.

The Lay Member enquired about the persistently high-risk level of A7 was the potential for failure, prompting the committee to take action. The Director, Finance clarified that this issue was flagged as red because the MRF contract was up for renewal, and the tender prices were considerably higher than the current rates. As a result, efforts were being made to address this issue and resolve the high-risk level.

The Lay Member enquired about the impact of the Cambridgeshire Fraud hub in its initial year. The Director, Finance responded that the Hub has made a substantial impact, resulting in several prosecutions and securing further funding from the County Council.

The Lay Member believed that the Council's reputation was at risk due to the inability to achieve the net zero goal. Additionally, there was a financial risk involved in meeting the Net Zero target. Therefore, he suggested that the Council develop a cost-of-action plan to ensure the successful delivery of this pledge.

The Chair announced that the new Government's plans around the planning process necessitated careful monitoring and could lead to additional risks.

15. **FORWARD AGENDA PLAN**

The Committee received the Forward Agenda Plan.

It was resolved:

That the Forward Agenda Plan be noted.

The meeting closed at 6 pm.

Chair:.....

Date: