



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, 22 November 2021, at 4.30pm.

PRESENT

Cllr Lis Every (Chairman)
Cllr Charlotte Cane
Cllr Mark Inskip
Cllr Daniel Schumann
Cllr Alan Sharp

OFFICERS

Ian Smith – Finance Manager
John Hill – Chief Executive
Maggie Camp – Legal Services Manager
Tracy Couper – Democratic Services Manager
Anne Wareham – Senior Accountant
Angela Tyrell – Senior Legal Assistant
Russell Wignall – Legal Assistant

IN ATTENDANCE

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

15. **PUBLIC QUESTION TIME**

No public questions were received.

16. **APOLOGIES AND SUBSTITUTIONS**

No apologies for absence were received.

17. **DECLARATIONS OF INTEREST**

No declarations of interests were made.

18. **MINUTES**

The Committee received the Minutes of the meeting held on 26th July 2021.

A number of questions relating to the Minutes had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

In response to a request by a Member, it was agreed to include the responses to the Member queries answered in writing after the meeting held on 26th July 2021 as an Appendix to those Minutes, as otherwise there would be no record of the responses.

A Member also requested that an item on Audit Committee self-assessment checklist be added to the list of items to be considered for inclusion on the Forward Agenda Plan, as detailed in Minute 14 of the meeting held on 26th July 2021.

It was resolved:

That the Minutes of the meeting of the Committee held on 26th July 2021 be confirmed as a correct record and signed by the Chairman, subject to the two amendments detailed above.

19. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman gave her apologies for being unable to attend the last meeting and 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. She again 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. She expressed the hope that the Committee could work in a spirit of transparency and co-operation.

The Chairman also welcomed the agreement notified to Members in the preceding week to move the publication/despatch of agendas for this Committee, Council and the two Policy Committees to seven working days, to give Members a longer timescale to submit questions in advance of meetings.

Consideration also would be given under Agenda Item 12, to the possible changing of the day for meetings of this Committee.

20. **EXTERNAL AUDIT PLAN ADDENDUM – VFM RISK ASSESSMENT**

The Committee received the External Audit Plan Addendum giving an update on the value for money (VFM) Risk Assessment.

It was resolved:

That the External Audit the VFM Risk Assessment be noted.

21. **EXTERNAL AUDIT – AUDIT RESULTS REPORT**

The Committee considered the Annual Results Report, previously circulated.

Members were informed that the Audit had progressed well, would be completed within the timescale agreed with the S151 Officer and his Team and everything was on course for a sign-off by the deadline of 30 November. Mark Hodgson

then updated the Committee on the outstanding areas of work identified in the report at the time of publication as follows:

- Debtors & Creditors Testing – Creditors completed & no matters to report; Debtors 1 account to be completed
- Grant Receipts in Advance)
- Expenditure testing)
- Housing Benefit expenditure testing) All completed, no matters to
Related Party Transactions) report
- Journals Testing)
- Narrative report – completed subject to final review, no matters to report
- Grant Income (including Covid related grants) – 1 issue of classification identified relating to Covid related Grant income, explained in more detail below
- Group Consolidation procedures – in process of completion, 1 issue identified, explained in more detail below

With regard to the single entity accounts, Mr Hodgson reported that there had been very few issues and none that impacted on the bottom line of the accounts.

With regard to the Group Accounts, 2 issues had been identified – one related to unadjusted differences amounting to £80K in respect of ECTC, which the Board had decided not to adjust on the grounds of materiality. The other related to an error in the consolidation of a sum of £2M at gross rather than net rate, which would be adjusted prior to the signing of the final accounts. This did not impact on the bottom line of the accounts.

With reference to the classification issue regarding Covid related Grant income, Mr Hodgson explained to Members the detail in terms of the difference between Agent/Principal in Central Government accounting terms.

However, External Audit had given an unqualified opinion on the authority's financial statements.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

With regard to the questions listed, which were still to receive a response from External Audit, Mr Hodgson updated the Committee as follows:

Question 1: Internal Control Weaknesses – this was not an area of reliance for External Audit, who triangulated the satisfactory assurances in the Annual Governance Statement AGS and expenditure testing to reach the conclusion that there were no significant control weaknesses.

Question 2: Appendix E Financial Stability – no issues had been identified with regard to the robustness of the MTFs and authorities frequently reported variances in Budget Outturn and Capital Programme slippage, which External

Audit assessed for reasonableness and had been comfortable with the justifications given.

Question 3: Savings/Increased Income – detailed work had not yet commenced on the 2023/24 Budget, but the Council had a good record on identifying savings/generating income, so External Audit were comfortable from a going concern perspective.

Question 4: Governance – the requirements of the Council during the Covid pandemic may have resulted in such arrangements.

Question 5: Improving Economy – Performance Monitoring arrangements were suspended during the Covid pandemic, but were to be reinstated for the forthcoming Financial Year. Our statements can be amended to reflect this.

Question 6: Contract Procedure Rules – External Audit have reviewed all entries in the Contract Register and tested materiality and no issues were identified.

Some Members expressed concern that the date of this meeting had not been deferred to enable a completed Audit Results Report to be submitted. However, the Chairman commented that the Audit was now substantially complete and the External Auditor had updated the Committee this evening on all of the outstanding areas.

In response to a question by a Member, Mr Hodgson explained the expenditure testing process. A Member then highlighted an issue whereby expenditure of £218K had been incurred in respect of the former Mepal Outdoor Complex when it appeared that only £30K had been authorised by full Council. The Finance Manager stated that an explanation of this issue had been provided on a number of occasions and that there was nothing further to add to those explanations.

A Member thanked External Audit for their clear and concise update of the current position regarding the audit and asked whether the Agent/Principal issue had any impact on the accounts. Mr Hodgson confirmed that the impact was limited, but was more of a technical issue.

Similarly, the Member queried if the consolidation of the sum of £2M at gross rather than net rate had any impact on the accounts. Mr Hodgson stated that it would not make a difference from a public perspective but was significant in accounting terms, although it did not affect the outturn position. Another Member then queried if the £2M impacted on the Income & Expenditure or Balance Sheet and Mr Hodgson confirmed that it impacted on both.

Despite the above explanations, some Members expressed concern at the impact of these items on the Accounts and asked what action the Council would be taking to ensure that the governance processes were improved to prevent such situations arising in the future. The Chief Executive agreed to provide a written response on this issue to be circulated to Members of the Committee.

The Chairman thanked External Audit for their attendance and clear and comprehensive explanations.

It was resolved:

That the Audit Results Report be noted.

22. **STATEMENT OF ACCOUNTS 2020/21**

The Committee received a report (reference W105, previously circulated) containing the Statement of Accounts for 2020/21.

The Finance Manager thanked the External Audit Team for their work and stated that the Audit had progressed well. The Accounts accorded with the prescribed format and had received an unqualified opinion.

A Motion to accept the recommendation in the report to approve the Statement of Accounts was proposed.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

A Member requested confirmation that the version of the Accounts contained within the report had not been corrected for the items relating to consolidation and Group Accounts referred to in the preceding Minute. The Finance Manager confirmed that these would be amended before the final version of the Accounts were signed, but had no material impact on the bottom line. The Member expressed grave concern at approving Accounts with such material errors.

Another Member commented that the Committee had been reassured that the process had been completed correctly and External Audit were satisfied and had provided clear explanation of the issues and an assurance given that these would be corrected before the final version of the Accounts were signed and published. Therefore, the Audit Committee had fulfilled its role.

A Member requested that a recorded vote be taken on the Motion to approve the Statement of Accounts due the number of material changes required.

Another Member requested clarification as to whether the changes were material and Mr Hodgson confirmed that they had been classified as material in accounting terms but that the net impact was nil.

Some Members still expressed their unwillingness to approve the accounts due to the material errors and the Finance Manager and External Auditor highlighted the fact that these issues had been explained to the Committee and would be corrected before the Accounts were signed and published.

In that connection, the meeting was adjourned from 5.40pm to 5.47pm to enable wording to be included in the Motion to approve the Statement of Accounts to reflect the material changes required.

On re-convening, the following revised Motion was accepted by the proposer and seconder:

'That the 2020/21 Statement of Accounts as set out in Appendix 1, which will incorporate additional differences in relation to Agent/Principal and Group Accounts identified and reported by the External Auditor at the meeting in the previous Agenda item, be approved subject to the Section 151 Officer, in conjunction with Ernst & Young (EY) and the Chairman of Committee, being authorised to make any final non-material changes, as required, prior to final sign-off by EY on/or around the 30th November 2021.'

Upon being put to the vote, the revised Motion was carried, with voting as follows:

FOR (3): Councillors Every, D Schumann, Sharp

AGAINST (2): Councillors Cane and Inskip

ABSTENTIONS (0):

It was resolved:

That the 2020/21 Statement of Accounts as set out in Appendix 1, which will incorporate additional differences in relation to Agent/Principal and Group Accounts identified and reported by the External Auditor at the meeting in the previous Agenda item, be approved subject to the Section 151 Officer, in conjunction with Ernst & Young (EY) and the Chairman of Committee, being authorised to make any final non-material changes, as required, prior to final sign-off by EY on/or around the 30th November 2021.

23. **INTERNAL AUDIT PROGRESS REPORT**

Following a request by Councillor Cane, the Chairman stated that she had agreed to amend the order of business to take this item prior to the final draft Annual Governance Statement (AGS).

The Committee considered a report (reference W108, previously circulated) advising Members of the work of Internal Audit completed for the financial year to date and the progress against the Internal Audit Plan.

Rachel Ashley-Caunt summarised the content of the update report highlighting the amendments to the Plan detailed in section 2.5 to accommodate the audits of ICT outages and the Financial Management Code requested by the Committee at the previous meeting. Ms Ashley-Caunt also reported that 2 further audits had been completed relating to Staff Recruitment Checks and Development Control, the results of which were detailed in section 2.3 of the update report, and no issues of concern had been identified arising from these. The audit of Fixed Assets also was due to be signed-off in the forthcoming week.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

A Member highlighted that 3 priority items remained outstanding for more than 3 months and asked how Internal Audit would ensure that these would be resolved before the next meeting of this Committee. The Finance Manager reported that he would provide written details to Members of the Committee after the meeting.

With regard to the outstanding issue in relation to Asset Management, the Member asked why the issue of not having signed lease agreements in place for properties still had not been resolved, despite assurances given at the previous meeting of the Committee. The Legal Services Manager stated that the two outstanding leases would be signed on Wednesday. Following further comments from Members regarding the need for a proper brought forward process/arrangements for lease renewals, the Legal Services Manager and Internal Audit Manager agreed to pursue this to enable the Audit to be closed.

It was resolved:

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

24. **FINAL DRAFT ANNUAL GOVERNANCE STATEMENT**

The Committee considered a report (reference W106, previously circulated) containing the final draft of the Annual Governance Statement (AGS) for 2020/21.'

The Chief Executive reminded Members that the AGS was the responsibility of Corporate Management Team and was reviewed by Internal Audit. He highlighted a number of amendments made the final draft version in 'track changes' resulting from comments by the Committee at the previous meeting.

A number of questions relating to this Agenda item had been submitted by Members prior to the meeting and these, along with answers provided by officers, were set out in Appendix 1 to these minutes.

A Motion to accept the recommendation in the report to approve the Annual Governance Statement was proposed and seconded.

In response to a question by a Member, the Chief Executive explained how sufficient assurance was obtained as to the adequacy of the Council's governance arrangements. The Member challenged the statement in section 6 on page 12-13 of the AGS regarding the impact of the Covid-19 pandemic, and asked how this impact would be assessed and reviewed by the Council and Internal Audit. The Chief Executive reminded the Committee that a review of Covid-19 recovery had been included in the Internal Audit Plan for the current year and next year's AGS would reflect the findings from this.

The Member highlighted that the outstanding issues of 3 months or more referred to in the preceding item were not reflected in the AGS and asked that these be included in a schedule in the AGS. The Finance Manager stated that the format of the AGS was a matter for individual Councils to determine and

that outstanding Audit recommendations were an operational issue which was regularly reviewed and reported to this Committee by Internal Audit.

The Member also highlighted that the AGS no longer included reference to shareholder arrangements and how conflicts of interest between the Council and its Trading Companies were dealt with. The Chief Executive stated that the wording of the AGS could be amended to clarify these issues.

Another Member also expressed concern at the statement in section 6 the AGS regarding the impact of the Covid-19 pandemic and the suspension of the Council's Service Planning process during the period of the pandemic and commented that this suspension needed to be referred to in section 6.

As a result of the above discussions, the Chief Executive suggested that the wording of the Motion to approve the Annual Governance Statement be amended as follows and this was agreed by the proposer and seconder:

'That the Annual Governance Statement for the financial year 2020/21, as detailed in Appendix 1 to the report, be approved, subject to the inclusion of a statement of the governance arrangements between the Council and its Trading Companies.'

A recorded vote having been requested, upon being put to the vote, the revised Motion was carried, with voting as follows:

FOR (3): Councillors Every, D Schumann, Sharp

AGAINST (2): Councillors Cane and Inskip

ABSTENTIONS (0):

It was resolved:

That the Annual Governance Statement for the financial year 2020/21, as detailed in Appendix 1 to the report, be approved, subject to the inclusion of a statement of the governance arrangements between the Council and its Trading Companies.

25. **PSAA - APPOINTMENT OF EXTERNAL AUDIT**

The Committee considered a report (reference W107, previously circulated) requesting consideration as to whether this Council wished to either opt-in to the appointing persons regime, or to establish an auditor panel and conduct their own procurement exercise, under the requirements of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

It was resolved TO RECOMMEND TO COUNCIL (unanimously):

That this Council opts-in to the appointing persons arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external audit.

26. **FORWARD AGENDA PLAN & POTENTIAL CHANGE OF DAY FOR MEETINGS**

The Committee received the Forward Agenda Plan and considered the current day/dates for meetings of the Committee. Following discussion, Members agreed to continue with Monday as the day for meetings for the remainder of the current and for the forthcoming Municipal Year.

A Member requested that, in future, the Internal Audit report be listed before the Annual Governance Statement on Agendas.

A Member queried why the items listed under this item at the previous meeting had not all been added to the Agenda Plan. The Chairman referred to the Minute which had stated that the inclusion of the items would be discussed by the Chairman and Finance Manager.

A Member asked that an item on Performance Monitoring be added to the Agenda Plan for the next meeting, due to concerns regarding the suspension of this process. However, Members were reminded that the Performance Monitoring and Service Delivery Plan process was to be re-started from April 2022.

A Member asked that a report on the Corporate Risk Management process and risk scoring criteria be included on the Agenda Plan for the next meeting, and a rolling programme of presentations from risk owners timetabled, as requested at the previous meeting of the Committee. In response, the Finance Manager stated that he would submit a report explaining the Corporate Risk Management process and risk scoring criteria to the next meeting of the Committee.

It was resolved:

That the Forward Agenda Plan be noted and the day for meetings of the Committee remain as Monday for the remainder of the current and the forthcoming Municipal Year.

The meeting closed at 6.56pm.

Chairman:.....

Date: