



EAST
CAMBRIDGESHIRE
DISTRICT COUNCIL

AGENDA ITEM 4

Minutes of a meeting of the Audit Committee held in the Council Chamber, The Grange, Nutholt Lane, Ely on Monday, 26th July 2021, at 4.30pm.

PRESENT

Cllr Daniel Schumann (Vice-Chairman in the Chair)
Cllr Charlotte Cane
Cllr Mark Inskip
Cllr Alan Sharp

OFFICERS

Ian Smith – Finance Manager
Maggie Camp – Legal Services Manager
Tracy Couper – Democratic Services Manager

IN ATTENDANCE

Rachel Ashley-Caunt – Head of Internal Audit
Mark Hodgson – External Audit, Ernst & Young

3. PUBLIC QUESTION TIME

No public questions were received.

4. APOLOGIES AND SUBSTITUTIONS

The Vice-Chairman gave apologies for the Chairman who was unable to attend for health reasons, which was the reason for his taking the Chair for this first full meeting of the Committee.

The Vice-Chairman also announced the following changes to the membership of the Committee provided by the Leader of the Liberal Democrat Group to comply with the Constitutional amendment made at the full Council meeting on 15 July 2021:

Committee Members: Councillors Charlotte Cane and Mark Inskip
Substitute Members: Councillors Victoria Charlesworth and Christine Whelan

5. DECLARATIONS OF INTEREST

No declarations of interests were made.

6. **MINUTES**

It was resolved:

That the Minutes of the meeting of the Committee held on 29 April 2021 be confirmed as a correct record and signed by the Chairman.

7. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Members and Officers to the first full meeting of the Audit Committee and explained the background to its establishment. He highlighted the key roles of the Committee, as defined in the Terms of Reference, in relation to the Statement of Accounts, External and Internal Audit and Risk Management. He emphasised the independence and non-political nature of the Committee and the need to avoid straying into operational and policy matters which were not within the remit of this Committee. He expressed the hope that the Committee could work in a spirit of transparency and co-operation.

8. **EXTERNAL AUDIT – AUDIT UPDATE REPORT**

Mark Hodgson from Ernst & Young, the Council's External Auditors, presented the External Audit Update. He stated that he was taking over from Suresh Patel, who was leaving his role in the forthcoming week, and would have External Audit responsibilities for Cambridgeshire, Norfolk and Suffolk. He reminded Members that the outline Audit Plan had been submitted to the meeting of the predecessor Finance & Assets Committee on 25 March 2021. Subsequently, one of the Audit Risks relating to NNDR Appeals Provision had been re-designated from a significant to an inherent risk, following the Government announcement that it would not allow businesses to claim NNDR appeals in respect of material changes in circumstances as a result of Covid-19.

Mr Hodgson stated that External Audit were on track to commence the audit of accounts with the Council's Finance Team in September.

A Member queried how confident External Audit were that they would be able to complete the Audit within the defined timeframe, given their other commitments, and whether they had an estimated date for completion. Mr Hodgson stated that he was very confident of achieving the timetable and that his experience with audits of the other Councils he was responsible for gave useful checks and comparisons. In response to a further question, Mr Hodgson confirmed that the audit of the Council's Financial Statements should be concluded to enable submission to the meeting of this Committee scheduled for 22 November and similarly this should be the case for the Value for Money (VFM) Statement.

It was resolved:

That the External Audit update report containing the updated outline Audit Plan for the Council's 2020/21 financial statements be received and noted.

9. **INTERNAL AUDIT ANNUAL REPORT AND OPINION**

The Chairman stated that he had agreed to take this item prior to the draft Annual Governance Statement (AGS), as the Annual Report and Opinion informed the AGS.

The Committee received a report (reference W52, previously circulated) containing the Annual Report on the work of Internal Audit and the Annual Opinion for the financial year 2020/21.

Rachel Ashley-Caunt, Head of Internal Audit, highlighted the key sections of the report stating that overall a Satisfactory Assurance had been given of the adequacy and effectiveness of the Council's control environment for 2020/21. This was consistent with the opinions given in recent years.

Ms Ashley-Caunt referred to Table 1 in the Annual Report giving a summary of the Audit Opinions in 2020/21. No limited assurances had been given during the year and the majority of findings were substantial or good, which was an improvement on previous years.

Table 3 summarised the overall audit opinions and risks, and Appendix A provided a summary of the completed audit assignments finalised since March 2021. Ms Ashley-Caunt stated that the one outstanding report referred to in Table 3 relating to Procurement Compliance now had been agreed and the summary for this would be submitted to the next meeting of the Committee. The one overdue recommendation relating to the Contracts Register also had been followed-up.

Questions were raised and comments made by Members on the Annual Report and Opinion and responded to by Officers as follows:

- A Members raised a query with regard to who conducted the ARP Audits and it was reported that these were undertaken by West Suffolk Auditors and the results received by this Council's Internal Auditors. The comment regarding historic payments in the fourth bullet point of the Audit Summary relating to ARP Enforcement was highlighted and the Finance Manager agreed provide further information.
- A Member also queried the issue of the Contracts Register not being updated. In response the Finance Manager emphasised that this did not mean that Officers were not complying with Contract Procedure Rules.
- In response to a question by a Member as to how the Internal Audit ensured independence in the Risk Management process, Ms Ashley-Caunt stated that the assessment and scoring was undertaken at

corporate level within the Council and Internal Audit assisted by providing good practice examples and templates.

- Reference was made to the ongoing issues regarding long-term debtor recovery and questions raised as to why these still had not been addressed. The Finance Officer agreed to raise the issue with the Head of ARP and provide a response to Members.
- A Member queried whether the issue regarding outstanding purchase orders raised over 6 months ago referred to in the Budgetary Control audit summary had been resolved yet and expressed concern at the problems of forecasting if £415,566 of funding remained uncommitted. The Finance Manager apologised for this outstanding issue due to staffing pressures relating to the payment of Covid grants. However, it was hoped that work on the issue could be commenced by the end of the summer period. A Member commented that consideration should be given to the provision of additional resources from the Government Covid grants, to address such important issues.
- A Member expressed concern at the fact that 90% of payments over £50,000 had not been authorised at Director level on the Councils' Financial Management System between April and December 2020 in contravention of the Council's Financial Procedure Rules, as referred to in the Creditors audit summary, and asked how this situation had arisen and whether it now had been corrected. The Finance Manager agreed to investigate and respond to Members.
- A Member referred to the issues identified in the Debtors audit summary with regard to the lack of review of Debtors Procedure Notes for a number of years and separation of duties for key tasks in the Debtors system. This lack of separation of duties had been highlighted at a recent Finance and Assets Committee meeting, where it had been stated that the Finance Manager had access to both Council and Trading Company bank accounts, and the Member suggested could provide the potential for significant fraud. The Finance Manager and Head of Internal Audit agreed to provide further information on the separation of duties relating to transaction processes.
- A Member referred to a previous issue relating to Bank Reconciliations and asked if this now had been fully reconciled. Ms Ashley-Caunt confirmed that this had related to an unknown balancing figure relating to unpaid income and had been rectified as part of the year-end process.
- In response to a question by a Member regarding the sample testing in the Asset Management audit, Ms Ashley-Caunt reported that there were 10 in the sample. In that connection, the Legal Service Manager explained the issues with regard to the two leases which did not have a signed Legal agreement and confirmed that these now had been resolved. The Member also queried the lack of evidence of EPC ratings being obtained for new or renewed leases contrary to legal requirements, and the Legal Services Manager agreed to raise this matter with the relevant Officer and obtain a response for Members. The Member noted that the report stated that there was no Asset Management Plan or Development Programme in place. They also noted that ECTC were contracted for the last 5 years to continually

monitor the asset register and identify opportunities for development. The Member asked what have they been doing in this regard for the last 5 years. The Finance Manager agreed to provide a response for Members.

- A Member queried whether the report on the audit on Cyber Security had been completed before or after the 3-day E-mail outage at the Council and asked for Internal Audit's opinion on the adequacy of the Council's Disaster Recovery Plan. Ms Ashley-Caunt reported that the Disaster Recovery Plan was not tested at the time of the audit and that the E-mail outage was due to a 3rd party supplier.

Members commented on a point made at the recent Audit Committee training session of the importance of the relevant officers being present at Audit Committee meetings to answer questions and expressed concern that this was not the case at today's meeting. This was therefore hampering the ability of this Committee to perform its role effectively. The Chairman explained the Corporate position on this matter and suggested that Members should raise queries in advance of the meeting to ensure responses could be given. The Chairman stated that it would never be possible to have all relevant Officers at any meeting and a balance needed to be achieved. As this was the first full meeting of the Committee, it was on a learning and development curve and he would raise these points with the substantive Chairman after the meeting to take forward in consultation with the Chief Executive.

A Member stated that due to the lack of response to the large number of queries above, this Committee was not in a position to be able to approve the Internal Audit Annual Report and Opinion at today's meeting. Ms Ashley-Caunt reported that the responses to the questions could not change the assurance opinions given in the audit reports, as this was a backward facing Annual Report, but stated that the follow-up would take place as part of the audit review process that would inform the Annual Governance Statement.

Members expressed further concerns at the seriousness with which the Chief Executive and Corporate Management Team were treating this report and stated that they were not able to approve it as satisfactory as there had been no robust management response on when and how the issues would be resolved.

Ms Ashley-Caunt reported that there were review timeframes in place as part of the Internal Audit Plan and these would be monitored on a monthly basis and reported back to this Committee.

It was resolved:

That the Internal Audit Annual Report and Opinion for 2020/21, as detailed in Appendix 1 to the report, be approved.

10. **DRAFT ANNUAL GOVERNANCE STATEMENT**

The Committee considered a report (reference W51, previously circulated) containing the draft Annual Governance Statement (AGS) for 2020/21.

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The Finance Manager stated that the AGS was the responsibility of Corporate Management Team and was reviewed by Internal Audit. As this was the draft Statement, the Finance Manager welcomed comments which could be considered before the submission of the final version of the AGS to this Committee at its November meeting.

Questions were raised and comments made by Members on the AGS and responded to by Officers as follows:

- A Member highlighted the reference on page 5 of the AGS regarding the suspension of the Service Delivery Planning and Performance Monitoring/Reporting processes from 2020/21 until April 2022 due to the Covid Pandemic. This was considered to be an unreasonably long period of suspension without any form of performance monitoring, which was contrary to CIPFA guidance. As the Government was indicating that the Country was coming out of the worst of the Pandemic, it would be more appropriate to re-commence the processes from November to enable 6 months of performance monitoring to take place in the current year.
- With reference to openness and acting in the public interest on page 3 of the AGS, a Member highlighted the benefits of holding meetings remotely and livestreaming from a public participation perspective, and queried why the livestreaming was not continuing with the return to face-to-face meetings. The Democratic Services Manager reported that costings had been obtained for webstreaming of Council and Planning Committee meetings, which were being held at external venues due to Covid, but had proved prohibitively expensive for a small Council like East Cambridgeshire.
- With reference to page 4 of the AGS regarding 'establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation', a Member questioned how this statement could be justified when the Chief Executive and relevant senior officers were not present at this meeting.
- With regard to the overall process, a Member queried how Officers obtained sufficient assurance to support the conclusion regarding the adequacy of the Council's governance arrangements. In that connection, the Member also queried how the Council accurately assessed its response to the Covid pandemic. Officers explained the overall process for completion of the AGS and agreed to raise the matter of the Covid response assessment arrangements at Corporate level.
- With regard to the preceding item, a Member commented that the Internal Audit Annual Report had raised a number of control issues. Therefore, the Member requested that the final AGS contain a table showing these, the implications for the Council and the actions being taken to address them.
- In response to a question regarding how the Monitoring Officer (MO) function was effectively discharged as referred to on page 6 of the AGS,

the Legal Services Manager reported that the MO Protocol and Ethical Governance processes had been reviewed at the F&A Committee on 7 June 2021 and the MO had access to all Agendas, could attend all meetings of the Council and was a member of the Corporate Management Team.

- A Member queried how the Council managed conflicts of interests for Officers of the Council and Officers of the Trading Companies. The Finance Manager agreed to raise the issue at Corporate level and provide a response for inclusion in the final version of the AGS.
- The Legal Services Manager responded to a question on datasets referred to on page 3 of the AGS under 'documenting a commitment to openness and acting in the public interest' and the Democratic Services Manager responded to a question on the number of Staff Induction sessions held via Zoom in 2020/21 relating to the statement on the provision of Induction, etc, on page 7 of the AGS.
- A Member challenged the bullet point on page 10 of the AGS that Council Committees had reviewed and noted quarterly Budget monitoring reports over the past year. The Finance Manager stated that he was confident that this was the case but would confirm the issue to Members of the Committee.
- A Member questioned how the assertion that the "Council has put in place alternative working methods such as remote working to ensure services have continued to be provided with little or no affect on 'business as usual'" stated on page 12 of the AGS had been evidenced and would be reviewed. The Member also referred to the comment in the preceding item regarding the impact on Finance staff of having to deal with Covid-19 grants, and asked how the impact of the Covid 19 pandemic on all Service areas within the Council was to be assessed.

In the general context of the discussions, a Member requested that a report on the CIPFA Financial Management Code be submitted to this Committee and the Finance Manager agreed to consider the issue.

It was resolved:

That the draft Annual Governance Statement for the financial year 2020/21, as detailed in Appendix 1 to the report, be noted.

11. **INTERNAL AUDIT CHARTER AND WORK PLAN 2021/22**

The Committee considered a report (reference W53, previously circulated) which presented the draft Internal Audit Plan for 2021/22 and the Internal Audit Charter.

Rachel Ashley-Caunt, Head of Internal Audit, stated that the Plan had been submitted for approval to the predecessor Finance and Assets Committee in March 2021 and was being submitted to this new Committee for review.

Members raised comments and questions on the Internal Audit Plan as follows:

- With regard to the Audit Plan for the year at Appendix 1, Members requested that consideration be given to bringing forward the audit on Controls Review of Critical Systems/Cyber Security to the current year, due to the IT systems issues experienced in recent months.
- A Member requested that a column showing the audits that had taken place in 2020/21 be added to the Audit Plan at Appendix 1, in order to give context of what audits had already taken place recently.

The Democratic Services Manager confirmed that it now would be for this Committee to consider, review and request adjustments to the Audit Plan, and Ms Ashley-Caunt reported that the Finance Manager could agree in-year adjustments to the Audit Plan, in consultation with the Chairman of the Committee.

In response to a question by a Member on the work of Internal Audit to date on the Audit Plan, Ms Ashley-Caunt reported that audits were underway or at an advanced stage on a number of audits, including:

Development Control
Staff Recruitment Checks

It was resolved:

That the Internal Audit Plan for 2021/22 and the Internal Audit Charter, as detailed in Appendix 1 and 2 to the report, be received and noted.

12. **RISK MANAGEMENT – POLICY AND FRAMEWORK**

The Committee considered a report (reference W54, previously circulated) which contained the updated Risk Management Policy and Framework.

A Member expressed disappointment that this Committee had not been given the opportunity to have a full discussion on the risk appetite of the Council. They stated that this needed to take place at a future meeting. In particular, they referred to the statement on page 3 of the Policy that the maximum risk score the Council was prepared to accept was 15, but no justification for this was evidenced and the scoring criteria made this high a risk very unlikely to occur for the Council. Therefore, the scoring criteria also needed to be reviewed. The Member suggested that this Council should undertake some benchmarking with other Councils.

It was resolved:

That the updated Risk Management Policy and Framework, as set out in Appendix 1 and 2 of the report, be noted.

13. **CORPORATE RISK MANAGEMENT PROGRESS REPORT**

The Committee considered a report (reference W55, previously circulated) providing Members with a copy of the latest Corporate Risk Register.

The Finance Manager advised Members that updates on the Corporate Risk Register would be provided on a six-monthly basis, and the Corporate Risk Register had been updated to reflect the latest risks for the Council, including those posed by the Covid-19 pandemic.

Comments were made on the individual risks within the Risk Register as follows:

- A2: A Member queried why ECTC and ECSS had been linked together as a single risk area, since they were two very different Trading Companies with different operating models. It was suggested that these be two separate risk areas.
- A3: Need to review this risk rating in the light of the Council's performance on affordable housing provision.
- C2: The risk ratings for this risk needed to be reviewed in the light of the 2 IT outages in the past 6 months.
- C3: A review of this risk rating was required.
- C4: This risk needed to be reviewed in the light of the response given at full Council to a question regarding the reasons for the IT outage relating to the transfer of personal E-mail archives, as these personal archives were not referred to.
- C5: A review of this risk rating was required.
- D8: How had the investment in training and upskilling been evidenced, if the Council was not undertaking Staff Performance Reviews?

In the general context of the discussions, Members requested that a presentation be given to this Committee by the Corporate Risk Management Group and a rolling programme of presentations be timetabled from the risk owners identified in the Corporate Risk Register to this Committee.

It was resolved:

That the update report and Corporate Risk Register, as set out in Appendix 1 and 2 of the report, be noted.

14. **FORWARD AGENDA PLAN**

The Committee received the Forward Agenda Plan for the Committee.

Members requested that the following items be added in the light of the above discussions:

- CIPFA Financial Management Code
- National Audit Office (NAO) Checklist
- Risk Management:
presentation by Corporate Risk Management Group
consideration of risk appetite and scoring criteria
rolling programme of presentations from risk owners
- Anti-Fraud and Corruption Policy

The Chairman stated that they would discuss the matter with the substantive Chairman and Finance Manager.

It was resolved:

That the Forward Agenda Plan be noted.

The meeting closed at 7.20pm.