



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, 5 February 2024, at 4.30pm.

PRESENT

Cllr David Brown (Chairman)
Cllr Keith Horgan
Cllr Kelli Pettit (Vice-Chairman)

OFFICERS

John Hill – Chief Executive (until end of Minute 32)
Ian Smith – Director Finance & S151 Officer
Maggie Camp – Director Legal & Monitoring Officer
Tracy Couper – Democratic Services Manager & Deputy Monitoring Officer
Jane Webb – Senior Democratic Services Manager

IN ATTENDANCE

Cllr Lucius Vellacott
Mark Hodgson – External Audit, Ernst and Young (until end of Minute 32)
Rachel Ashley-Caunt – Head of Internal Audit (IA)
Anne Wareham – Senior Accountant

26. **PUBLIC QUESTION TIME**

No public questions were received.

27. **APOLOGIES AND SUBSTITUTIONS**

No apologies for absence were received.

28. **DECLARATIONS OF INTEREST**

No declarations of interests were made.

29. **MINUTES**

The Committee received the Minutes of the meeting held on 16 October 2023.

It was resolved:

That the Minutes of the meeting of the Committee held on 16 October 2023 be confirmed as a correct record and signed by the Chairman.

30. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reported that he had agreed to alter the order of business to allow Agenda Item 7 External Audit – Audits Update to be taken as the next item before the Annual Governance Statement.

31. **EXTERNAL AUDIT – AUDITS UPDATE**

The Committee received a verbal update by Mark Hodgson from External Auditors Ernst and Young (EY) on the current position of the external audit sector in the auditing of local government bodies and anticipated upcoming developments, linking into letters sent to the Council's S151 Officer by EY on 6 December 2023.

Members were informed that 2 consultations were due to be issued on the following day: 1 from the Department for Levelling-Up Communities and Housing (DLUCH) and 1 from the National Audit Office (NAO).

The DLUCH consultation was expected to include the use of 'backstop' dates as a way of resetting and recovering the local government audit market with the aim of addressing the backlog of audits stretching back over the last 2-3 years. The anticipated backstop date was 30th September 2024 for all audits up to and including 2022/23, with a subsequent set of backstop dates for the years following. A backstop date was defined as meaning that an audit cannot proceed any further beyond the set date and that an audit report has to be issued of some nature by that date, either in the form of an audit opinion on a set of accounts following an audit, or by what is being categorised as a 'disclaimed' audit opinion, on the grounds that it is not possible to complete the audit due to insufficient time, or resources, before the set Ministerial date.

The NAO consultation was due to be around the content of the Code of Audit on what auditors needed to do in order to discharge their responsibilities with the primary aim of looking at Value for Money (VFM) arrangements and any changes needed to streamline processes for the reset and recovery moving forward.

A third consultation had been expected from the Chartered Institute of Public Finance and Accountancy (CIPFA) on changes to the practitioners Code of Audit on how to prepare for audit of accounts but this had been deferred, although it was still expected to be issued in the near future.

Mr Hodgson explained that all of the above meant that the priority was to maximise the assurance that could be obtained from the work on audits by using the most recent information. This required choices to be made and in the case of ECDC the most current information would be 2023/24. The requirement remained to complete all Value for Money (VFM) audits and all Pension Fund audits due to the requirement to provide any necessary assurances needed by Admitted Bodies. The next priority then was to clear as many historic audits as possible.

Looking forward to how External Audit were planning to discharge their 2023/24 audits, in the case of ECDC the 2022/23 accounts would not be subject to an External Audit on the grounds of Ministerial Direction once the Statutory Instrument was laid in Parliament. The 2021/22 Statement of Accounts was the last to be signed-off, but there was unlikely to be sufficient time to complete the audit of the 2022/23 accounts. Therefore, External Audit would move forward by commencing the audit of the 2023/24 accounts. In the event of a disclaimed audit opinion for 2022/23 accounts, this would take 3 financial years to unwind, so there would be subsequent disclaimed audits for the three succeeding years as no assurance could be given regarding the opening and closing balances and income and expenditure account flows through to the balance sheet.

Whilst a disclaimed audit opinion was not a welcome outcome for authorities, it would be linked to the Ministerial Direction to enable reset and recovery of the sector as a whole, rather than because of there being issues with the accounts of individual authorities.

For the 2023/24 audit it was important to focus upon the assurances that External Audit was able to give against the audit risks and not on a particular paragraph of the audit opinion referring to a disclaimed audit. Mr Hodgson emphasised that this was a pragmatic solution for UK public sector audit as a whole across all 600 local government bodies within the remit of the Financial Council and DLUCH to resolve the current situation.

A Member asked for an update on the current situation regarding audits of those 600 local government bodies and whether there was a reasonable expectation that the proposed arrangements would resolve the situation for future years. Mr Hodgson reported that in any given year normally approx. 480 audit opinions would be issued, but as at 1 September 2023, only 4 of the 2022/23 audits had been signed-off and this had increased to 40 by end of December 2023. This represented a very small proportion of the total and, in addition, a significant number of prior year audits still had not been completed and opinions issued, going back to 2019/20. So ECDC would by no means be an outlier, if the 2022/23 audit was not completed, although this still would not be regarded by the authority of a good position to be in. The proposed reset and recovery phase was considered the best way forward for both sector professionals and Authorities.

Delivery of 2023/24 audits in totality was considered to be the key test for the sector moving forward and EY was ready and resourced to achieve this across all audits. Therefore, sign-off of the 2023/24 audits should be expected. There were some public sector bodies with significant issues whether financial and/or governance, which required a higher level of assistance and support but these should be the exception and it was anticipated that only a very small number of authorities would not have an audit completed by the deadline in the future. However, backstop dates would be in place for each subsequent financial year to prevent audits dragging-on unrealistically.

The Chair asked about the timescale for the two consultations. In response, Mr Hodgson stated that there was likely to be a 4-week consultation period to enable the necessary legislation to be laid before Parliament by 30th June so that a backstop date of 30 September could be set.

The Chair then queried the position on the payment of audit fees by authorities. Mr Hodgson reported that this was the responsibility of the PSAA and that External Auditors still would be required to complete VFM and Pension Fund audits for 2022/23 and some work still would be required to issue a disclaimed audit opinion to be compliant with international auditing standards. The PSAA was likely to arbitrate on an appropriate level of fees for this work.

The Director Finance queried the key dates for the 2023/24 audit. Mr Hodgson stated that the Council would be required to prepare and publish its Statement of Accounts by 31 May 2024 and these would be subject to External Audit and the issuing of an Audit Opinion by 30 September 2024. There would be a 2-month period following this to resolve any outstanding issues or the accounts would be qualified.

The backstop date for 2022/23 accounts was expected to be 30 September 2024 and the 2023/24 accounts backstop date to be 30 May 2025. Regarding the latter, EY was working to a 30 November 2024 deadline date in order to get closer to the normal deadline of 30 September and enable authorities to plan more effectively on a year-on-year basis moving forward.

The Director Finance asked if External Audit was adequately resourced to meet the above deadlines. Mr Hodgson stated that based upon the reset proposals he was confident that he had sufficient resources available to conduct audits to the required timescales moving forward.

It was resolved:

That the External Audit update be noted.

32. **ANNUAL GOVERNANCE STATEMENT (AGS) 2022/23 – FINAL DRAFT**

The Committee received a report (reference Y140, previously circulated) containing the final draft of the Annual Governance Statement (AGS) 2022/23. The Chief Executive stated that two further sets of comments had been received from Councillors since the first draft of the AGS had been submitted to the Committee on 16 October 2023 and these had been addressed or incorporated into the final version.

The Chair queried the position of the AGS in the light of the verbal report under the preceding item. Mr Hodgson explained that the 2022/23 audit of accounts remained 'live' until the proposed backstop date of 30 September 2024. Therefore, the AGS should be published with the 2023/24 accounts as normal and the position reviewed in the light of the situation pertaining at that time.

It was resolved (unanimously):

That the final draft of the Annual Governance Statement for 2022/23 be approved for final sign-off by the Leader of the Council and Chief Executive.

33. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report (reference Y141, previously circulated) advising Members of the work of Internal Audit completed for the financial year to date and the progress against the Internal Audit Plan.

The Chief Internal Auditor, Rachel Ashley-Caunt, summarised the content of the update report and the outcome of the four audits completed since the last meeting of the Committee – Bank reconciliations; Payroll; ECSS governance; and a follow-up and health check audit of Cyber security.

In response to a question by the Chair, Ms Ashley-Caunt confirmed that all recommendations/actions in audit reports had an owner and implementation deadline date.

It was resolved:

That the progress made by Internal Audit in the delivery of the Audit Plan and the key findings, as set out in Appendix 1 of the submitted report, be noted.

34. CORPORATE RISK MANAGEMENT MONITORING REPORT

The Committee considered a report (reference Y142, previously circulated) containing the latest version of the Corporate Risk Register.

It was resolved:

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

35. FORWARD AGENDA PLAN

The Committee received the Forward Agenda Plan.

It was resolved:

That the Forward Agenda Plan be noted.

The meeting closed at 5.06pm.

Chairman:.....

Date: