

AUDIT AND RISK MANAGEMENT COMMITTEE

MONDAY, 25 MARCH 2024 - 4.00 PM



PRESENT: Councillor K French (Chairman), Councillor S Harris, Councillor G Booth and Councillor G Christy

APOLOGIES: Councillor J Mockett (Vice-Chairman)

OFFICERS IN ATTENDANCE: Mark Saunders (Chief Accountant), Sian Warren (Deputy Chief Accountant), David Thacker (Interim Internal Audit Manager) and Jo Goodrum (Member Services & Governance Officer)

GUESTS: Mark Hodgson and Claire Sulam from Ernst & Young

ARMC34/23 PREVIOUS MINUTES

The minutes of the meeting held on the 12 February 2024 were confirmed and signed as an accurate record.

ARMC35/23 LOCAL AUDIT MARKET POSITION AND GOVERNMENT PROPOSALS (VERBAL UPDATE)

Members received a verbal update from Mark Hodgson from Ernst & Young (EY) with regards to the Local Audit Market Position and Government proposals.

Members asked questions, made comments, and received responses as follows:

- Councillor Booth thanked Mark Hodgson for the update and hopes that the deadlines that he has referred to can be met, asking what assurances can be given in that regard. Mark Hodgson stated that he is very confident that his team will be able to adhere to the deadlines as he is now fully resourced with staff and the risks detailed in the plan are the ones that his team are working on. He made the point that over the last few years there have been some left field items that have come through at the last minute which did cause auditors problems. Mark Hodgson stated that at the present time, and with the plan going forwards, he is confident but added that clearly there is an element on having draft sets of accounts to audit and working papers to do but he stressed that his team are back on track for a normal audit year.

Members noted the Local Audit Market Position and Government Proposals report.

ARMC36/23 2023/24 PROVISIONAL AUDIT PLAN

Mark Hodgson for Ernst & Young (EY) presented the Provisional Audit Plan for 2023/24 report to members.

Members asked questions, made comments, and received responses as follows:

- Councillor Christy asked for further detail with regards to the planning materiality figure of 2% and he asked how that figure is derived or why that number is chosen. Mark Hodgson explained that there is a global audit methodology which EY use and they have a range

from which they can select and within the public sector the range goes from 0.5% through to 2%. He added that 2% is at the higher end where consideration is given as to what stakeholder's requirements are in terms of assurance at that level that would gain sufficient assurance. Mark Hodgson stated that when considering the £1.4m which is associated to the Council and when referring to stakeholders that means Council taxpayers, Central Government and any other body who has an interest in the Council's set of accounts. He explained that gross expenditure is deemed to be on the basis upon which is more appropriate for the public sector as the Council is a service providing organisation. Mark Hodgson explained that salaries are included as they are a major cost and, therefore, it is an expenditure basis as opposed to an asset basis and when considering the two together that is how the figure of 2% gross expenditure is reached.

- Councillor Booth stated that when reviewing the risks that have been identified, members have raised concerns previously with regards to Fenland Future Ltd (FFL) which has been set up and he stated that he is aware that there have been investments undertaken to provide returns to the Council, questioning why that has not been listed as a risk. He stated that as it is a new area and, in his view, it would fall under the umbrella of the investment activity, and he asked Mark Hodgson for his view. Councillor Booth added that the committee have mentioned previously that they would like to have assurances that FFL is operating as it should. Mark Hodgson explained that with regards to the operation of FFL, in his view, that would fall under the value for money arrangements which was covered in the work undertaken for 21/22 and as a result EY were comfortable with the overall arrangements. He stated that this is a provisional audit plan due to the fact that information can be submitted to EY at any point in time and at the point when discussions took place there were significant transactions expected prior to the year-end which would necessitate the group accounts needing to be prepared and when you consolidate FFL into the Council's discussions earlier he has now been led to believe that there is the possibility that group accounts may be required which will be dependent on any transactions between now and 31 March 2024. Mark Hodgson added that the risk profile can be revisited before the audit once a draft set of accounts are reviewed and if group accounts are required and consolidation is part of that then it would automatically become an audit risk area and, therefore, it would be designated as either significant inherent dependent on quantum but he anticipates that further discussions will take place and it may become an audit risk in an updated plan before the audit takes place. Mark Hodgson stated that the two combined will provide members assurance in November.
- Councillor Booth stated that it is his understanding that there have been 2 large investments through FFL over the last couple of years. Mark Saunders stated that FFL are working on two large developments of Council owned land which has been transferred to FFL and completion is imminent but not before the end of March. He added that as it stands the land is still owned by the Council and not by FFL and the only element that has gone through the accounts of FFL to date is the cost of obtaining outline planning permission and other associated preliminary work. He added that looking forwards when transactions start to go through the account then a separate set of group accounts will be required and then can be incorporated into the Councils' financial statements.
- Councillor Booth referred to the pension liability valuation and added that a lot of work is invested into it and it is something that continually changes with stock market movements. He made the point that whilst it is a green risk at the current time, could there be any potential for the amount of work in that area to be reduced given the fact that there is governance and controls in place. Mark Hodgson stated that at the current time it is a valuation at a point in time which is driven by a significant amount of work at the pension fund which is linked to a number of assumptions that they actually make which are linked to thresholds for returns and interest and inflation rates. He added that it is very complicated and there cannot be a reduction in audit work because there is still the requirement to get sufficient assurance over the balance at the 31 March. Mark Hodgson explained that CIPFA are consulting on potential changes to the financial framework and one element of potential change is pensions with the potential going from full international reporting standards down

to FRS102, which is more limited reporting standards which in practical terms means that there is a significant reduction of the number of pages within a set of accounts. Mark Hodgson explained that as the international standards are currently drafted the requirements still require full assurance.

- Councillor Christy referred to the report which details the associated fees, and he made the point that they appear to be quite substantial, and he asked for the differences between the years 22/23 and 23/24 to be explained. Mark Hodgson stated that the fees shown for 23/24 are for the first year of the new contract that public sector audit appointments have let for the new round and the contract reflects the cost of performing an International Standards on Auditing (ISA) with all the regulatory requirements that are now incumbent of an audit. Mark Hodgson explained that the figure on the right is the old contract and when it was introduced there were fewer regulatory requirements but that was the baseline fee and ever since that fee was introduced there has been a significant additional fee levied in each of the years which almost closes the gap between the two but that is not shown in the document due to the fact that the scale fee is what is actually published formally by Public Sector Audit Appointments. Mark Hodgson explained that if the scale fee is added to what has been charged to complete an audit in 2021/22 the figure will be that which is shown in the report in the left-hand column.

Members noted the 2023/24 Provisional Audit Plan.

ARMC37/23 ANTI-MONEY LAUNDERING POLICY

David Thacker, Interim Audit Manager, presented the Anti-Money Laundering Policy to the committee.

Members asked questions, made comments, and received responses as follows:

- Councillor Booth stated that it is a worthwhile policy and is one that should be in place, and it is a subject matter he is aware of due to working previously within a financial environment. He added that one of the aspects which does not appear to have been mentioned was with regards to the Joint Money Laundering Steering Group who provide guidance predominantly for financial institutions, however, it may prove useful to refer to it. Councillor Booth made the point that with regards to staff training, one of the associated offences with money laundering is tipping off and the offence carries a five year prison sentence and, therefore, when undertaking staff training, there needs to be assurances that the level of training is adequate as staff need to be clear and have an understanding of what their obligations are under the legislation. David Thacker stated that work will be undertaken to adapt the training for staff accordingly and he added that he does agree with the issue of tipping off. Councillor Booth made the point that the point that he was making that it maybe colleagues not working in a financial role where the issue may arise. David Thacker stated that the training session will be rolled out to all staff, and it is likely to be made a mandatory training session.

Members agreed to APPROVE the Anti-Money Laundering Policy.

ARMC38/23 RISK BASED INTERNAL AUDIT PLAN 2024/25

David Thacker presented the Risk Based Internal Audit Plan 2024/25.

Members asked questions, made comments, and received responses as follows:

- Councillor Christy stated that there does not appear to be any audits which focus on ICT security and given recent cyber-attacks which have been reported he asked David Thacker for his view. David Thacker stated that cyber security appears on the list for the current audit year, and he is just about to finalise a report on cyber security with the Head of ICT and an update will be provided to the committee at the meeting in July. Councillor Christy

asked whether an audit on cyber security can be undertaken more frequently, and David Thacker stated that it is something that he can follow up and he added that it was question of resources, however, he needs to ascertain from the Corporate Management Team whether cyber security should be included as a key fundamental annual audit. David Thacker added that being aware of the training is a key aspect and to ensure that all staff undertake annual cyber training because users are the most vulnerable to cyber-attacks. He explained to the committee that the work of audit is adaptable and if an issue arises it can be added onto the programme of audits and, if necessary, it can be audited annually.

- Councillor Booth explained that with regards to the reactive work that can be undertaken there are only 20 days for contingency which are shown in the audit plan which, in his view, does not appear to be sufficient time and effectively only enough time for one extra audit. He made the point that members have previously recommended that more contingency time should be factored into the audit plan, but he interprets from the report that the audits shown need to be undertaken to provide the levels of assurance that are needed at the current time. David Thacker explained that it is necessary to ensure that a good breadth of coverage is included which is based on factors which include the alignment to the Council plan. He made the point that the role of audit is where value can be added, and he explained that he has changed the number of days per audit to ensure that auditors have enough time to conduct a comprehensive risk-focused audit. David Thacker made the point that best practice from internal audit planning comes down to not setting a rigid 12-month plan as things can change and, therefore, it is a flexible plan and it can be reviewed again in 6 months. David Thacker explained that the plan before committee has been agreed by the Corporate Management Team as a good coverage, but flexibility is key.
- Councillor Booth stated that he has always said that the plan should be adaptive and not set in stone so that it can be amended as necessary. He asked whether the contract monitoring of highways has been considered as he has raised concerns previously with regards to street lighting in the past and he recalls that should have been undertaken last year. David Thacker explained that he has spoken to Mark Greenwood, Head of Assets and Projects, regarding this and it has been agreed that this will be reviewed in the forthcoming municipal year and likely to be in quarter 2. Councillor Booth asked whether that could be seen as being too soon as it is his understanding that the street lighting provider is currently being reviewed with an imminent decision being made and he questioned whether it would provide enough time to obtain an understanding on how a new contract is operating if the provider could be changing. David Thacker agreed to provide feedback to Councillor Booth as the work of audit needs to align with the work being undertaken by the Transformation Team so that it is not disruptive for the services and the work is either undertaken in tandem or as far apart as possible.

The committee acknowledged the Internal Audit resources and noted the draft Internal Audit Plan for 2024/25.

ARMC39/23 ANNUAL GOVERNANCE STATEMENT UPDATE 2022/23

David Thacker presented the Annual Governance Statement Update for 2022/23.

The committee agreed to note the progress made against the actions identified in the Annual Governance Statement for 2022/23.

ARMC40/23 AUDIT AND RISK MANAGEMENT COMMITTEE WORK PROGRAMME

Members considered the Audit and Risk Management Committee Workplan.

Mark Saunders stated that there will be the requirement to incorporate the various tasks which will be undertaken for the External Audit Report and the Statement of Accounts which will be incorporated in the workplan once it is agreed with Ernst & Young.

Members noted the workplan and for it to be updated as appropriate.

ARMC41/23 ITEMS OF TOPICAL INTEREST.

There were no items of topical interest.

4.45 pm

Chairman