



# EAST CAMBRIDGESHIRE DISTRICT COUNCIL

THE GRANGE, NUTHOLT LANE,  
ELY, CAMBRIDGESHIRE CB7 4EE  
Telephone 01353 665555

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## MEETING: **AUDIT COMMITTEE**

TIME: 4:30pm

DATE: **Monday 22 November 2021**

VENUE: **Council Chamber, The Grange, Nutholt Lane, Ely, CB7 4EE**

ENQUIRIES REGARDING THIS AGENDA: Tracy Couper

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## MEMBERSHIP:

### Conservative Members

Cllr Lis Every (Chairman)  
Cllr Dan Schumann (Vice-Chairman)  
Cllr Alan Sharp

### Substitutes:

Cllr Lavinia Edwards  
Cllr Amy Starkey  
Cllr Lisa Stubbs

### Liberal Democrat Members

Cllr Charlotte Cane (Lead Member)  
Cllr Mark Inskip

### Substitutes:

Cllr Alec Jones  
Cllr Christine Whelan

### Lead Officer

Ian Smith, Finance Manager

Quorum: 3 Members

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# AGENDA

- 1. Public Question Time** [oral]  
The meeting will commence with up to 15 minutes public question time
- 2. Apologies and Substitutions** [oral]
- 3. Declarations of Interest** [oral]  
To receive declarations of interest from Members for any Items on the Agenda in accordance with the Members Code of Conduct.
- 4. Minutes**  
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 26<sup>th</sup> July 2021.

5. **Chairman's Announcements** [oral]
  6. **External Audit Plan Addendum – VFM Risk Assessment**
  7. **External Audit – Audit Results Report**
  8. **Statement of Accounts**  
Due to their size, the Statement of Accounts at Appendix 1 have been printed separately to the Agenda and a copy is available with the Agenda on the Council's website [www.eastcambs.gov.uk](http://www.eastcambs.gov.uk)
  9. **Annual Governance Statement – Final Draft**
  10. **Public Sector Audit Appointments Limited (PSAA) – Appointment of External Audit**
  11. **Internal Audit Progress Report**
  12. **Forward Agenda Plan and Potential Change of Day for Meetings**
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#### NOTES:

1. Members of the public are welcome to attend this meeting. There are a number of schemes aimed at encouraging public participation in the Council's activities and meetings. These include Public Question Time at the start of a meeting and a process to enable petitions to be submitted. Details of these can be obtained by calling the telephone number on this Agenda or by logging onto the Council's website.
2. Members of the public can gain entry by reporting to Reception during Office Hours or can enter via the door in the glass atrium at the back of the building for evening meetings.
3. The Council has adopted a 'Purge on Plastics' strategy and is working towards the removal of all consumer single-use plastics in our workplace. Therefore, we do not provide disposable cups in our building or at our meetings and would ask members of the public to bring their own drink to the meeting if required.
4. Fire instructions for meetings:
  - If the fire alarm sounds please make your way out of the building by the nearest available exit i.e. the back staircase or the fire escape in the Chamber. Do not attempt to use the lifts.
  - The fire assembly point is in the front staff car park by the exit barrier.
  - The building has an auto-call system to the fire services so there is no need for anyone to call the fire services.The Committee Officer will sweep the area to ensure that everyone is out.
5. Reports are attached for each agenda item unless marked "oral".

6. If required, all items on the agenda can be provided in different formats (e.g. large type, Braille or audio tape, or translated into other languages), on request, by calling Main Reception on (01353) 665555 or e-mail: [translate@eastcambs.gov.uk](mailto:translate@eastcambs.gov.uk)
7. If the Committee wishes to exclude the public and press from the meeting, a resolution in the following terms will need to be passed:

“That the press and public be excluded during the consideration of the remaining item no(s). X because it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during the item(s) there would be disclosure to them of exempt information of Category X of Part I Schedule 12A to the Local Government Act 1972 (as amended).”

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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, 26<sup>th</sup> 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 3<sup>rd</sup> 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.

Agenda Item 4 – page 5

U:Commlive/Audit Committee/260721 Minutes

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.

# East Cambridgeshire District Council

## Audit Plan Addendum - VFM Risk Assessment

Year ended 31 March 2021

2 November 2021

2 November 2021



Audit Committee Members  
East Cambridgeshire District Council  
The Grange  
Nutholt Lane  
Ely  
CB7 4EE

Dear Audit Committee Members,

**Audit Plan Addendum - VFM Risk Assessment**

We are pleased to attach our Audit Plan Addendum - VFM Risk Assessment, ahead of the upcoming meeting of the Audit Committee.

The purpose of this report is to provide the Audit Committee with an update on our VFM Risk Assessment, which we flagged as requiring completion in our Outline Audit Plan dated 8 March 2021.

The Audit Committee should note that there are no other changes to our planned audit approach and risk assessment that we set out in the Outline Audit Plan, followed by the External Audit Update dated 5 July 2021.

Yours faithfully

*Mark Hodgson*

Mark Hodgson  
For and on behalf of Ernst & Young LLP  
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# Value for Money Risks



# Value for money

## East Cambridgeshire District Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

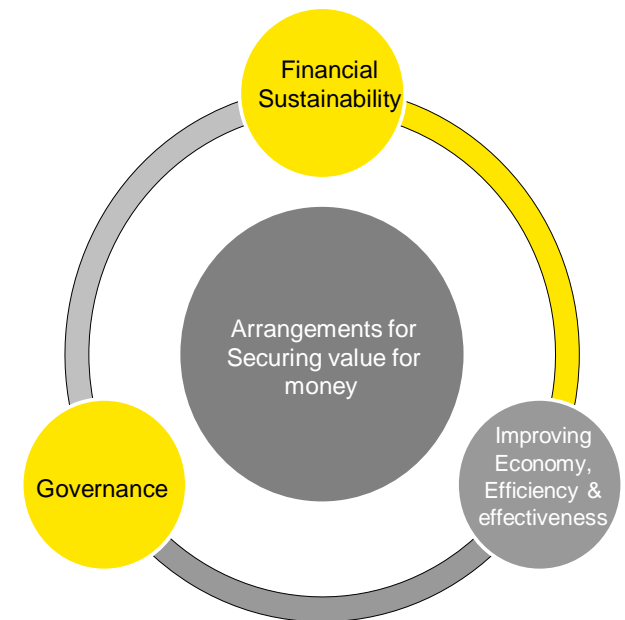
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.





## Value for money risks

### Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



## Value for money risks

### Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

### Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code, in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

### Value for money (VFM) risk assessment

We have concluded our detailed VFM planning and risk assessment.

We have based our assessment on a combination of our cumulative audit knowledge and experience, our review of Committee reports and policies the Council has in place, meetings with key officers, and the evaluation of associated documentation through our regular engagement with Council management and the finance team.

As a result of this work, we have not identified any risks of significant weaknesses in the Council's arrangements.

As a result we have no risk based procedures to carry out. We will revisit the risk assessment prior to issuing the audit opinion on the 2020/21 accounts and at this stage anticipate having no matters to report on VFM.

We plan to issue the VFM commentary, as required under the new Code, in November/December 2021, within our Auditor's Annual Report, following the issue of our audit opinion.

**East Cambridgeshire  
District Council  
Audit Results Report**  
Year ended 31 March 2021

10 November 2021



Audit Committee  
East Cambridgeshire District Council  
The Grange  
Nutholt Lane  
Ely  
CB7 4EE

10 November 2021

Dear Audit Committee Members

### 2020/21 Audit Results Report

We are pleased to attach our Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit Committee.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on East Cambridgeshire District's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements,

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on the 22 November 2021.

Yours faithfully

*MARK HODGSON*

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP  
Encl

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**03** Audit Report

**04** Audit Differences



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of East Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of East Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of East Cambridgeshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Outline Audit Plan, dated 8 March 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ **Changes in materiality:** In our Outline Audit Plan, we communicated that our audit procedures would be performed using a materiality of £0.790 million. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £0.750 million. This results in updated performance materiality, at 75% of overall materiality, of £0.563 million, and an updated threshold for reporting misstatements of £0.037 million.

## Changes in Identified Risk

As communicated in our External Audit Update dated 5 July 2021, we have lowered the significant risk around the National Non-Domestic Rates Appeals Provision to an Inherent Risk, due to 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.

## Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, approved financial statements from 31 July to 30 September 2021 for all relevant authorities.

## Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

- **Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:
  - Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
  - Agreed IPE to scanned documents or other system screenshots.

# Executive Summary

## Status of the audit

Our audit work in respect of the Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Debtors & Creditors Testing;
- ▶ Grant Receipts in Advance;
- ▶ Grant Income (including Covid related grants);
- ▶ Expenditure testing;
- ▶ Housing Benefit expenditure testing;
- ▶ Related Party Transactions;
- ▶ Journals Testing;
- ▶ Narrative report; and
- ▶ Group Consolidation procedures.

### Closing Procedures:

- ▶ Subsequent events review;
- ▶ Agreement of the final set of financial statements;
- ▶ Receipt of signed management representation letter; and
- ▶ Final Manager and Engagement Partner reviews.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 03.

# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit – Value for Money

In the Audit Plan Addendum dated 2 November 2021, we reported that we had completed our Value for Money (VFM) risk assessment and had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness.

As a result, we have completed our planned VFM procedures and have no matters to report by exception in the Auditor's Report (see Section 03).

We plan to issue the VFM commentary by the end of November 2021 as part of issuing the Auditor's Annual Report. Our provisional wording for the VFM Commentary is included at Appendix E of this report.

## Audit differences

### Uncorrected differences

There are no uncorrected audit differences as a result of our audit procedures at the time of this report.

### Corrected differences

Management have corrected material misstatements amounting to £5.000 million in relation to classification of 'Short Term Investments' as 'Cash Equivalents', and £3.110 million in relation to classification of an 'Earmarked Reserve' as a Provision. These amendments have no impact on the 'Surplus/deficit on the provision of services'.

Other Non-material corrected audit differences have been included in Section 4 of this report, including a number in relation to Property, Plant and Equipment and Pension Liability.

### Disclosure Differences

We also identified a number of minor audit disclosure differences in the financial statements, which have been adjustment by Management, including revisions to the Going Concern disclosure note (Note 32).

# Executive Summary

## Areas of audit focus

In our Outline Audit Plan we identified a number of key areas of focus for our audit of the financial report of East Cambridgeshire District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

### **Management Override: Misstatements due to fraud or error**

- *At the date of issuing this report, our work in this area is still ongoing through our journal entry testing. To date we have identified no indication of management override of controls. We will update the Committee on our findings once the work is finalised.*

### **Management Override: Inappropriate capitalisation of revenue expenditure**

- *At the date of issuing this report, our work in this area is still ongoing through our journal entry testing. To date we have identified no indication of inappropriate capitalisation of revenue expenditure. We will update the Committee on our findings once the work is finalised.*

### **Management Override: Inappropriate claims under the Local Government Compensation Scheme**

- *We have completed our work in this area and have no matters to report.*

### **Significant Risk: Accounting for Covid-19 related grant funding**

- *At the date of issuing this report, our work on this area is outstanding. We have identified the need for management to revisit this disclosure to present Covid grants separately, and provide disclosure of significant agency grants. We will update the Committee on our findings once the work is finalised.*

### **Inherent Risk: National Non-Domestic Rates Appeals Provision**

- *We have completed our work in this area and have no matters to report.*

### **Inherent Risk: Valuation of Land & Buildings**

- *We have completed our work in this area and have identified differences to report:*
- *Indexation on one asset was incorrectly applied as a valuation increase, rather than a decrease. Land & Buildings overstated by £0.171 million.*
- *Under IFRS 5, Assets Held for Sale are required to be separately disclosed on the balance sheet as a 'Current Asset', at the lower of carrying amount and fair value. The classification of this asset, and the upwards revaluation of the asset, means total assets were overstated. The lower carrying amount value of £0.165 million should be shown and held as a 'Current Asset' instead of as 'Non-Current Asset - Property, Plant and Equipment'.*
- *For 3 car park assets revalued in year the valuations have been calculated on the incorrect number of parking spaces. Land & Buildings overstated by £0.441 million.*

### **Inherent Risk: Pension Liability Valuation & Pension Assets**

- *We have completed our work in this area and have identified a difference to report:*
- *Management have corrected an audit difference in relation to the Pension Liability reducing the liability by £0.566 million, as a result of increases in the valuation of Pension Fund Investments due to timing differences reported through the audit of Cambridgeshire Pension Fund.*

## Executive Summary

### Areas of audit focus (Continued)

#### ***Inherent Risk: Group Accounting***

- *At the date of issuing this report, our work in this area is still ongoing. We will update the Committee on our findings once the work is finalised.*

#### ***Inherent Risk: Bad debt provision and recoverability of Debtors***

- *At the date of issuing this report, our work in this area is still ongoing. We will update the Committee on our findings once the work is finalised.*

#### ***Inherent Risk: Accounting for Collection Fund Disclosures***

- *We have completed our work in this area and have identified a difference to report:*
- *The Council have presented the 'Collection Fund' deficit as a 'provision'. The latest guidance is that this should be classified as an 'Earmarked Reserve'. £3.106 million is to be reclassified from 'Provisions' to 'Earmarked Reserves'.*

#### ***Area of Focus: Going Concern disclosures***

- *At the date of issuing this report, our work in this area is still ongoing. We will update the Committee on our findings once the work is finalised.*

#### ***Area of Focus: Auditing accounting estimates***

- *At the date of issuing this report, our work in this area is still ongoing. Issues identified have been raised above in respect of Valuation of Property, Plant and Equipment, Pension Liability Valuation, and Bad Debt Provision. We will update the Committee on our findings once the work is finalised.*

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.



## Executive Summary

### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no other matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors. However, as we do expect, based on prior year guidance that the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return (Threshold - £500 million). We do not expect therefore to have any issues to report.

### Control observations

During the audit, we did not identify any significant deficiencies in internal control.

### Independence

Please refer to Section 07 for our update on Independence.



02

## Areas of Audit Focus



## Areas of Audit Focus

# Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. The specific procedures undertaken to address this are set out on the next page. This page details standard procedures we undertake to respond to the risk of fraud and error on every engagement.

#### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Documented our understanding of the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Reviewed the accounting estimates for evidence of management bias.
- ▶ Evaluated the business rationale for significant unusual transactions

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

#### What are our conclusions?

We have not identified any material weakness in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied, or of any management bias in accounting estimates.

Our work on journal entry testing is in progress. We will update the Committee on our findings once the work is finalised.



## Areas of Audit Focus

### Significant risk

#### Incorrect capitalisation of revenue expenditure

##### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Obtained a listing of REFCUS for the year and confirmed that total REFCUS is not material;
- ▶ Obtained an analysis of capital additions in the year, reconciled it to the Fixed Assets Register (FAR), and reviewed the descriptions to identify whether there are any potential items that could be revenue in nature;
- ▶ Sample tested additions to Property, Plant and Equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. There were no Investment Property additions; and
- ▶ Used our data analytics tool to identify and test journal entries that move expenditure from revenue codes into capital codes.

##### What are our conclusions?

Our sample testing of additions to Property, Plant and Equipment found that they had been correctly classified as capital and included at the correct value.

Our sample testing did not identify any revenue items that were incorrectly classified.

Our data analytics procedures are ongoing through our journal entry testing work. We will update the Committee on our findings once the work is finalised.



## Areas of Audit Focus

### Significant risk

#### Inappropriate claims under the Local Government income compensation scheme

##### What is the risk?

In response to the Covid-19 pandemic, MHCLG introduced the local government income compensation scheme for lost sales, fees and charges as a result of COVID-19.

We have identified an opportunity and incentive to overstate claims through this grant, to increase income received against any ongoing losses. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the material nature of these claims.

This could then result in overstating income for funds inappropriately received, which may ultimately need to be repaid.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the claims back to the original budgeted income and actual income receipt to ensure the overall accuracy and compliance with scheme requirements; and
- ▶ Documented our understanding of the assurance process MHCLG have over claims under the scheme.

##### What are our conclusions?

Our review of claims through the Local Government income compensation scheme did not identify any inappropriate claims under the scheme.



## Areas of Audit Focus

### Significant risk

#### Accounting for Covid-19 related grant funding

##### What is the risk?

In response to the Covid-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these.

Given the volume of these grants, and the new conditions for the Council to understand the accounting impact of, there is a significant risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Sample tested Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature.
- ▶ Sample tested Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.
- ▶ Reviewed the instructions and conditions of a sample of grants to corroborate the Council's assessment of whether they were acting as an Agent or Principal in disbursing the grants
- ▶ Compared the Council's assessment of whether they were acting as agent or principal for a sample of Covid-19 related grants to other Councils' assessment to determine whether East Cambridgeshire District were an outlier in their treatment of any particular grant, and thus further review was required.

##### What are our conclusions?

At the date of issuing this report, our work on this area is outstanding.

We have identified the need for management to revisit this disclosure to present Covid-19 grants separately, and provide disclosure of significant grants - where the Council is acting as an 'Agent'. We will update the Committee on our findings once the work is finalised.



## Areas of Audit Focus

### Inherent risk

#### National Non-Domestic Rates Appeals Provision- Inherent Risk

##### What is the risk?

Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927m this financial year, and £1.2bn next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.

In light of this we consider there to be a risk of misstatement of the Council's NNDR appeals provision. Since issuing the Outline Audit Plan the government announced that it would not allow businesses to claim NNDR appeals in respect of material changes in circumstances as a result of Covid-19. As a result, we have down graded the audit risk from significant to inherent.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the assumptions made by the Council's NNDR appeals provision specialist; and
- ▶ Assessed the reasonableness of any local adjustments made by the Council on the NNDR appeals provision;

##### What are our conclusions?

Our work did not identify any issues with the assumptions used by Council's specialist in the calculation of the NNDR appeals provision.

The Council did not make any local adjustments to the Appeals Provision from the information provided by the Council's specialist.

We have no other matters to report.



# Areas of Audit Focus

## Inherent risk

### Valuation of Other Land & Buildings

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE, and that any changes were communicated to the valuer
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.
- ▶ In light of the material uncertainty clause disclosure retained by the Council and the valuer over certain asset types we have engaged our own internal specialists to review the valuation of a car park asset subject to the material uncertainty.

#### What are our conclusions?

Our work has identified the following differences in respect of land & buildings valuations:

- Indexation on one asset was incorrectly applied as a valuation increase, rather than a decrease. Land & Buildings were therefore overstated by £0.171 million.
- Under IFRS 5, Assets Held for Sale are required to be separately disclosed on the Balance Sheet as a 'Current Asset', at the lower of carrying amount and fair value. The classification of this asset, and the upwards revaluation of the asset, means total assets were overstated. The lower carrying amount value of £0.165 million should be shown and held as a 'Current Asset' instead of as 'Non-Current Asset - Property, Plant and Equipment'.
- For 3 Car Park assets revalued in the year, the valuations have been calculated on the incorrect number of parking spaces. Land & Buildings is therefore overstated by £0.441 million.
- Wilkes, Head & Eve have retained the 'material uncertainty' clause within their valuation report. This has been disclosed by Management, however the original disclosure in the 'Statement of Accounts' requires updating to reflect the position of this uncertainty to be specific to Car Park assets. Our additional procedures in engaging our own Internal Specialists have found the Car Park assets valuations (once the audit difference above has been adjusted) to be materially correct.



# Areas of Audit Focus

## Inherent risk

### Pension valuations and disclosures - Inherent Risk

#### What is the risk?

The Authority makes extensive disclosures within its financial statements regarding its membership of Pension Scheme administered by Cambridgeshire County Council. At 31 March 2020 the liability totalled £21.6 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Liaised with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to East Cambridgeshire District Council;
- ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within East Cambridgeshire District's financial statements in relation to IAS19, considering Fund assets and the Council's liability.

#### What are our conclusions?

We have reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have undertaken the work required without identifying any issues.

We have agreed the Council's IAS 19 disclosures to the actuaries' report to ensure these are fairly stated in the accounts.

The Cambridgeshire Pension Fund auditor highlighted a material movement in the valuation of Investment Assets of the Pension Fund, in their assurance letter to us.

As a result, the Council have received an updated IAS19 report from the Actuary to determine the impact on the Council's Pension Liability. The financial statements have been updated for this revised figure, reducing the net liability by £0.566 million.



## Areas of Audit Focus

# Inherent risk

### Group Accounting

#### What is the risk?

The Authority consolidates East Cambridgeshire Trading Company and East Cambs Street Scene into its group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of each component.

We identified the need for adjustments to be made to the prior year statements in respect of the consolidation and group accounts.

#### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the Council's assessment of its group boundary;
- ▶ Scoped the audit requirements for each of the companies based on their significance to the group accounts.
- ▶ Liaised with the external auditors and issued group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- ▶ Evaluated any risks at component level on the group accounts; and
- ▶ Audited the consolidation process and group accounts.

#### What are our conclusions?

At the date of issuing this report, we are still concluding our work in this area, as we are waiting for the final audited accounts for the subsidiary companies, access to review the component auditor's files and the reporting packages from the component auditor (Price Bailey).

We will provide an update to the Audit Committee with our findings once the work is finalised.



## Areas of Audit Focus

### Inherent risk

#### Bad debt provision and recoverability of debtors

##### What is the risk?

As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. This includes large value debtors with subsidiary companies and outstanding management fees in respect of the leisure centre. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Reviewed the calculation of the bad debt provision for reasonableness and accuracy; and
- ▶ Considered the recoverability of debts in testing a sample of trade receivables;

##### What are our conclusions?

Our sample testing of Trade Receivables is ongoing and we will provide an update to the Audit Committee with our findings once the work is finalised.



## Areas of Audit Focus

### Inherent risk

#### Accounting for Collection Fund disclosures

##### What is the risk?

During 2020-21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of collection fund income.

There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief for the financial year. There is therefore a risk of incorrect accounting based on the significant level of change in the year,

##### What did we do and what judgements did we focus on?

In order to address this risk we undertook the following audit procedures:

- ▶ Performed an analytical review of collection fund income, building in any changes in relief as appropriate;
- ▶ Documented our understanding of the process for the raising of specific additional reliefs
- ▶ Reviewed the Collection Fund disclosures with respect to ongoing guidance in accounting requirements and for compliance with Code requirements

##### What are our conclusions?

Our work did not identify any issues with figures within the Collection Fund statement.

The Council have presented the Collection Fund deficit as a 'provision', where latest guidance is that this should be classified as an 'Earmarked Reserve'. As a result £3.105 million has been reclassified from Provisions to Earmarked Reserves.

A number of other minor disclosure amendments to the Notes to the Collection Fund have also been made by Management within the revised financial statements.



## Areas of Audit Focus

### Going concern

Management have disclosed that the financial statements are prepared on a going concern basis. We have obtained and audited management's going concern assessment, and reviewed the Statement of Accounting Policies where the going concern disclosure is included in the accounts to provide the details of that assessment and management's conclusion. This has been informed by management's actual reserves position as at the 31 March 2021, and their forecast reserves position during the going concern period. It has also considered the Council's Cash Flow forecasting.

We focused on management's assessment of the going concern assumptions in preparing the Council's financial statements. We also reviewed management's cash flow forecasts to determine whether expected income appeared reasonable and whether it was sufficient to enable the Council continue its operations.

Our procedures around Going Concern included:

- Reviewing for any bias in the Council's Going Concern assessment, and whether it was consistent with the accounts.
- Reviewing the financial modelling and forecasts prepared by the Council.
- Considering key assumptions applied in the Council's forecasts, and whether these were reasonable and in line with our expectations.
- Ensuring that an appropriate Going Concern disclosure has been made within the financial statements.

We did not identify any events or conditions in the course of our audit that may cast significant doubt on the entity's ability to continue as going concern. Management have used the basis of their assessment to produce the disclosures included within the draft financial statements.

Our procedures will be finalised as part of the final procedures required around Group accounting as the going concern disclosures and conclusion requires consideration of both the Council as a single entity and as a group.

### Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019. This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors. The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty.

Our procedures around estimates included:

- Identifying key estimates within the financial statements and assessing the level of complexity, uncertainty and judgement of these estimates
- Obtaining and documenting our understanding of key aspects of estimation processes
- Documenting our understanding of the methods, models and assumptions used for significant estimates
- Where applicable, considering the use of internal specialists and engaging our own specialists where appropriate

Audit differences in respect of accounting estimates that relate to identified risk areas have been raised on pages 12 to 21 of this report.



**03**

**Audit Report**

**DRAFT**



### Our proposed opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST CAMBRIDGESHIRE DISTRICT COUNCIL

##### Opinion

We have audited the financial statements of East Cambridgeshire District Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement
- ▶ the related notes 1 to 31 to the Authority financial statements,
- ▶ the related notes to the Group Accounts,
- ▶ Collection Fund and the related notes 1 to 7.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of East Cambridgeshire District Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Finance Manager & Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.



## Audit Report - continued

### Our proposed opinion on the financial statements

Our responsibilities and the responsibilities of the Finance Manager & Section 151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

#### Other information

The other information comprises the information included in the 'Statement of Accounts 2020/21', other than the financial statements and our auditor's report thereon. The Finance Manager & Section 151 Officer is responsible for the other information contained within the 'Statement of Accounts 2020/21'.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.



## Audit Report - continued

### Our proposed opinion on the financial statements

#### Responsibility of the Finance Manager & Section 151 Officer

As explained more fully in the 'Statement of Responsibilities' set out on page 21, the Finance Manager & Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Finance Manager & Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- ▶ Local Government Act 1972;
- ▶ Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992);
- ▶ Local Government Act 2003;
- ▶ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- ▶ The Local Government Finance Act 2012;
- ▶ The Local Audit and Accountability Act 2014; and
- ▶ The Accounts and Audit Regulations 2015.



## Audit Report - continued

### Our proposed opinion on the financial statements

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how East Cambridgeshire District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the Head of Internal Audit, those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance.

We corroborated this through our reading of the Council's committee minutes, Council policies and procedures and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested the appropriateness of the journal and that it was accounted for appropriately. We assessed accounting estimates for evidence of management bias and evaluated the business rationale for significant unusual transactions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether East Cambridgeshire District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Cambridgeshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.



## Audit Report - continued

### Our proposed opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East Cambridgeshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

#### **Use of our report**

This report is made solely to the members of East Cambridgeshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of unadjusted differences

There are no uncorrected audit differences at the date of this report.

## Summary of adjusted differences

We highlight misstatements greater than £37,540 which have been corrected by management that were identified during the course of our audit.

- ▶ Property, Plant & Equipment - Indexation on one asset was incorrectly applied as a valuation increase, rather than a decrease. Property, Plant & Equipment therefore overstated by £0.171 million
- Property, Plant & Equipment - Under IFRS 5, Assets Held for Sale are required to be separately disclosed on the balance sheet as a current asset, at the lower of carrying amount and fair value. The classification of this asset, and the upwards revaluation of the asset, means total assets were overstated. The lower carrying amount value of £0.165 million should be shown and held as a 'Current Asset' instead of as 'Non-Current Asset - Property, Plant and Equipment'.
- ▶ Property, Plant & Equipment - For 3 car park assets revalued in year the valuations have been calculated on the incorrect number of parking spaces. Land & Buildings overstated by £0.441 million.
- ▶ Property, Plant & Equipment - During the year, the Council have disposed of Public Conveniences held within the asset register of £0.159 million. This has incorrectly been reflected as a downwards revaluation, when this should be recognised as a loss on disposal. This has no net impact on the closing value of Property, Plant & Equipment.
- ▶ Pension Liability - Management have corrected an audit difference in relation to the Pension Liability reducing the liability by £0.566 million, as a result of increases in the valuation of Pension Fund Investments due to timing differences reported through the audit of Cambridgeshire Pension Fund.
- ▶ Provisions - The Council have presented the Collection Fund deficit as a provision, where latest guidance is that this should be classified as an Earmarked Reserve. £3.106 million has been reclassified from Provisions to Earmarked Reserves.
- ▶ Cash and Cash Equivalents - The Council have classified £5.000 million within one account as a 'Cash and Cash Equivalent'. As the terms of this account, on acquisition, are that 180 days notice would be required to withdraw from the account, this should be classified as a 'Short Term Investment. This has no net impact on the Balance Sheet.



# Audit Differences

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## Summary of adjusted differences - continued

### Disclosure Issues

**Going Concern** - The impact of Covid-19 has substantial implications for the Council's finances. We therefore had to assess the work performed by the Council to ensure that it was still operating as a going concern up to 12 months from the audit opinion date. Minor disclosure amendments are required to the note originally included in the draft Statement of Accounts (Note 32) to reflect the up-dated position since the draft Statement of Accounts were published.

A number of other disclosure and presentational items have been highlights to management for amendment. We do not deem these significant to merit inclusion in this report.



05

## Value for Money



# Value for money

## The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

We issued an External Audit Update dated 2 November 2021 which confirmed we had concluded our detailed VFM planning and risk assessment and that we had not identified any significant weaknesses in the Council's arrangements.

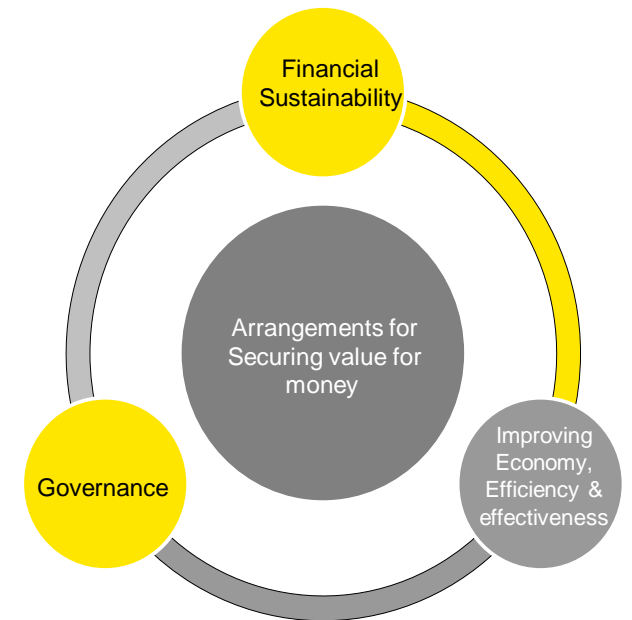
We have now revisited our procedures during the completion of our audit of the financial statements, and confirm that we have not identified any risks of significant weaknesses against the three reporting criteria we are required to consider under the NAO's 2020 Code.

## Status of our VFM work

We have completed our planned VFM procedures and have no matters to report 'by exception' in our Auditor's Report (See Section 03).

We set out our provisional commentary on the Council's VFM arrangements in Appendix E to this report.

We will formally issue this commentary within our Auditor's Annual Report, which we plan to issue by the end of November 2021.





## 06 Other reporting issues

## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Narrative Report with the audited financial statements.

Financial information in the Narrative Report and published with the financial statements was consistent with the audited financial statements, subject to completion of our final audit procedures on the Narrative Report.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have no other matters to report as a result of this work.

We have no matters to report as a result of this work.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors. However, based on prior year guidance the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return (Threshold - £500 million). We do not expect therefore to have any issues to report.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.

We did not receive any correspondence or Objections from Members of the Public.

## Other reporting issues

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# Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits.

We have reported in respect of going concern earlier in this report on page 22. We have no other matters to report.



07

Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1<sup>st</sup> April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Audit Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

In addition to our audit of the accounts, we will also be performing the Reporting Accounting role for the certification of East Cambridgeshire District's 2020/21 Housing Benefits claim. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020. We confirm that we have not undertaken any additional non-audit work.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£'s	£'s	£'s
Total Scale Fee - Code work	31,955	31,955	31,955
Additional Fee determined by PSAA Ltd			25,600
<b>Revised Proposed Scale Fee</b>	<b>31,955</b>	<b>31,955</b>	<b>57,555</b>
<b>2020/21 Additional work:</b>			
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	Note 1		
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of:	Note 2	-	-
<ul style="list-style-type: none"> <li>Accounting for Covid-19 related Government Grant income, NDR Appeals provision, Collection Fund Accounting, Recoverability of Receivables, Going Concern, Group Accounts.</li> </ul>			
<b>Total fees</b>	<b>TBC</b>	<b>31,955</b>	<b>57,555</b>

#### *All fees exclude VAT*

**Note 1** - This proposed increase, is on the same basis as in 2019/20, and has been discussed with management. For 2020/21 the scale fee will again been re-assessed to take into account the same recurring risk factors that impacted 2019/20 and is subject to formal determination by PSAA Ltd.

**Note 2** - In addition, as set out in this report, we have had to perform additional audit procedures to respond to the financial reporting an associated audit risks pertaining to Covid-19. As we are concluding our work in relation to these areas, we cannot quantify the fee impact at this time. We will provide an update on the additional fee implications at the conclusion of the audit and report this within the Auditor's Annual Report, or separately to this Committee depending on the timing of the determination by PSAA Ltd.







# 08 Appendices




## Appendix A

# Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Outline Audit Planning report - 25 March 2021 - Finance and Assets Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Outline Audit Planning report - 25 March 2021 - Finance and Assets Committee
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Outline Audit Planning report - 25 March 2021 - Finance and Assets Committee

## Appendix A

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee





# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to the Audit Committee responsibility.</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Outline Audit Planning report - 25 March 2021 - Finance and Assets Committee</p> <p>Audit Results Report - 22 November 2021 - Audit Committee</p>

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee




# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Group Audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Outline Audit Planning report - 25 March 2021 - Finance and Assets Committee  Audit Results Report - 22 November 2021 - Audit Committee
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - 22 November 2021 - Audit Committee

## Appendix B

# Outstanding matters




The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Debtors and Creditors Testing	Conclude on our sample testing. Complete our unrecorded liabilities testing.	EY and management
Capital Grants Received in Advance	Conclude on our sample testing.	EY and management
Grant Income (Including Covid related grants)	Conclude on our sample testing and ensure appropriate level of disclosure of both agency & principal grants	EY and management
Expenditure Testing	Conclude on our sample testing.	EY and management
Housing Benefit Expenditure Testing	Complete our substantive procedures	EY and management
Related Party Transactions	Complete our substantive procedures	EY and management
Journal Entry Testing	Complete our substantive procedures	EY and management
Narrative report	Complete our review of the narrative report for consistency of financial information	EY and management
Group accounting	Conclude the accuracy of the consolidation based on final audited accounts of subsidiaries and reporting from the component auditor	EY and management
Whole of government accounts procedures	NAO instructions to be received and reviewed	EY and management
Internal consultation procedures around the Going Concern disclosure	Internal review of the draft Going Concern disclosure	EY
Receipt of management representation letter	Management to prepare and provide us with their representation letter for the 2020/21 audit	Management

## Appendix B

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Subsequent events procedures	Extension of some audit procedures like review of minutes and testing for unrecorded liabilities and provisions up to the date of our auditor's report	EY and management
Checks to the final amended set of accounts	EY to receive final set of accounts with all audit adjustments, and review it for consistency with our schedule of misstatements	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited. A draft of the current opinion (with outstanding areas highlighted) is included in Section 3.



# Appendix C - Request for a Management Representation Letter

## Request for a Management Representation Letter



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Ian Smith  
Finance Manager & Section 151 Officer  
East Cambridgeshire District Council  
The Grange  
Nutholt Lane  
Ely  
CB7 4EE.

9 November 2021

Ref:  
Your ref:  
Direct line: 01223 394547  
Email: M-hodgson@uk.ey.com

Dear Ian,

### East Cambridgeshire District Council and Group – 2020/21 financial year Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Group and Council.

I would expect the letter of representation to include the following matters.

#### General statement

That the letter of representations is provided in connection with our audit of the financial statements of East Cambridgeshire District Council and Group ("the Group and Council") for the year ended 31 March 2021.

That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300101 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.



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You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 (as amended in 2020 for Covid-19) and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. That you acknowledge as members of management of the Group and Council, your responsibility for the fair presentation of the Group and Council's financial statements. You believe the Group and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. You have approved the Group and Council financial statements.
3. That the significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, you believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. You have disclosed to us any significant changes in your processes, controls, policies and procedures that you have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

That you have not corrected these differences identified and brought to your attention by us because (please specify the reasons for not correcting the misstatements).

Or

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



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### B. Non-compliance with law and regulations, including fraud

1. That you acknowledge that you are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that you are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. That you acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. That you have disclosed to us the results of our assessment of the risk that the Group and Council financial statements may be materially misstated as a result of fraud.
4. You have no knowledge of any identified or suspected non-compliance with laws and regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers") including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that we have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the Group and Council financial statements, including those related to the COVID-19 pandemic.
3. That you have made available to us all minutes of the meetings of the Group and Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 22 November 2021.



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4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Group and Council financial statements.
5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
6. That you have disclosed to us, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the Group and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. That from the date of your last management representation letter to us, through the date of this letter, you have disclosed to us any unauthorized access to your information technology systems that either occurred or to the best of your knowledge is reasonably likely to have occurred based on your investigation, including of reports submitted to you by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to your information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the Group and Council financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the Group and Council financial statements (please specify the Notes) all guarantees that you have given to third parties.

### E. Subsequent Events

1. That other than the disclosure described in Note 7 (insert Note) to the Group and Council's financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2020/21.



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2. You confirm that the content contained within the other information is consistent with the financial statements.

### G. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

2. In respect of accounting estimates recognised or disclosed in the financial statements:

- That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
- That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

### H. Expenditure Funding Analysis

1. You confirm that the financial statements reflect the operating segments reported internally to the Group and Council.

### I. Going Concern

1. That the Group and Council has prepared the financial statements on a going concern basis and that Note 32 (insert note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, your future financial plans and the veracity of the associated future funding allocations from the Ministry of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.

### J. Ownership of Assets

1. That except for assets recognised as right-of-use assets in accordance with IFRS 16 Leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

### K. Reserves

1. You have properly recorded or disclosed in the Group and Council financial statements the useable and unusable reserves.



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### L. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the valuation of the Group and Council's Property, Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included within the Group and Council's financial statements and the underlying accounting records. That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

3. You confirm that the significant assumptions used in making the valuation of Property, Plant and Equipment appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.

4. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on Property, Plant and Equipment valuations and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 pandemic.

6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.

7. You confirm that for assets carried at historic cost, that no impairment is required.

### M. Retirement benefits

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the pension scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Group and Council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.



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4. You confirm that the significant assumptions used in making the valuation of the pension scheme liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
5. You confirm that the disclosures made in the Group and Council financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the Pension Scheme Liability and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and Council financial statements due to subsequent events, including due to the Covid-19 Pandemic.

#### N. Other Estimates – NDR Appeals provision

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the assumptions underlying the NDR Appeals provision are consistent with your knowledge of the business.
2. You agree with the findings of the specialists that you engaged to evaluate the NDR Appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Council's financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
4. You confirm that the significant assumptions used in making the valuation of the NDR Appeals provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
5. You confirm that the disclosures made in the Council's financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the NDR Appeals Provision and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Council's financial statements due to subsequent events, including due to the Covid-19 Pandemic.



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#### O. Other Estimates – Expected Credit Losses

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the assumptions underlying the Expected Credit Losses are consistent with your knowledge of the business.
2. You agree with the findings of the specialists that you engaged to evaluate the Expected Credit Losses and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the Council's financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
4. You confirm that the significant assumptions used in making the valuation of the Expected Credit Losses appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
5. You confirm that the disclosures made in the Council's financial statements with respect to the accounting estimate(s) are complete, including the effects of the Covid-19 pandemic on the Expected Credit losses and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Council's financial statements due to subsequent events, including due to the Covid-19 Pandemic.

#### P. Group audits

1. There are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.
3. You confirm that entities excluded from the Group financial statements are immaterial on a quantitative and qualitative basis.

#### Q. Specific Representations


We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Audit Committee) on the proposed audit opinion date (date to be advised) on formal headed paper.



# Appendix C - Request for a Management Representation Letter

## Request for a Management Representation Letter

  
Building a better  
working world

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Yours sincerely


Mark Hodgson  
Associate Partner  
Ernst & Young LLP  
United Kingdom

## Appendix D

### Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliant with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	Management should: <ul style="list-style-type: none"> <li>▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>▶ Whether to adopt a portfolio approach</li> <li>▶ What low value threshold to set and agree with auditors</li> <li>▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>▶ What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

## Financial Sustainability

For 2020/21, the Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

### ***1. How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them***

Each year the Finance team prepares a budget for the budget year, and the Medium Term Financial Strategy (MTFS) which sets out indicative budgets for three further years. The MTFS includes assumptions about all known expenditure and income over that period. This is taken to Full Council in February each year for approval. The Council prepares a capital strategy alongside the revenue budget for the same time period, with the revenue implications of the capital strategy included within the revenue budget.

### ***2. How the body plans to bridge its funding gaps and identifies achievable savings***

The Council's latest published budget for the next financial year, 2021/22, was balanced via the use of the Surplus Savings Reserve. The 2022/23 budget has also been balanced through the use of the Surplus Savings Reserve. Further work is ongoing as part of the preparation of the detailed 2022/23 budget to balance the 2023/24 budget through additional identified saving opportunities. The Council's objective is always to have a balanced budget in each of the next two financial years when the budget is approved in the February of each year, to demonstrate that the Surplus Savings Reserve provides sufficient headroom to manage funding gaps.

### ***3. How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities***

The budget setting process considers any changes to service delivery proposed by Service Leads, as long as those changes are linked to the Council's priorities. The Medium Term Financial Strategy (MTFS) process, is the framework under which sustainable service delivery is planned for within an annual balanced budget, and over the next four year life of the MTFS.

**Financial Sustainability (continued)**

***4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system***

The Council have joint arrangements in place with other local Council's to achieve effectiveness and efficiency of service delivery, including the Anglian Revenues Partnership (ARP) who provide services linked to local taxation collection and administration of housing benefits. Finances are planned through the Medium Term Financial Strategy (MTFS) and budget setting processes. The Council's Corporate Plan is also presented and approved at Full Council each year. This sets out the wider objectives and key priorities of the Council in respect of service delivery.

***5. How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.***

Budgets are produced in line with expected income and expenditure based on the current knowledge of the Finance team. The key assumptions are set out in the Medium Term Financial Strategy (MTFS). The Council's Chief Finance Officer has set the minimum level of reserves for the General Fund at a level that is equivalent to 10% of the Council's net operating budget. In addition, the Council currently holds a 'Surplus Savings Reserve', derived from planned savings schemes set up as part of the annual budget setting process. Together, these provide Management with confidence that if unavoidable overspends did occur these could be managed through the Council's existing reserves balances. The Medium Term Financial Strategy sets out risks and uncertainties that could impact the Council's financial position.

## Governance

For 2020/21, the Council has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

***1. How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;***

The Council maintains a 'Corporate Risk Register' that is reviewed quarterly by the Risk Management Group and is presented to Audit Committee twice a year. The Council's Internal Auditor supports the production of the Council's Annual Governance Statement each year, feeding in their observations on internal control as identified through the audits that they have completed during the year. The Internal Audit Annual Report is presented to the Audit Committee which provides an overall audit opinion, alongside details of the individual audits undertaken during the year to reach the final opinion.

***2. How the body approaches and carries out its annual budget setting process***

An updated Medium Term Financial Strategy (MTFS) is taken to the Finance and Assets Committee in September each year, providing the initial budget for the following financial year, with forecasts across the remaining 3 years of the Medium Term Financial Strategy (MTFS) life (i.e. The MTFS is a rolling 4 year strategy). Following this meeting, the draft budget report is developed into a full annual budget, including the impact on Council Tax requirements. This is then re-presented to the Finance and Assets Committee in January, before being presented to Full Council in February for approval ahead of the start of the financial year to which it relates. Budget figures are determined by the Finance Team through discussions with relevant budget holders, and the Medium Term Financial Strategy (MTFS) is revisited at regular intervals to build in any significant changes.

***3. How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;***

The Council operates a financial management system to which budget data is uploaded in line with agreed timescales. This enables budget holders to review their budgets on screen and regularly update their forecast spend. Quarterly budget monitoring reports are presented to the Corporate Management Team, and to relevant Committees. Internal Audit review key aspects of the system of financial control as part of their cyclical audit strategy and report their findings as part of the Internal Audit Annual Report.

**Governance (continued)**

***4. How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee;***

Decision making processes and schemes of delegation are set out within the Constitution for all Committees, as well as decision making that is delegated to Council Officers. Where formal decisions are required they are scrutinised by the appropriate committee in advance of presentation to Full Council. This ensures that the necessary information is provided and that recommendations can be challenged before decisions are made.

***5. How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).***

The Constitution contains policy documents such as the 'Member's Code of Conduct' which defines the rules to be adhered to as part of meeting the relevant requirements and setting appropriate standards. There is a separate 'Employees Code of Conduct' to ensure employees are also meeting the required standards for officers of the Council. Any issues, for example through the Council's whistle-blowing policy or complaints policy, are investigated in accordance with agreed processes and/or referred to Internal Audit or the Monitoring Officer, as appropriate to the issue. Councillors are required to complete and update their 'Declarations of Interest' on an annual basis.

**Improving economy, efficiency and effectiveness**

For 2020/21, the Council has had the arrangements we would expect to enable it to use information about its costs and performance to improve the way it manages and delivers services.

***1. How financial and performance information has been used to assess performance to identify areas for improvement;***

Regular reporting of performance and finances is undertaken, with quarterly budget monitoring reports presented to the Corporate Management Team, and then to the Finance and Assets Committee. As part of this, the Council consider the delivery of services and the Council's priorities and previous performance. Service leads are responsible for monitoring the performance of teams, in line with key Council objectives as set out in the Corporate Plan. This is reflected on within the Commentary and Review of 2020/21 section of the Narrative Report within the Statements of Accounts.

***2. How the body evaluates the services it provides to assess performance and identify areas for improvement***

The Corporate Plan sets out the Council's priorities which the Council call as 'future promises and commitments'. The Council monitors the provision of services against these commitments, with quarterly budget monitoring reports presented to the Corporate Management Team, and then to the Finance and Assets Committee. Monitoring of the Corporate Plan and the progress of actions to address the plan is through discussion at Corporate Management Team, with subject papers taken to relevant Committees on an ad-hoc basis. The nature of monitoring therefore is dependent on the nature of the service provided and the commitments monitored. The Narrative Report sets out a review of achievements against the Corporate Plan for that year.

***3. How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve;***

The Council ensures that it is represented on partnership bodies by relevant officers or members, as required. Key partnerships include the Anglia Revenues Partnership and working arrangements with the two subsidiary companies, East Cambridgeshire Trading Company and East Cambridgeshire Street Scene, for which regular reports are taken to the Finance & Assets Committee and the Operational Services Committee.

***4. Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.***

The Council has, as part of its Constitution, 'Contract Procedure Rules' which officers are expected to adhere too when procuring on behalf of the Council. The Council also maintain a 'Contract Register'. Internal Audit review procurement activity as part of their cyclical Internal Audit plan, and procurement compliance received 'satisfactory assurance' for 2020/21. The Monitoring Officer has overall responsibility for ensuring the Council complies with relevant laws and regulations.

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ED None

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**2020/21 STATEMENT OF ACCOUNTS**

Committee: Audit Committee

Date: 22<sup>nd</sup> November 2021

Author: Finance Manager & Section 151 Officer

[W105]

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1.0 **ISSUE**

1.1 To approve the 2020/21 Statement of Accounts.

2.0 **RECOMMENDATION**

2.1 That the 2020/21 Statement of Accounts as set out in Appendix 1 be approved subject to the Finance Manager & Section 151 Officer, in conjunction with Ernst & Young (EY) and Chairman of Committee, being authorised to make any final non-material changes, as required, this prior to final sign-off by EY on or around the 30<sup>th</sup> November 2021.

3.0 **BACKGROUND / OPTIONS**

3.1 The Audit and Accounts Regulations 2015 (as amended) which apply to the preparation, approval and audit of the Statement of Accounts for the year ending 31<sup>st</sup> March 2021 required the following:

- The draft Accounts must be certified by the Council's Responsible Financial Officer (Section 151 Officer) by 31<sup>st</sup> July following the end of the financial year. It is confirmed that the accounts were signed off by this statutory deadline, being signed and loaded onto the Council's website on the 23<sup>rd</sup> July 2021.
- The draft accounts and any associated financial documentation are made available for public inspection for a period of 30 working days. The accounts were available for public inspection from the 26<sup>th</sup> July to the 5<sup>th</sup> September 2021, but during this period neither the Council nor EY received any communications from the public.
- By the 30<sup>th</sup> September:
  - The Accounts must be re-certified by the Responsible Financial Officer
  - The Accounts must be approved by Members
  - The Accounts must be published together with any certificate, opinion or report issued by the appointed auditor.

3.2 In order to manage the workload of auditing a large number of local authorities across the East of England, EY informed the Finance & Assets Committee on

the 25<sup>th</sup> March 2021, that they would not undertake the audit of the East Cambs Accounts until October and November 2021, with a proposed sign-off by the end of November. We continue to work towards this deadline.

3.3 Under the Council's Constitution, it is the Audit Committee's function to approve the Statement of Accounts 2020/21.

#### 4.0 FORMAT OF THE ANNUAL FINANCIAL REPORT 2020/21

4.1 The format of the Statement of Accounts is prescribed by a range of regulations and reporting requirements together with a code of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.2 Since 2010/11, as part of the wider public sector move towards international accounting standards, all local authorities in the UK are required to produce their annual financial statements using International Financial Reporting Standards (IFRS).

#### 5.0 CHANGES SINCE THE DRAFT ACCOUNTS

5.1 Members will note that EY identified a number of issues during the course of their audit, predominantly in relation to Balance Sheet entries. These are detailed in the Audit Differences section of their Audit Results Report, as discussed previously on the agenda.

5.2 The version of the Accounts attached as appendix 1 to this report includes all the adjustments we have agreed to make as identified in the Audit Results Report.

5.3 However, as Members would have also noted from the Audit Results Report, EY had not finished their review of the Statement at the point of drafting their report, and as such, appendix 1 potentially remains subject to further Audit review and change if further issues are identified. As detailed in the recommendation, these will be discussed by EY, the Finance Manager and Chair of Committee and only brought back to Committee for further discussion if felt material.

#### 6.0 FINANCIAL IMPLICATIONS / EQUALITY IMPACT ASSESSMENT

6.1 This report presents details of the Council's financial position for the year ended 31<sup>st</sup> March 2021 in the prescribed format.

6.2 Equality Impact Assessment (INRA) not required.

6.3 Carbon Impact Assessment (CIA) not required.

#### 7.0 APPENDICES

7.1 Appendix 1 – Statement of Accounts 2020/21

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<b><u>Background Documents</u></b>	<b><u>Location</u></b>	<b><u>Contact Officer</u></b>
The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (The Code).	Room 104 The Grange Ely	Ian Smith Finance Manager & Section 151 Officer Telephone: (01353) 616470 E-mail: <a href="mailto:ian.smith@eastcambs.gov.uk">ian.smith@eastcambs.gov.uk</a>
The Prudential Code for Capital Finance in Local Authorities published by CIPFA		
Final Accounts working papers.		

**ANNUAL GOVERNANCE STATEMENT 2020/21 FINAL DRAFT**

Committee: Audit Committee

Date: 22 November 2021

Author: Chief Executive

[W106]

1.0 ISSUE

1.1 Consideration of the final draft of the 2020/21 Annual Governance Statement (AGS).

2.0 RECOMMENDATIONS

2.1 Members are requested to:

- (i) approve the Annual Governance Statement 2020/21;
- (ii) if appropriate, instruct the Chief Executive to make any agreed changes in consultation with the Chairman of the Audit Committee;
- (iii) authorise the Leader of Council and Chief Executive to sign the statement.

3.0 BACKGROUND/OPTIONS

- 3.1 The Audit Committee on 26 July 2021 (ref: Agenda Item 7) received and noted the draft Annual Governance Statement 2020/21. The report (as above ref: 26 July 2021 Agenda Item 7) is attached as Appendix 3 and provides the background to the purpose, methodology and key issues for the Committee in their consideration.
- 3.2 The Audit Committee Terms of Reference (ref: Part 3, Page 51) specifically require the Committee to approve the Annual Governance Statement. The first draft of the AGS was presented and noted by the Committee together with a series of questions to be answered and where appropriate, reflected in an amended final draft of the statement. The final draft of the statement is attached as Appendix 2 with tracked changes highlighted from the first draft.
- 3.3 The Committee's previous queries/comments are summarised in Appendix 1 in tabular form as requested, together with response and proposed amendment to the statement (if appropriate). These previous queries/comments are evidenced in the minutes of this Committee (ref: 26 July 2021) and are attached (as draft) in the Agenda, item 4.
- 3.4 In addition, there have been a number of further changes to the final draft, specifically the inclusion of a review of the Financial Code during 2021/22 (as requested by Members – ref: Section 5 para 1 p10 Appendix 2) and clarification by the Monitoring Officer as to the process for the appointment of the independent persons (ref: Section 5 para 1 p 10).

#### 4.0 PROPOSALS/CONCLUSIONS

4.1 If Members are minded to make further amendments, the final version will be agreed in consultation with the Chairman and signed by the Leader and Chief Executive.

#### 5.0 FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT

5.1 There are no further financial implications arising from this report. Equality and Climate Impact Assessments are not required.

#### 6.0 APPENDICES

6.1 Appendix 1 – Summary of questions/queries arising from previous meeting and officer response

Appendix 2 – Final draft of Annual Governance Statement 2020/21

Appendix 3 – Covering Report to Audit Committee – 26 July 2021 (ref: Agenda Item 7)

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#### **Background Documents**

Audit Committee – 26 July 2021  
(ref: Agenda Item 7)

Appendix 1 – 1<sup>st</sup> draft 2020/21  
AGS

#### **Location**

Room 103  
The Grange  
Ely

#### **Contact Officer**

John Hill  
Chief Executive  
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**APPENDIX 1 – RESPONSES TO QUESTIONS/COMMENTS ARISING FROM AUDIT COMMITTEE – 26 JULY 2021**

<b>ISSUE</b>	<b>RESPONSE</b>	<b>PROPOSED AMENDMENT (IF APPROPRIATE)</b>
<p><b>1. SERVICE DELIVERY &amp; PERFORMANCE MONITORING/REPORTING</b></p> <p>Ref: Page 5 – suspension of the Service Delivery Plan and performance monitoring/reporting processes from 2020/21 to April 2022.</p> <p>Proposal to recommence process from November 2021 to enable 6-month performance monitoring to take place.</p>	<p>This matter was discussed by Corporate Management Team.</p> <p>Given that the Service Delivery Planning is an annual process, it would be more appropriate to prepare new plans for 2022/23 starting in the new municipal year.</p> <p>It is also worth noting that the resource needs of responding to the COVID 19 pandemic are still significant in many services.</p>	<p>None</p>
<p><b>2. COVID RESPONSE ASSESSMENT</b></p> <p>Query on how the Council accurately assessed its response to COVID 19 pandemic (Ref: Section 5 Para 6 – Impact of the COVID 19 pandemic in 2020/21)</p>	<p>The implications and risks associated with COVID 19 are detailed in the Council’s risk register and monitored regularly through this process.</p> <p>In addition, the Council is required to submit regular returns to Government in relation to the processing and payment of COVID 19 grants to businesses.</p>	<p>See tracked changes ref: Section 5 para 6.</p>

<p><b>3. INTERNAL AUDIT ANNUAL REPORT</b></p> <p>Members requested that the final draft AGS contain a table identifying control issues, the implications of Council and the action taken.</p>	<p>Each Internal Audit report identifies inadequately addressed risks and there are agreed actions identifying individual responsible officers with an agreed timeline.</p> <p>Progress is reported to the Audit Committee by the Head of Internal Audit throughout the year.</p> <p>Therefore, there seems no case to deviate from this agreed process so it is recommended no further amendment to AGS, specifically be implemented.</p>	<p>None</p>
<p><b>4. CONFLICT OF INTERESTS FOR OFFICERS OF THE COUNCIL AND TRADING COMPANIES</b></p> <p>How the Council managed conflicts of interests for officers of the Council/Trading Companies.</p>	<p>The Council has sought external legal advice on this matter and this has been circulated to Members.</p>	<p>None</p>
<p><b>5. IMPACT OF COVID 19 ON ALL SERVICE AREAS</b></p> <p>Ref: Page Section 5 para 6 – Member questioned the assertion that alternative working arrangements had had little effect or no effect on ‘business as usual’ – specifically, how could this statement be evidenced, methodology for review and overall assessment.</p>	<p>An action log was maintained from early 2020 detailing service changes that had been made in response to the pandemic and was reviewed by CMT. The document was shared with Members on an ad-hoc basis.</p>	<p>See tracked change ref: Section 5 para 6</p>

	<p>In response to this query, the Chief Executive has reviewed this documentation and recognised that the previous draft of the AGS does not reflect the complexity of the response and its effect.</p> <p>The proposed tracked change reflects that alternative working arrangements could not be universally applied across services particularly those requiring face to face contact.</p>	
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# Draft Annual Governance Statement 2020-21

## 1. Scope of responsibility

- 1.1. East Cambridgeshire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. East Cambridgeshire District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, East Cambridgeshire District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3. East Cambridgeshire District Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is included on our website at <https://www.eastcambs.gov.uk/>.
- 1.4. This statement explains how East Cambridgeshire District Council has complied with the principles of the Code and also meets the requirements of regulation 4 (3) of the Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an Annual Governance Statement.

## 2. The purpose of the governance framework

- 2.1. The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled, and its activities through which it accounts to, engages with, and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of East Cambridgeshire District Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.3. The governance framework has been in place at East Cambridgeshire District Council for the year ended 31 March 2021 and up to the date of the approval of this statement.

### 3. The governance framework

The Council's Code of Governance recognises that effective governance is achieved through the following core principles:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

### 4. Key elements of the Governance Framework

The following is a brief description of the key elements of the systems and processes that comprise the Council's governance arrangements:

**1. Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively:**

- The Constitution contains a Members Code of Conduct, which is underpinned by the Principles of Public Life. Members are required to complete a declaration of interests which is published to the website for transparency.
- There is a separate Employee Code of Conduct, which is supported by HR policies and procedures. Codes, policies and procedures are shared with new employees as part of the induction process.
- The Council has a Whistleblowing Policy, which is available to employees.

**2. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful:**

- Corporate policies and strategies, which are regularly reviewed, are available on the Council website.
- The Constitution contains responsibilities for functions of the Council, Policy Committees and Regulatory Committees, and other Committees, Joint Committees and Other Partnership Bodies. It also contains Proper Officer Functions and Rules of Procedure. The Monitoring Officer advises whether

decisions are in accordance with the Constitution, and a summary list of responsibilities are included in a Monitoring Officer Protocol.

- The Council ensures compliance with established policies, procedures, laws and regulations through a number of channels. The Chief Executive is responsible and accountable to the Council for all aspects of operational management. The Finance Manager & S151 Officer is responsible for ensuring that appropriate advice is given on financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal control. The Legal Services Manager is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.
- Managers within the Council are responsible for putting in place systems of control to ensure compliance with policies, procedures, laws and regulations. This is a key control and as such Service Leads are asked to conduct a self-assessment of the systems of internal control within their services and highlight actions intended to address any areas for improvement.

### **3. Documenting a commitment to openness and acting in the public interest:**

- There is public access to all Committee meetings except where items for discussion are of a confidential nature. The Council continues to be committed to ensuring that members of the public are involved in the decision making process. Due to the restrictions on gatherings of people, all meetings in the period 4<sup>th</sup> April 2020 to 7<sup>th</sup> May 2021 were held remotely via Zoom, with a live stream of the meetings available on YouTube.
- There are specific schemes in place to allow members of the public to speak at both Planning and Licensing Committee meetings, and the Council has also issued general guidance on public question time at other meetings.
- In order to demonstrate its openness, the Council also publishes on the website the Constitution, Council and Committee agendas, reports, minutes and decision lists.
- In terms of transparency, the Council publishes on its website the recommended datasets in accordance with the Local Government Transparency Code 2015 issued by the Department for Communities and Local Government in February 2015.

### **4. Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:**

- Residents are regularly informed about the Council's activities through the Council website, work with the local media, social media and other channels.
- The Council has adopted a Constitution which sets out how the Council operates, how decisions are taken and the procedures which should be followed. All meetings are open to the public except where there are confidential matters to discuss.
- The Council has developed a Community Engagement Strategy covering the period 2018 to 2023 to ensure that all residents have the opportunity to engage

with the Council and have their say regarding the services and resources that they need.

- The Council undertakes regular consultation exercises, ranging from small focus groups of customers to large scale questionnaires and face-to-face surveys. A Register of Consultees is held which gives individuals, community groups and associations the opportunity to consider new or revised policies, strategies or functions and to express their opinions, concerns and make suggestions. To encourage as wide a participation as possible, an invitation for further individuals to join the register is included in the Consultation section of the Council's website.
- Regular media releases are used as a means of keeping residents of the District informed of current and upcoming issues and Council decisions. The Council endeavours to ensure that all communications with the public are accessible to all by providing a translation service, large print and braille.
- In 2020/21 engagement with parish councils was conducted via a newly established Parish and Community Forum, a multi-agency network consisting of a variety of agencies and organisations, from across the public and voluntary sector, including parish councils. This approach was introduced as a result of the pandemic and proved an effective method of engagement to address matters arising from the ever-changing Covid-19 situation.
- Further examples of community engagement include Landlord Forums, Agents Forums, Taxi Driver Forums and the East Cambs Business Boost.

#### **5. Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning:**

- The Council has approved two Corporate Objectives;-
  - To be financially self-sufficient and provide services driven by and built around the needs of our customers; and,
  - To enable and deliver commercial and economic growth to ensure that East Cambridgeshire continues to be a place where people want to live, work, invest and visit.
- A new Corporate Plan for the period 2020-2023 was approved by Council in July 2020. It contains five themes which set out the main areas where the Council will concentrate work over the period:
  - Sound financial management
  - Improving transport
  - Housing
  - Cleaner, greener East Cambridgeshire
  - Social and community infrastructure
- Within each of these themes the Council has set out the priorities for the next three years.
- Details of all the above, together with any committee reports referred to in this statement, can be found on the Council website at [www.eastcambs.gov.uk](http://www.eastcambs.gov.uk)

- The Medium Term Financial Strategy (MTFS) is presented to Council on an annual basis to support the budget papers and the Corporate Plan. The MTFS sets out the level of savings that need to be achieved over the medium term. Savings plans and income generation targets are developed to achieve the budget requirement set out in the MTFS.

#### **6. Translating the vision into courses of action for the authority, its partnerships and collaborations:**

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- In normal circumstances, the Corporate Plan is underpinned by Service Delivery Plans, which set out in more detail how the Council's priorities will be delivered. These Plans contain more specific targets, which are allocated to teams, contractors, partners and employees to deliver.
- Service Delivery Plans are reviewed every year in line with any changes to the Corporate Priorities and in accordance with the development of the budget to ensure the necessary resources are in place for their delivery. Performance is formally reported to the relevant Policy Committee.
- See note 8 below.

#### **7. Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality:**

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- The Council's decision making framework is set out in the Council's Constitution including an effective scheme of delegation. The Council's Constitution is kept under continuous review in line with best practice.
- The Constitution includes the Shareholder Committee roles of the Finance and Assets Committee and the Operational Services Committee for the East Cambridgeshire Trading Company (ECTC) and East Cambridgeshire Street Scene (ECSS), respectively, and the Anglia Revenues Partnership Joint Committee.

#### **8. Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money:**

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- Performance management in the Council is based on the Corporate Plan priorities supported by Service Delivery Plans. The Council's two Policy Committees, (Operational Services and Finance and Assets) approve and monitor performance against Service Delivery Plans. For the financial year 2020/21 the Council's Corporate Management Team made the decision to suspend service delivery planning and monitoring / reporting to Committee due to the pressure to maintain services during the Covid-19 pandemic. It is planned to reintroduce the Service Delivery Plan process from April 2022 for the 2022/23 year.
- A summary of the overall performance of the Council is published annually on the website.
- The Council continues to undertake service reviews to minimise bureaucracy, duplication and increase efficiency.

- The Council has established a robust financial planning process which includes a Medium Term Financial Strategy, frequent budget monitoring reports to officers and quarterly budget monitoring reports to Policy Committees.

**9. Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements:**

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- The Council's Constitution sets out how the Council operates, and contains separate articles and key documents covering Members Code of Conduct, Proper Officer functions, and protocols for the Monitoring Officer.
- As the Head of Paid Service, the Chief Executive leads the officers and chairs the Council's Corporate Management Team. The other two statutory officers, the Monitoring Officer and S151 Officer report directly to the Chief Executive, and are both members of the Corporate Management Team.
- Regular meetings are held between the Leader of the Council and Chief Executive in order to maintain a shared understanding of roles and objectives.

**10. Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015):**

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- The Council establishment includes a Chief Finance Officer (CFO), ensuring the financial management arrangements conform with the requirements within the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). This responsibility is discharged by the Finance Manager & S151 Officer.

**11. Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function:**

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- The Monitoring Officer is a statutory appointment under Section 5 of the Local Government and Housing Act 1989. These responsibilities are delivered by the Legal Services Manager. The Monitoring Officer undertakes to discharge their statutory responsibilities with a positive determination and in a manner that enhances the overall reputation of the Council. In doing so they will also safeguard, so far as is possible, members and officers whilst acting in their official capacities, from legal difficulties and/or criminal sanctions.
- It is important that members and officers work together to promote good governance within the Council. The Monitoring Officer plays a key role in this and it is vital therefore, that members and officers work with the Monitoring Officer to enable them to discharge their statutory responsibilities and other duties.
- There are working arrangements and understandings in place between the Monitoring Officer, members and the Corporate Management Team which are designed to ensure the effective discharge of the Council's business and functions. These arrangements are detailed in the Monitoring Officer Protocol, which is a key document in the Council's Constitution.

## **12. Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function:**

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- The role of Head of Paid Service is defined in the Local Government and Housing Act 1989. In East Cambridgeshire District Council, it is assigned to the Chief Executive as set out in the Constitution and all necessary powers are delegated to fulfil the statutory role.
- The Council is also required to provide the Head of Paid Service with staff, accommodation and other resources sufficient to enable the performance of the function. The annual budget proposed to Council, prepared by officers, seeks to align the provision of Council resources with the delivery of the Corporate Plan. In this manner, the Head of Paid Service is ensuring that the Council is fulfilling its duty.

## **13. Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**

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- There is a member induction and training programme in place. Members are also required to undertake specific training before performing certain duties such as planning and licensing. Additional member seminars are also arranged throughout the year to deal with specific issues as they arise.
- There is an induction programme for all new employees, which consists of a mix of one-to-one meetings covering specific aspects of employment and group meetings that deal with more common areas.
- All officer posts within the Council have a detailed job description and person specification. The development needs of officers are determined through an annual performance appraisal, a key outcome of which is a Personal Development and Training Plan. This Plan provides a link between service and corporate priorities and career development. Requests for professional/vocational training are presented to Management Team annually for final consideration.

## **14. Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability:**

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- The Council has a Risk Management Policy and framework to detail the approach to managing risks. The latest Policy was approved by Full Council in October 2020.
- The Council's Corporate Risk Register is the result of continuous review by a Risk Management Group, the Corporate Management Team and (in 2020/21) the Finance and Assets Committee, of the key risks that may have an impact on achieving the Council's objectives. Each risk shows the owner and the key controls in place to minimise any impact on the Council and its provision of services to stakeholders. Individual projects and partnerships are also subject to risk assessments.
- The Strategic Business Continuity Plan ensures that the Council is able to plan for, and respond to, a disruptive incident in order to continue service delivery and business operations at an acceptable predefined level.

### **15. Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).**

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- The Council has in place an Anti-Fraud & Corruption Strategy, the latest version being approved by Full Council in October 2019, which specifies the process by which allegations will be investigated and reported. The Council also acknowledges its responsibility to embed effective standards for countering fraud and corruption that supports good governance and demonstrates effective financial stewardship and strong financial management.
- The Council's Whistle-Blowing Policy covers the arrangements for staff to report concerns anonymously. The Council's Complaints Scheme, and how to complain to the Ombudsman, are documented on the website. The Council has a dedicated resource in place to manage the complaints process.
- For the public there is also a procedure in place to report suspected cases of fraud via a dedicated fraud reporting mailbox [reportfraud@eastcamb.gov.uk](mailto:reportfraud@eastcamb.gov.uk).
- The Council fully participates in the Cabinet Office's regular National Fraud Initiative (NFI) and reports the results to Finance and Assets Committee.

### **16. Ensuring an effective scrutiny function is in place.**

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- The Council has a Call-In and Referral Up Procedure which is part of the Constitution. This enables councillors to call in decisions made through the Policy Committees. Council can then consider the matter afresh and make a final decision which could be to uphold, amend or reject the previous decision of the Policy Committee.
- The Council provides Members to other Scrutiny Committees, where required, to review the performance and effectiveness of other public service providers as well as the Council. Examples include the Cambridgeshire Police & Crime Panel, Health & Wellbeing Board and the Community Safety Partnership.

### **17. Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact:**

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- Internal Audit is resourced externally and is led by a professionally qualified Chief Internal Auditor in accordance with the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations, Public Sector Internal Audit Standards and the Local Government Application Note.

### **18. Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013):**

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- The Council has a Finance and Assets Committee that fulfilled the role of the Audit Committee during the 2020/21 financial year, with a terms of reference and supporting procedure rules covering internal and external audit, risk management, annual statement of accounts, corporate governance and internal control arrangements, and anti-fraud and corruption arrangements.

- On 26<sup>th</sup> February 2021 Council approved a revised committee structure to include a separate Audit Committee from the Annual Council Meeting in 2021.

### **19. Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.**

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- The Council provides support and information to the externally appointed auditors (Ernst & Young LLP). Audit findings and recommendations are reported through the Finance and Assets Committee. Moving forward these will be reported through the new Audit Committee.

### **20. Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.**

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- The Council demonstrates a strong commitment to working in partnership with other agencies to deliver priority outcomes and ensure that this partnership activity provides value for money and added value.
- The governance arrangements for key partnerships are kept under review. Governance arrangements for significant partnerships, such as the East Cambridgeshire Trading Company, East Cambridgeshire Street Scene and the Anglia Revenues Partnership, are documented in the Constitution.

## **5. Review of effectiveness**

- 5.1. East Cambridgeshire District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the directors within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditors annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2. The following is a brief description of the roles and processes that have been applied in evaluating the effectiveness of the governance framework:

### **1. The Council**

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- In July 2020 the Council approved the Corporate Plan for 2020-2023 which forms the basis of the performance management framework. Council reviews progress against the plan, ensuring it remains committed to the priorities whilst delivering a balanced budget.
- Council approved financial documents including the Medium Term Financial Strategy, Capital Strategy, General Fund Revenue Budget, Treasury Management Strategy, and the Council Tax Reduction Scheme. The Medium Term Financial Strategy provides the financial structure for the policy and budget framework, corporate planning, annual service planning and budget setting.
- Section 151 of the Local Government Act 1972 requires that every local authority shall make arrangements for the proper administration of their financial affairs and

shall ensure that one of their officers has responsibility for administration of those affairs. This role is discharged by the Council's Finance Manager & S151 Officer.

- The CIPFA Financial Management Code published in October 2019 sets out the financial standards of financial management for local authorities. Adoption of the Code commenced on 1<sup>st</sup> April 2021 and Councils should have used 2020/21 to demonstrate by a self-assessment that they are working towards full implementation. The Council's Finance Manager & S151 Officer reviewed the Council's compliance against the consultation version and identified that the only area of non-compliance related to the reporting of reserve account details to committee and action was taken to include details in reports to the Finance and Assets Committee during the financial year 2020/21. Internal Audit has been asked to undertake a review of the Council's implementation of the Code during 2021/22 to get independent confirmation that the Council is fully compliant.
- The Council has considered the appointment of Independent Persons for the Council in accordance with the standards framework to be compliant with the Localism Act 2011. The appointment was made by Full Council in May 2019 and is for a period of four years, subject to ratification at the Council's Annual Meeting in May each year.
- Council approved key strategies and policies such as the Corporate Plan 2020-2023 and the revised Corporate Risk Management Policy.

## **2. The Finance and Assets Committee**

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- During the financial year 2020/21 the Finance and Assets Committee performed the role of the Audit Committee which covered internal and external audit matters, risk management arrangements, corporate governance including internal control arrangements and the annual governance statement, anti-fraud and corruption arrangements, and the statement of accounts.
- The Committee received reports on corporate risks, the work of internal audit, including the annual report, and external audit reports, letters and briefings. It also reviewed and approved the Annual Governance Statement for 2019/20.
- The Committee reviewed and noted quarterly budget monitoring reports.
- The Committee approved financial reports, such as the Treasury Management Strategy, Treasury Management Annual Performance Review, the Annual Investment Strategy, Revenue Budgets, Capital Strategy, Council Tax, overall Council Budget reports, and reviewed the minutes of the ARP Joint Committee, as the partnership which delivers revenues and benefits for the Council. The Committee also approved a revised Equality, Diversity & Inclusion Policy 2020-2023.
- In undertaking its role as the Shareholder Committee for East Cambridgeshire Trading Company (ECTC), the Committee approved the revised Business Plan for 2020/21 and the Business Plan for 2021/22 and noted the ECTC accounts for 2019/20.

## **3. The Operational Services Committee**

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- The Committee received and noted quarterly budget monitoring reports, and approved the Environment & Climate Change Strategy & Action Plan, Homeless &

Rough Sleeper Strategy 2020-25 and the East Cambridgeshire Youth Strategy & Action Plan.

- In undertaking its role as the Shareholder Committee for East Cambridgeshire Street Scene (ECSS), the Committee received performance reports for the delivery of the waste and street cleansing services by ECSS. The Committee also approved the ECSS Business Plan for 2021/22 and noted the ECSS statutory accounts for 2019/20.

#### 4. Internal audit

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- The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit, which provides independent and objective assurance across the whole range of the Council's activities. It is the duty of the Chief Internal Auditor to give an opinion on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.
- The Chief Internal Auditor's annual report was presented to the Audit Committee in July 2021. This report outlined the key findings of the audit work undertaken during 2020/21 including areas of significant weakness in the internal control environment.
- The Chief Internal Auditor's annual opinion is that:

It is my opinion that **Satisfactory Assurance** can be given over the adequacy and effectiveness of the Council's control environment for 2020/21. This control environment comprises of the system of internal control, governance arrangements and risk management. This remains consistent with the opinions given in recent years.

##### **Financial control**

Controls relating to the key financial systems which were reviewed during the year were concluded to be generally operating effectively.

##### **Risk Management**

Established structures and processes for identifying, assessing and managing risk remained consistent during 2020/21. The risk register was reviewed by the Finance and Assets Committee on a six monthly basis, considering the outcomes of quarterly reviews conducted by the Council's risk management group.

Internal Audit work is targeted upon the Council's key areas of risk and work completed in 2020/21 has assessed assurances in relation to controls in some these key areas.

##### **Internal control**

For the audits completed in 2020/21, 100% of the opinions given in relation to the control environment and compliance have been of at least Satisfactory Assurance.

Of these audits, none have resulted in an opinion of 'major' organisational risk, which would impact upon the annual assurance opinion. There are three audits where the findings were assessed as posing a 'moderate' organisational risk and action plans are in place to address all risks identified within the reports, which will be subject to follow up testing.

Of the recommended actions agreed during the year, and due for implementation, 92% had been completed during the year. An action remains overdue in relation to the review of the Council's Contracts Register and this will continue to be followed up by Internal Audit in 2021/22.

Internal Audit has not been made aware of any further governance, risk or internal control issues which would reduce the above opinion. No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

## 5. External audit

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- Under the Government's local public audit regime, the Audit Commission initially, and more recently Public Sector Audit Appointments Limited, have awarded contracts for work previously carried out by the Audit Commission's audit practice. As a result Ernst & Young (now EY) became the appointed external auditor for East Cambs District Council from 1 September 2012.
- EY's audit results report (ISA260) for the financial year 2019/20 was presented to Finance and Assets Committee on 26 November 2020. The annual audit letter 2019/20 was presented to the Committee on 25 January 2021.
- For the financial year 2019/20 EY issued unqualified audit opinions on the Council's financial statements and value for money conclusion.

## 6. Impact of the Covid-19 pandemic in 2020-21

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- The Council's governance arrangements have been impacted by the coronavirus pandemic during the financial year 2020/21. Social distancing measures brought about by the Covid-19 pandemic have had an impact on the Council's governance arrangements. Due to the restrictions on gatherings of people and in accordance with regulations, all meetings in the period 4<sup>th</sup> April 2020 to 7<sup>th</sup> May 2021 were held remotely via Zoom, with a live stream available on YouTube for the press and public. This has allowed elected members to be fully involved in the decision making process and allow for public participation.
- The Council has put in place alternative working methods such as remote working to ensure services have continued to be provided **with to ensure there was** little or no affect on 'business as usual'.
- The Council has moved from the response to the recovery stage of the Covid-19 pandemic, and has established an internal officer recovery group led by the Operations Director. This was set up to maintain key services, continue to help those in need, support local businesses and keep everyone informed. Work stream examples include:
  - Continued focus on working with businesses, offering help, support and guidance;
  - Working with parish councils to offer support, and guidance including the introduction of a Covid-19 local outbreak response plan;
  - Ensuring local outbreaks of the virus are managed and monitored;

- Ensuring that residents self-isolating have access to food deliveries, hardship payments and general support;
- Continued homelessness prevention, access to benefits and hardship grants;
- Working with statutory partners including Public Health and the County Council to ensure a joined up approach;
- Getting messages out to residents on how to stay safe by social distancing; and,
- Administering the Governments test and trace self-isolation payments.
- The Council is part of the Local Resilience Forum who have convened a County-wide Recovery Coordination Group, which allows the Council to work collaboratively with a multitude of organisations towards a common goal. A number of sub-groups have been set up covering different areas of work with the Council being represented by officers.
- The Council established a Covid-19 Member Working Party to feed into the wider district recovery plan.
- The Council is fortunate in that it has had one of the lowest number of positive Covid-19 cases in the country, however the Council are committed to, and will endeavour, to maintain low numbers of Covid-19 positive cases and to maintain key services, be open for business, help those in need.
- The Council received £1,159,532 of un-ringfenced grant from Government to assist it with additional costs linked to the pandemic and was also able to recover a proportion of lost income in relation to Sales, Fees and Charges and Collection Fund deficits from Government Compensation Schemes. This resulted in the Council showing a cash surplus in relation to pandemic costs in the 2020/21 management accounts.
- The long term impacts of the pandemic, especially in relation to Council Tax and Business Rate receipts in future years, however remain unclear, but the Council has taken a prudent view of these in its budget and MTFs approved in February 2021.
- The Internal Audit Work Plan 2021/22 (agreed by Audit Committee, 26 July 2021, Agenda Item 8) includes an allocation of 15 days to COVID 19 recovery.

## **6. Significant Governance issues and actions**

The review of the effectiveness of the Governance Framework has provided a satisfactory level of assurance. The review process has highlighted no significant issues.

## **7. Conclusion**

Based on the work that has been completed, assurance can be taken that the governance arrangements at East Cambridgeshire District Council are fit for purpose.

## **8. Statement by Leader of the Council and Chief Executive**

The Council has in place strong governance arrangements which we are confident protect its interests and provide necessary assurances to its citizens and stakeholders.

**APPENDIX 2**



We propose over the coming year to continually address any issues arising that need addressing in order to further enhance its governance arrangements.

Signed:

.....

.....

Anna Bailey  
Leader of the Council

John Hill  
Chief Executive

Date:

Date:

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**DRAFT ANNUAL GOVERNANCE STATEMENT**

To: Audit Committee

Date: 26<sup>th</sup> July 2021

From: Finance Manager

[W51]

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**1. ISSUE**

- 1.1. This report presents the draft Annual Governance Statement (AGS) for 2020/21 for consideration by the Audit Committee.

**2. RECOMMENDATION**

- 2.1. The Committee is asked to consider if the AGS is consistent with their own perspective of internal control within the Council, plus the governance issues and actions.

**3. BACKGROUND/OPTIONS**

- 3.1. The Audit and Account Regulations 2015 requires the Council to produce an Annual Governance Statement (AGS) to accompany the Statement of Accounts. The AGS summarises the extent to which the Council is complying with its Code of Corporate Governance and details, as appropriate, any significant actions needed to improve the governance arrangements in the year ahead. The final statement will be signed by the Chief Executive and the Leader of the Council.
- 3.2. The AGS is an important statutory requirement which enhances public reporting of governance matters. It should therefore be honest and open, favouring disclosure.
- 3.3. The draft AGS is presented to the Committee in order to ensure that it reasonably reflects the Committee's knowledge and experience of the Council's governance and controls.
- 3.4. The draft AGS has been compiled using sources of evidence, including:
- A review of the extent to which the Council has complied with each element of its Code of Corporate Governance;
  - Self-assurance statements prepared by Service Leads;
  - The Chief Internal Auditor's opinion on the Council's internal control environment, which will be formally reported to the Audit Committee on 26<sup>th</sup> July 2021.
- 3.5. The Statement is prepared in accordance with guidance from the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The guidance states that the AGS should include:
- The Council's responsibilities for ensuring a sound system of governance;
  - An assessment of the effectiveness of key elements of the governance framework, and the role of those responsible for the development and maintenance of the governance environment;

- An opinion on the level of assurance that the governance arrangements can provide and whether these continue to be regarded as fit for purpose;
  - The identification of any significant governance issues, and an agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
  - Reference to how issues raised in the previous year's Statement have been resolved;
  - A conclusion demonstrating a commitment to monitoring implementation through the next annual review.
- 3.6. The latest CIPFA guidance has been considered in the drafting of the Statement, including accounting for the implications of the Covid-19 pandemic.
- 3.7. 'Significant governance issues' are those that:
- seriously prejudice or prevent achievement of a principal objective of the authority;
  - have resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
  - have led to a material impact on the accounts;
  - the Audit Committee advises should be considered significant for this purpose;
  - the Chief Internal Auditor reports on as significant in the annual opinion on the internal control environment;
  - have attracted significant public interest or have seriously damaged the reputation of the organisation; or,
  - have resulted in formal action being undertaken by the Chief Financial Officer and / or the Monitoring Officer.
- 3.8. At the time of publishing the draft AGS on the Council's website no significant governance issues have been identified.

#### 4. ARGUMENTS/CONCLUSIONS

- 4.1. The draft AGS has been prepared, in accordance with professional guidance, and must accompany the Statement of Accounts. The process demonstrates good governance, it has been based on various sources of assurance, and the Committee is asked to consider the AGS. It will also be reviewed by the external auditors, and the final version will be signed by the Chief Executive and the Leader of the Council.

#### 5. FINANCIAL IMPLICATIONS, EQUALITY AND CLIMATE IMPACT ASSESSMENTS

- 5.1. There are no additional financial implications arising from this report. Equality and Climate Impact Assessments are not required.

#### 6. APPENDICES

Appendix 1 – Draft Annual Governance Statement

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**Background Documents**

None

**Location**

The Grange  
Ely

**Contact Officer**

Ian Smith  
Finance Manager  
[ian.smith@eastcambs.gov.uk](mailto:ian.smith@eastcambs.gov.uk)

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**APPOINTMENT OF EXTERNAL AUDIT**

Committee: Audit Committee

Date: 22<sup>nd</sup> November 2021

Author: Finance Manager

[W107]

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1. ISSUE

- 1.1 The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 require authorities to either opt-in to the appointing persons regime or to establish an auditor panel and conduct their own procurement exercise.

2. RECOMMENDATION

- 2.1 Committee is asked to recommend to Full Council that this Council opts-in to the appointing persons arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external audit.

3. BACKGROUND / OPTIONS

- 3.1 PSAA were specified by the Secretary of State as the appointing person under regulation 3 of the Local Audit (appointing Person) Regulations 2015 in July 2016 and undertook the procurement exercise for the 98% of eligible bodies who opted into the procurement exercise for the five year period from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2023.
- 3.2 The Secretary of State has recently confirmed PSAA in the role of appointing person for the five year period commencing on 1<sup>st</sup> April 2023. Councils have until 11<sup>th</sup> March 2022 to formally opt-in if they wish to do so.
- 3.3 The main advantages of using PSAA are set out in the prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.
- transparent and independent auditor appointment via a third party;
  - the best opportunity to secure the appointment of a qualified, registered auditor;
  - appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
  - on-going management of any independence issues which may arise;

- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;
- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

3.4 Regulation 19 of the Local audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council.

#### 4. ARGUMENTS / CONCLUSIONS

4.1 It is expected that a sector wide procurement conducted by the PSAA will produce better outcomes for the Council than any procurement we could undertake ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement. This option is therefore recommended.

4.2 To establish an auditor panel and conduct our own procurement, is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector lead procurement, would be likely to result in a more expensive service.

#### 5. FINANCIAL IMPLICATIONS / EQUALITY AND CARBON IMPACT ASSESSMENT

5.1 As detailed above, it is expected that a sector wide procurement exercise will result in a lower cost for the Council, and reduced administration, when compared to undertaking a standalone process.

5.2 An Equality Impact Assessment (INRA) is not required.

5.3 A Carbon Impact Assessment (CIA) is not required.

6. APPENDIX

- 6.1 Appendix 1 - Invitation Letter to opt-in from PSAA dated 22<sup>nd</sup> September 2021  
Appendix 2 – PSAA Prospectus

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<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
PSAA Prospectus 2021	Room 104 The Grange Ely	Ian Smith Finance Manager Tel: (01353) 616470 E-mail: <a href="mailto:ian.smith@eastcambs.gov.uk">ian.smith@eastcambs.gov.uk</a>



22 September 2021

To: Mr Hill, Chief Executive  
East Cambridgeshire District Council

Copied to: Mr Smith, S151 Officer  
Ms Every, Chair of Audit Committee or equivalent

Dear Mr Hill,

### **Invitation to opt into the national scheme for auditor appointments from April 2023**

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [ap2@psaa.co.uk](mailto:ap2@psaa.co.uk). We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to [ap2@psaa.co.uk](mailto:ap2@psaa.co.uk), and we will respond to you.

Yours sincerely

Tony Crawley  
Chief Executive

Encl: Summary of the national scheme

## Why accepting the national scheme opt-in invitation is the best solution

### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

### The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

### What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

## **Opting in**

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

## **Local Government Reorganisation**

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

## **Next Steps**

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).

# PROSPECTUS

## The national scheme for local auditor appointments

All eligible bodies

September 2021

[www.psaa.co.uk](http://www.psaa.co.uk)

## About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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# Introduction

PSAA has issued its formal invitation to all eligible bodies to opt into the national scheme for local auditor appointments for the second appointing period, which will provide external audit arrangements for the period commencing from the financial year 2023/24.

This prospectus is published to provide details of the national scheme and to assist eligible bodies in deciding whether or not to accept PSAA's invitation. The scheme has been shaped by [your feedback to the June 2021 consultation](#) on our draft prospectus. The key areas of our approach that have been refined in response to consultation feedback are set out later in this prospectus.

In relation to appointing auditors, eligible bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision must be taken by the holder of that office.

An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) **no later than midnight on Friday 11 March 2022**.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused. Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

## Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including assessing the arrangements in place to deliver value for money, and dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

*“The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market.”*

*James Jamieson. Chairman of the Local Government Association*

## Context: changes in the audit market

In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, although we did not know it at the time, this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing its share of the strain and instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

## Responding to the post-2018 pressures

MHCLG's<sup>1</sup> Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that PSAA's national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

We believe that the national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

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<sup>1</sup> Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

The national scheme from 2023/24 will build on the current scheme having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

Since 2018 we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

As a member of the newly formed Local Audit Liaison Committee (established by MHCLG as outlined in its Spring statement), we are working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, ICAEW, CIPFA and the LGA to help identify and develop further initiatives to strengthen local audit. In many cases desirable improvements are not within PSAA's sole gift and, accordingly, it is essential that this work is undertaken collaboratively with a common aim to ensure that local bodies continue to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the likely success of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. We have set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

## **PSAA is well placed to lead the national scheme**

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in us to continue as appointing person, citing our strong technical expertise and the proactive work we have done to help to identify improvements that can be made to the process.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing

both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate we have worked with MHCLG to change our regulations where they are preventing efficiency.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO<sup>2</sup>), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

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<sup>2</sup> MHCLG's Spring statement proposes that overarching responsibility for the Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

## PSAA's commitments

### PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

### PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process, where appropriate in the form of national variations.

### PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact. Fees are rising in response to the volume of additional audit work now required.

The outcome is awaited of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts). If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal in line with statutory requirements. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

## Procurement Strategy

Our [procurement strategy](#) sets out the detail and scope of the procurement to deliver contracts from which the auditor appointments will be made for eligible bodies that decide to accept the invitation to opt into PSAA's scheme.

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

We expect to initiate a new procurement for audit services in February 2022 and, subject to a satisfactory outcome, to award contracts in August 2022. Subject to consultations with opted-in bodies and audit firms, we plan to make auditor appointments by 31 December 2022 (as required by the regulations).

## Response to consultation feedback

PSAA consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy. The insight provided from both these important consultations has helped to shape the arrangements that PSAA will implement from 2023/24. Key areas are highlighted below.

### Evolution of the Local Audit Framework

The consultation responses highlight the need for system-wide change. In many areas it is not within PSAA's remit to effect the significant change required.

The newly formed Local Audit Liaison Committee (as outlined in MHCLG's Spring statement), has enabled PSAA to highlight the need for a range of actions to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. Sometimes the actions can be taken by individual organisations, but more frequently responsibility lies collectively across the system. The Liaison Committee and its members are now taking actions forward, including:

- All stakeholders to communicate the importance of audit timeliness as a consistent message to audit firms;
- PSAA to work with the FRC to develop the approach to quality evaluation of tenders;
- MHCLG and other stakeholders to understand the extent of potential increased audit costs for all eligible bodies and to consider how these might be met;
- All stakeholders to consider ways in which to attract new entrants (firms and Key Audit Partners) into the market;
- Central government departments to provide clarity on the direction of local audit policy to inform firms' consideration ahead of next procurement;
- The NAO and FRC to work together to consider how they can provide clarity about the future direction of the Code of Audit Practice to firms ahead of the next procurement; and
- MHCLG, CIPFA and the LGA to consider how to support finance departments with accounting and audit requirements.

In the vast majority of the areas consulted on which were within PSAA's remit, responses were supportive of our proposals for the national scheme from 2023/24 which is very encouraging. Areas where we have revisited and evolved our approach are highlighted below.

## **Minimum Audit Fees**

Audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, we propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body for this purpose).

We cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. It is likely, given current expectations, that the introduction of a minimum fee specifically would lead to an increase in fees for a relatively small number of local bodies. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.

Introducing a minimum fee is a one-off exercise designed to improve the accuracy of the fee scale for the next appointing period. Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set.

## **Standardised fee variations**

Current local audit regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

## **Approach to social value in the evaluation of tenders**

We plan to retain our original proposal of a 5% weighting but to broaden the criteria by asking bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

## Contract Management

The quality of the audit services received by opted-in bodies is very important to both the bodies themselves and to PSAA. Our intention is therefore to focus a significant majority of the quality assessment of tender submissions on resourcing, capacity and capability (including sector knowledge) and on client relationship management and communication. Correspondingly, we intend to apply a lesser weighting to those criteria that are regularly assessed by the regulator. We will seek the views of the regulator in developing the detail of our approach.

We will also review the contract terms used in 2017 ahead of the next procurement of audit services. In particular we will consider the potential to introduce enhanced performance management arrangements aligned to the greater emphasis on quality within the tender evaluation process. Any such revision must ensure continued compliance with the FRC's Ethical Standard which prevents audit fees from being "*calculated on a predetermined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed*".

## Information and Communication

Following the success of the webinars held to support the recent consultation, PSAA will be running a series of webinars starting in October 2021. The webinars will provide eligible bodies with the opportunity to hear and ask questions about specific areas of scheme arrangements and PSAA's work, and our progress to prepare for the second appointing period. Details of the [webinar series](#) can be found on our website.

## Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

## Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at <https://www.psaa.co.uk/about-us/who-we-are/board-members/>

## Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at <https://www.psaa.co.uk/about-us/who-we-are/executive-team/>

# Annex - Procurement Options

## Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

## Other Options Considered and Rejected

### Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

### Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

### Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.

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**INTERNAL AUDIT PROGRESS REPORT**

To: Audit Committee

Date: 22<sup>nd</sup> November 2021

From: Chief Internal Auditor

[W108]

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1. **ISSUE**

- 1.1. To advise Members of the work of Internal Audit completed during the financial year to date, and the progress against the Internal Audit Plan.

2. **RECOMMENDATION**

- 2.1. That the Committee notes the progress made by Internal Audit in the delivery of the Audit Plan and the key findings.

3. **BACKGROUND/OPTIONS**

- 3.1. The role of Internal Audit is to provide the Audit Committee, and management, with independent assurance on the effectiveness of the internal control environment. Internal audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the Council's ability to achieve its objectives.
- 3.2. At the time of reporting, 53% of assignments within the plan are either complete or in progress. In addition to this planned work, the Internal Audit team have assisted with extensive counter fraud work in relation to pre/post payment checks on Covid-19 business grants and work associated with the bi-annual National Fraud Initiative matches.
- 3.3. Since April 2021, ten actions arising from audit reports have been implemented by officers. There are eight actions which remain overdue and are subject to ongoing follow up from Internal Audit.

4. **ARGUMENTS/CONCLUSIONS**

- 4.1. The attached report (Appendix 1) informs Members on the progress to date against the Audit Plan.

5. **FINANCIAL IMPLICATIONS/EQUALITY IMPACT ASSESSMENT**

- 5.1. There are no additional financial implications arising from this report. Equality and Carbon Impact Assessments are not required.

6. **APPENDICES**

- Appendix 1 – Internal Audit Update Report – November 2021

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<b><u>Background Documents</u></b>	<b><u>Location</u></b>	<b><u>Contact Officer</u></b>
None	Internal Audit, Room 207 The Grange Ely	Duncan Wilkinson, Chief Internal Auditor <a href="mailto:duncan.wilkinson@milton-keynes.gov.uk">duncan.wilkinson@milton-keynes.gov.uk</a>  Rachel Ashley-Caunt Head of Internal Audit <a href="mailto:RAshley-Caunt@rutland.gov.uk">RAshley-Caunt@rutland.gov.uk</a>



EAST CAMBRIDGESHIRE  
DISTRICT COUNCIL

**EAST CAMBRIDGESHIRE DISTRICT COUNCIL  
INTERNAL AUDIT PROGRESS & PERFORMANCE UPDATE  
NOVEMBER 2021**

## ***Introduction***

- 1.1 The Internal Audit service for East Cambridgeshire District Council provides 210 days to deliver the 2021/22 Annual Audit Plan.
- 1.2 The Public Sector Internal Audit Standards (the Standards) require the Audit Committee to satisfy itself that it is receiving appropriate assurance about the controls put in place by management to address identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting and an overview of the performance of the audit team.

## ***Performance***

### **2.1 Delivery of the 2021/22 Audit Plan**

At the time of reporting, fieldwork is either complete or underway in relation to 53% of the planned work.

In addition to these planned assignments, during the year to date, the Internal Audit service has also processed 758 Covid-19 Business Grants Pre Payment Checks – covering both Bank Account Verification and Active Company Check (where relevant). This has involved:

- Review of data provided by officers to ensure correct format and met data requirements
- Uploading data
- Reporting outcomes to officers for investigation and reporting back on findings.

As part of the bi-annual NFI data matching exercise, Internal Audit has also reviewed 278 individual data matches to date for 2020/21 covering creditors and payroll – no issues have been identified from this work to date.

Internal Audit also completed testing on a sample of COVID 19 Restart Grants to confirm effectiveness of post payment checks and enable certification to government that grant conditions have been met. Testing identified one error which was not due to attempted fraud but human error in the processing of the application, resulting in an overpayment which is subject to recovery action.

Progress on individual assignments is shown in Table 1.

### **2.2 Are clients satisfied with the quality of the Internal Audit assignments?**

To date, one survey response has been received in relation to feedback on completed assignments for the 2021/22 audit plan and results are summarised in Table 4.

2.3 **Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council’s Control Framework?**




Since the last Committee meeting, two audit reports have been finalised. To date, the audit work has not highlighted any issues or weaknesses which would impact upon the overall Internal Audit opinion. The key findings from the reports were as follows:

**Staff recruitment checks**

An effective staff recruitment and selection process is essential to ensuring that appropriate checks are completed for all new employees joining the Council. Failure to recruit the right person could have serious consequences to the Council in that it could expose the Council to risks of fraud and error, impact on customer service and have a negative impact on the performance of the service. There are additional financial impacts such as the cost of re-advertising and training. The critical objective of the review was to provide assurance that appropriate processes are in place to ensure that the recruitment process is clearly documented, including appropriate checks to prevent and detect recruitment fraud.

There is a Recruitment Policy and Procedure which was last reviewed in January 2021 which is available for Council employees on the intranet and provides clear, step-by-step guidance for recruitment and selection and ensures that the recruitment process is carried out in a fair, professional and lawful manner. Testing of a sample of new starters confirmed that in all cases documented procedures had been adhered to. In all cases reviewed the application forms were fully completed, evidence of relevant qualifications had been retained, and references obtained. There was also sufficient and relevant evidence of right to work which had been obtained in accordance with the Government advice for employers carrying out right to work checks during the coronavirus pandemic.

Based on the work performed during the audit, overall substantial assurance can be given that there are effective controls in operation. The assurance opinions are given as follows:

<b>Assurance Opinion</b>		
<b>Control Environment</b>	<b>Substantial</b>	
<b>Compliance</b>	<b>Substantial</b>	
<b>Organisational Impact</b>	<b>Minor</b>	

**Development control**

Most new buildings or major changes to existing buildings or the local environment require planning permission and the Council is responsible for deciding whether a development should go ahead, for which a fee is payable. Most minor and uncontroversial planning applications are determined through delegated powers, which means they are dealt with by Planning Officers. Larger and more controversial developments and those specified in the Constitution are decided by the Planning Committee, informed by Planning Officers’ recommendations. The critical objective of the service is to ensure that planning applications

are determined in accordance with adopted local and national planning policies, are processed promptly and all income is correctly accounted for.

The Planning Service establishment is fully resourced and is considered to be suitably qualified. There are operational procedure notes covering the planning process which are available to all staff. There is a Member Training and Development Programme which includes specific training for Members of the Planning Committee which must be attended prior to participating in a Planning Committee meeting.

Sample testing of planning applications confirmed that key controls had operated as intended. Testing included ensuring that applications had been determined within the statutory or agreed time frames (extensions of time), the correct fees had been paid, all had been authorised in accordance with the Scheme of Delegation and the planning decision published on the Council's website.

The Council provides the statutory quarterly performance information to the Ministry of Housing, Communities and Local Government and in addition provides monthly performance information to the Planning Committee. A review of the monthly reports confirmed that local and statutory targets were being met with the exception of Discharge of Conditions/Non Material Amendments. The Planning Manager has already identified this as an area for improvement.

Based on the work performed during the audit, overall substantial assurance can be given that there are effective controls in operation. The assurance opinions are given as follows:

<b>Assurance Opinion</b>		
<b>Control Environment</b>	<b>Substantial</b>	●
<b>Compliance</b>	<b>Substantial</b>	●
<b>Organisational Impact</b>	<b>Minor</b>	●

#### 2.4 **Implementation of audit recommendations by officers**

Where an Internal Audit review identifies any areas of weakness or non-compliance with the control environment, recommendations are made and an action plan agreed with management, with timeframes for implementation. In order to provide the Committee with assurances that these actions are being implemented in a timely and effective manner, a more robust follow up process has been implemented for the 2021/22 financial year.

Since the last Committee meeting, ten agreed actions have been implemented by officers. An overview is provided in Table 2.

At the time of reporting, there is eight actions which remain overdue for implementation. Of these, there are three actions categorised as 'Essential' or 'Important' which are now more than three months overdue, further details are provided in Table 3.

## 2.5 Amendments to the Audit Plan

Since the last meeting of the Audit Committee, the following amendments have been made to the Internal Audit plan:

Assignment	Amendment made	Days
ICT outages – lessons learnt	<p>Addition</p> <p>This has been added to the Audit Plan, following discussions at the July 2021 Audit Committee meeting. This will seek to provide assurance that lessons have been learnt from the incidents in 2020 and 2021, and review of the controls implemented as a result.</p>	+ 8
Performance management	<p>Removal</p> <p>This has been removed from the Audit Plan on the basis that the formal service performance management process was deferred during the pandemic and the audit resource would be better prioritised on the new assignment above.</p>	- 8
Financial Management Code	<p>Addition</p> <p>This has been added to the Audit Plan to provide assurance over the Council's compliance with the CIPFA Financial Management Code, given this is the first financial year of mandatory compliance.</p>	+ 8
IT Asset Management	<p>Removal</p> <p>This has been removed from the Audit Plan as it has been assessed as lower risk than the additional assignments requested above. This will be deferred to 2022/23.</p>	- 8

These amendments have been approved under the delegation granted to the s151 Officer, in consultation with the Chair of the Audit Committee, and are reported to the Committee at the earliest opportunity.

**Table 1 - Progress against 2021/22 Internal Audit Plan**

Assignment	Planned start	Status	Assurance sought	Assurance Opinion			Comments
				Control Environment	Compliance	Org impact	
<b>Governance &amp; Counter Fraud</b>							
Counter Fraud support / promotion	Q4	As required		Consultancy			
National Fraud Initiative	Q3	As required	See notes above	Consultancy			
Risk Management support	Q1 – Q4	In progress		Consultancy			
Annual Governance Statement support	Q1	<b>Complete</b>	Not applicable	Consultancy			
Procurement compliance	Q4	Not started					
<b>Key Financial Systems</b>							
Bank Reconciliation	Q3	Planning					
Creditors	Q4	Not started					
Debtors	Q4	Not started					
Payroll	Q4	Not started					
Treasury Management	Q3	Planning					
Fixed Assets	Q3	Fieldwork underway					

					<i>Assurance Opinion</i>				
<i>Assignment</i>		<i>Planned start</i>	<i>Status</i>		<i>Assurance sought</i>	<i>Control Environment</i>	<i>Compliance</i>	<i>Org impact</i>	<i>Comments</i>
Budgetary Control		Q3	Planning						
Financial Management Code (consultancy)		Q4	Not started						
<b>Key policy compliance</b>									
Staff recruitment checks		Q1	<b>Final report issued</b>		To provide assurance that appropriate processes are in place to ensure that the recruitment process is clearly documented, including appropriate checks to prevent and detect recruitment fraud.	<b>Substantial</b>	<b>Substantial</b>	<b>Minor</b>	
<b>Risk based audits</b>									
Covid-19 recovery		Q3	Fieldwork underway						
ICT outages – lessons learnt review		Q3	Planning						
Environment and climate change strategy		Q2	Fieldwork completed						
Development control		Q2	<b>Final report issued</b>		Assurance that the Council operates in accordance with key legislation, monitors and progresses issues to an appropriate conclusion and demonstrates transparency in terms of processes, communication with the public and decisions reached.	<b>Substantial</b>	<b>Substantial</b>	<b>Minor</b>	

<i>Assignment</i>		<i>Planned start</i>	<i>Status</i>		<i>Assurance sought</i>	<i>Assurance Opinion</i>			<i>Comments</i>
						<i>Control Environment</i>	<i>Compliance</i>	<i>Org impact</i>	
Disabled facilities grants		Q2	Verification completed		Verification completed and sent to Cambridgeshire County Council	Not applicable			

**Table 2 - Implementation of Audit Recommendations**

	'Essential' priority recommendations		'Important' priority recommendations		'Standard' priority recommendations		Total	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
Actions due and <b>implemented</b> since last Committee meeting	1	25%	6	60%	3	75%	10	56%
Actions <b>overdue by less than three months</b>	1	25%	3	30%	1	25%	5	28%
Actions <b>overdue by more than three months</b>	2	50%	1	10%	-	-	3	16%
<b>Totals</b>	<b>4</b>	<b>100%</b>	<b>10</b>	<b>100%</b>	<b>4</b>	<b>100%</b>	<b>18</b>	<b>100%</b>

**Table 3 – Actions overdue more than three months (Essential or Important priority)**

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
2020/21	Asset Management	<p>Of the ten assets selected in the sample, two did not have signed lease agreements in place.</p> <p>All commercial properties should be covered by a signed legal agreement from the outset of the lease. Monitoring records should be maintained to ensure forward planning enables renewals to be conducted in a timely manner and any overdue leases are flagged for urgent attention.</p>	Essential	Legal Services Manager	31/07/2021	<p>Progress has been made in formalising lease agreement on the two properties. Lease wording has been agreed with the tenants in both cases and the relevant notices/declarations have been issued. It is intended to issue engrossments upon receipt of signed declarations. In the meantime, invoicing continues in line with the draft agreements.</p>
2020/21	Contract extensions	<p>Review and update of the Contracts Register.</p> <p>Services should identify all contracts, including contract extensions, over £5,000 which are not yet on the Contracts Register and provide the required details to Legal Services.</p>	Essential	Finance Manager	31/10/2020	<p>The Finance team have conducted a review of spend reports to identify potential suppliers who are not included on the Contracts Register. The relevant service leads will now be contacted by the Legal team, in November 2021, to establish any gaps in contract register entries.</p>

Audit plan	Audit title	Agreed action and context	Priority	Responsible officer	Date for implementation	Officer update / revised date
2019/20	Disabled Facilities Grants (DFGs)	To implement a procurement framework specific to DFG works.	Important	Environmental Services Manager	30/09/2020	<p>Progress made with framework.</p> <p>Continuing with development of schedule of rates. Main body to finish mid-November 2021 then need to add in current acceptable rates (based upon recent price increases).</p>

**Table 4: Customer Satisfaction**

At the completion of each assignment, the Auditor issues a Customer Satisfaction Questionnaire (CSQ) to each client with whom there was a significant engagement during the assignment. There has been one survey response received during the year to date.

Responses	Outstanding	Good	Satisfactory	Poor
Design of assignment	1	-	-	-
Communication during assignment	1	-	-	-
Quality of reporting	1	-	-	-
Quality of recommendations	-	-	-	-
<b>Total</b>	<b>3</b>	-	-	-

At the completion of each assignment the Auditor will report on the level of assurance that can be taken from the work undertaken and the findings of that work. The table below provides an explanation of the various assurance statements that Members might expect to receive.

Compliance Assurances			
Level		Control environment assurance	Compliance assurance
<b>Substantial</b>	●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
<b>Good</b>	●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
<b>Satisfactory</b>	●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
<b>Limited</b>	●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
<b>No</b>	●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
<b>Major</b>	●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
<b>Moderate</b>	●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
<b>Minor</b>	●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

## ***Limitations and Responsibilities***

### ***Limitations inherent to the internal auditor's work***

LGSS Internal Audit is undertaking a programme of work agreed by the Council's senior managers and approved by the Finance and Assets Committee subject to the limitations outlined below.

#### ***Opinion***

Each audit assignment undertaken addresses the control objectives agreed with the relevant, responsible managers.

There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work; were excluded from the scope of individual internal assignments; or were not brought to Internal Audit's attention.

#### ***Internal Control***

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and unforeseeable circumstances.

#### ***Future Periods***

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

#### ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound systems of risk management; internal control and governance; and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

**AUDIT COMMITTEE  
ANNUAL AGENDA PLAN**

**AGENDA ITEM NO. 12**

**LEAD OFFICER(S): Ian Smith, Finance Manager & S151 Officer**

**DEMOCRATIC SERVICES OFFICER: Tracy Couper**

<b>Meeting: Monday 26 July 2021 4.30pm</b>		<b>Meeting: Monday 22 November 2021 4.30pm</b>		<b>Meeting: Monday 10 January 2022 4.30pm</b>	
Agenda Planning meeting:		Agenda Planning meeting:		Agenda Planning meeting:	
Pre-meeting briefing:		Pre-meeting briefing:		Pre-meeting briefing:	
<b>Report deadline: 4pm Wed 14 July 2021</b>		<b>Report deadline: 4pm Wed 10 November 2021</b>		<b>Report deadline: 4pm Wed 22 December 2021</b>	
Agenda despatch: Fri 16 July 2021		Agenda despatch: Friday 12 November 2021		Agenda despatch: Thurs 30 Dec 2021	
Chairman's Announcements	Chairman	Chairman's Announcements	Chairman	Chairman's Announcements	Chairman
Draft Annual Governance Statement	Internal Audit	Statement of Accounts	Finance Manager & S151 Officer	External Audit – Auditor's Annual Report	External Audit
Internal Audit Charter and Work Plan 2021/22	Internal Audit	External Audit – Audit Results Report	External Audit	Internal Audit Progress Report	Internal Audit
Internal Audit Annual Report & Opinion	Internal Audit	Annual Governance Statement	Chief Executive	Corporate Risk Management Policy Review & Monitoring Report	Finance Manager & S151 Officer
External Audit Progress Report	External Audit	Internal Audit Progress Report	Internal Audit	<i>Actions taken by the Finance Manager on the grounds of urgency (if any)</i>	DSO
Risk Management Policy and Framework	Internal Audit	Public Sector Audit Appointments Limited (PSAA) – Appointment of External Audit	Finance Manager & S151 Officer	Forward Agenda Plan	DSO
Corporate Risk Management Monitoring Report	Internal Audit	External Audit – VFM Risk Assessment	External Audit		
<i>Actions taken by the Finance Manager on the grounds of urgency (if any)</i>	DSO	<i>Actions taken by the Finance Manager on the grounds of urgency (if any)</i>	DSO		
Forward Agenda Plan	DSO	Forward Agenda Plan	DSO		

Notes: 1. Agenda items which are likely to be “urgent” and therefore not subject to call-in are marked \*  
2. Agenda items in italics are provisional items / possible items for future meetings.

