

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE,
HELD ON MONDAY, 9TH DECEMBER, 2024 AT 10.30 AM
IN THE COMMITTEE ROOM, AT THE TOWN HALL, STATION ROAD, CLACTON-
ON-SEA, CO15 1SE**

Present:	Councillors Sudra (Chairman), Steady (Vice-Chairman), Fairley, Morrison and Platt (item 52 only)
Also Present:	Aphrodite Lefevre (Audit Director, BDO LLP), Tshiamo Hlatshwayo (Audit Manager, BDO LLP) and Jodie Preston (Auditor, KPMG)
In Attendance:	Richard Barrett (Director (Finance and IT) & Section 151 Officer), Ian Ford (Committee Services Manager), Craig Clawson (Internal Audit Manager), Karen Hayes (Executive Projects Manager (Governance)), Bethany Jones (Committee Services Officer) and Debbie West (Finance Officer)

48. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were no apologies for absence submitted nor substitutions on this occasion.

49. MINUTES OF THE LAST MEETING

It was moved by Councillor Sudra, seconded by Councillor Morrison and:-

RESOLVED that the Minutes of the meeting of the Committee, held on 26 September 2024, be approved as a correct record and be signed by the Chairman.

50. DECLARATIONS OF INTEREST

There were no declarations of interest by Councillors in relation to any item on the agenda for this meeting.

51. QUESTIONS ON NOTICE PURSUANT TO COUNCIL PROCEDURE RULE 38

On this occasion no Councillor had submitted notice of a question pursuant to Council Procedure Rule 38.

52. REPORT OF THE DIRECTOR (FINANCE AND IT) & SECTION 151 OFFICER - A.1 - EXTERNAL AUDITOR'S PLANNING, COMPLETION AND ANNUAL REPORTS RELATING TO 2020/21, 2021/22 AND 2022/23

The Committee considered a report of the Director (Finance & IT) (A.1) which presented for consideration and approval the following, in order to enable final opinions on the accounts and value for money arrangements to be formally issued by the External Auditor:-

- *the External Auditor's Updated Audit Completion Report relating to 2020/21;*
- *the External Auditor's Combined Audit Planning and Audit Completion Reports relating to 2021/22 and 2022/23;*
- *the External Auditor's Combined Annual Report for the years ended 31 March 2021, 31 March 2022 and 31 March 2023; and*

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- *the Council's Statement of Accounts (including the Annual Governance Statements) for 2020/21, 2021/22 and 2022/23 for consideration and approval for publication by the backstop date of 13 December 2024.*

Members were reminded that, on 30 July 2024, the Government had set out proposals to tackle the backlog, which included setting a backstop date of December 2024 to clear the backlog of unaudited accounts up to and including the financial year 2022/23. This aimed to enable the system to refocus on recent accounts where assurance was most valuable. There were also five further backstop dates up to, and including, the financial year 2027/28 to allow assurance to be rebuilt over several audit cycles.

The Government had laid before Parliament two pieces of legislation that would give effect to those proposals: the Accounts and Audit (Amendment) Regulations 2024 and, on behalf of the Comptroller & Auditor General of the National Audit Office (NAO), a Code of Audit Practice 2024.

The Committee was made aware that the Accounts and Audit (Amendment) Regulations 2024 had come into force on 30 September 2024, which had removed the current requirement to publish audited accounts for financial year 2023/24 on that date. The deadline for the publication of audited accounts for 2023/24 would, instead, be 28 February 2025 in order to coincide with the second backstop date. The Regulations also amended the date by which bodies should publish draft (unaudited) accounts to 30 June 2025 for financial years 2024/25 – 2027/28. Auditors were now required to produce timely audit opinions (which might result in the issue of a disclaimed or modified opinion).

It had been acknowledged that issuing modified or disclaimed audit opinions where audits could not be completed by a backstop date could be uncomfortable for stakeholders, including Local Authorities themselves. However given the scale of the backlog and the absence of viable alternatives, the Government had taken the difficult decision to proceed with the backstop date approach highlighted above.

It was felt important to highlight that the Government recognised these measures as exceptional in nature and that local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that were largely beyond their control.

Auditors were therefore expected to provide clear reasons for the issuing of such opinions in order to mitigate the potential reputational risk that local bodies might face.

It was reported that in-line with the backstop dates previously discussed, the Council's External Auditor had substantially completed the necessary audit work associated with 2020/21, with their associated Audit Completion Report attached, which included a management representation letter for approval by the Committee.

Also, in-line with the backstop dates mentioned above, the Council's External Auditor had also issued their Audit Completion Reports relating to 2021/22 and 2022/23. Those were included together with their audit planning responsibilities / activities, with combined completion and planning reports therefore provided for both those respective years.

As set out elsewhere in the report (A.1), the External Auditor anticipated issuing a modified opinion for 2020/21 and a disclaimer opinion for both 2021/22 and 2022/23.

The reason for the disclaimer opinions in both 2021/22 and 2022/23 related to the back stop dates. The back stops dates had also contributed to some extent to the modified opinion anticipated for 2020/21, as it had not been possible for the External Auditor to undertake any additional assurance work relating to the two unresolved matters.

The Council's Statement of Accounts for 2020/21, 2021/22 and 2022/23 were attached to the report, which reflected any necessary amendments agreed in consultation with the External Auditor.

In respect of 2020/21, the External Auditor had highlighted a number of recommended adjustments. It was not proposed to make the associated changes as they were not deemed to be material.

This report (A.1) also set out the External Auditor's Combined Annual Audit Report, which summarised the above along with providing their value for money commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The outcome provided a very positive view on the Council's arrangements and provided welcomed independent assurance on related matters.

Subject to the Committee's consideration of the various attached reports, and approval of the Statement of Accounts for 2020/21, 2021/22 and 2022/23 (including the Annual Governance Statements) it was proposed by the Director (Finance & IT) to publish the Accounts for all three years by the backstop date of 13 December 2024.

Aphrodite Lefevre, Director of BDO LLP, the Council's outgoing Appointed Auditor, led the Committee through the seven attachments to the Director's report which were:-

Attachment 1 - External Auditor's Updated Audit Completion Report: Year ended 31 March 2021

Attachment 2 - The Council's Statement of Accounts 2020/21 for Publication (Including the Annual Governance Statement)

Attachment 3 - External Auditor's Combined Audit Planning Report and Audit Completion Report: Year ended 31 March 2022

Attachment 4 - The Council's Statement of Accounts 2021/22 for Publication (Including the Annual Governance Statement)

Attachment 5 - External Auditor's Combined Audit Planning Report and Audit Completion Report: Year ended 31 March 2023

Attachment 6 - The Council's Statement of Accounts 2022/23 for Publication (Including the Annual Governance Statement)

Attachment 7 - External Auditor's Audit Annual Report (Covering 2020/21, 2021/22 and 2022/23)

In relation to the 2020/21 Accounts – Valuation of Non-Current Assets – Other Land and Buildings valued at Depreciated Replacement Cost (DRC), Ms Lefevre brought the following matter to the Committee's attention:-

- *For buildings revalued using the DRC method, the Council could not provide the floor plans to substantiate the GIAs used in arriving at the value of the buildings. The existing floor plans were not retained by the Council post-valuation. The GIAs are key inputs to the valuation and without any evidence, the value of the assets could be materially misstated.*
- *Furthermore, we were unable to satisfy ourselves by performing alternative procedures, that the value of the assets were free from any potential misstatements.*
- *Due to the backstop deadline imposing a limitation on the time available to perform any further procedures to resolve the differences, we are unable to form a reliable conclusion on this matter and therefore, have to limit the scope of our opinion on this area.*

– Valuation of Non-Current Assets – Infrastructure Assets, Ms Lefevre brought the following matter to the Committee’s attention:-

- *The Council has applied a blanket wide 20 years useful life for seafront defences which is not based on expert advice but instead a judgement exercised by management without relevant substantive evidence.*
- *During the course of the audit, management sought expert advice from the project manager who was involved in the Clacton & Holland Sea project in 2014 and 2015.*
- *We have been unable to obtain advice from an Auditor's expert due to the backstop deadline imposing a limitation on the time available to seek external expert advice. As such, we are unable to conclude on the reasonableness of judgements made by management's expert on the useful economic life and therefore, have to limit the scope of our opinion on this area.*

In relation to the 2020/21 Accounts – Use of Resources Overview – New Code of Audit Practice, Ms Lefevre brought the following matter to the Committee’s attention:-

“While our work was originally initiated in line with then existing scope, changes brought about by the revised Code of Audit Practice (2024), which became effective on 14 November 2024 but applies retrospectively for local government audits for 2020/21, reduces the scope of work on which auditors are required to perform work and report. This reduces the overall number of arrangements we review from fourteen to seven. In line with this scope reduction, as part of our Auditor’s Annual Report, we have only reported commentary in relation to financial sustainability and governance, and included commentary for the two subsequent years (2021/22 and 2022/23), also performed to this reduced scope, in the same report.”

<u>Summary of Questions Asked by Members</u>	<u>Summary of Answers Received</u>
What was the audit fee for this year [2020/21]?	[Ms Lefevre] Approximately £40-50,000.
Is it the case that other audits e.g. NHS were prioritised over local authority audits such as TDC’s audits due to the lower audit fees for local authority accounts?	[Ms Lefevre] Agreed that the audit fees for that period had not been at the right level.
The issue relating to the floor plans is a long-standing one. Why was this not flagged up earlier?	[Ms Lefevre] BDO has pursued many options in trying to resolve this issue including contacting TDC’s old and new

	valuers. The only realistic remaining option is for TDC to re-measure the floor areas of its buildings.
What is the impact of these Disclaimers on TDC?	[Richard Barrett] This is not a representation of TDC's reputation. Many other local authorities are in the same position. The two issues in question are shown clearly in the Accounts for the sake of transparency and have their context provided. In the coming years it will be the task of Officers working alongside the Audit Committee to build up the level of assurance once more. Having the value for money assurance from the External Auditor was key as it was an independent assessment.

In relation to the 2021/22 and 2022/23 Accounts, Ms Lefevre confirmed that BDO LLP had not identified any material misstatements nor had they identified any audit differences that had not been adjusted for. In respect of the overview of risks, the backstop date had created time constraints that had impeded BDO LLP from completing all necessary risk assessment procedures. Therefore, BDO LLP had not been able to meet the objective of ISA (UK) 315 Identifying and Assessing the Risks of Material Misstatement, which was to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. Had BDO LLP met the objective of ISA (UK) 315, it might have identified additional risks to those listed in their report.

In response to a question from a Member, Richard Barrett confirmed by reference to the balance sheet as at 31 March 2022 that the net book value of Property, Plant and equipment at 31 March 2022 had increased by £26.880million to £261.539million compared to the balance at 31 March 2021.

In relation to the Combined Auditor's Annual Report for the years ended 31 March 2021, 31 March 2022 and 31 March 2023, Ms Lefevre highlighted the following matters:-

- (1) Significant deficiencies in controls – year ended 31 March 2021;
- (2) Disclaimed audits for years ended 31 March 2022 and 31 March 2023 due to the backstop date;
- (3) Value for Money: Risk Assessment had identified three risks of significant weakness namely significant amount of carry forward each year from the planned projects of revenue and capital items which indicated an issue of deliverability of planned projects; data security breaches due to practice of auto-forwarding of Councillors' emails to their personal email accounts; and an over-reliance on central government grants that could impact the flexibility of delivering services and capital projects;
- (4) Financial Sustainability;
- (5) Governance; and
- (6) Improving economy, efficiency and effectiveness.

In response to a question from a Member, Ms Lefevre confirmed that she had no specific suggestions to make to the Council in respect of the identified value for money risks.

It was moved by Councillor Sudra, seconded by Councillor Steady and:-

RESOLVED that, in respect of the 2020/21 Statement of Accounts and the associated Updated External Auditor's Audit Completion Report for the year ended 31 March 2021, the Audit Committee:

- (a) notes the contents of the report;
- (b) approves the management representation letter set out on Pages 33 to 35 of the External Auditor's Updated Audit Completion Report for the year ended 31 March 21;
- (c) authorises the Director (Finance & IT) and the Chairman of the Audit Committee to sign the management representation letter for forwarding to the External Auditor; and
- (d) approves for publication the audited Statement of Accounts for 2020/21 as attached, and approves for signing, the Annual Governance Statement set out in within Pages A1 to A18 of the same attachment.

It was moved by Councillor Sudra, seconded by Councillor Morrison and:-

RESOLVED that in respect of the 2021/22 Statement of Accounts and the associated External Auditor's Combined Audit Planning and Completion Report for the year ended 31 March 2022, the Audit Committee:

- (a) notes the contents of the report;
- (b) approves the management representation letter set out on Pages 23 to 25 of the External Auditor's Combined Audit Planning and Completion Report for the year ended 31 March 2022;
- (c) authorises the Director (Finance & IT) and the Chairman of the Audit Committee to sign the management representation letter for forwarding to the External Auditor; and
- (d) approves for publication the audited Statement of Accounts for 2021/22 as attached, and approves for signing, the Annual Governance Statement set out in within Pages A1 to A23 of the same attachment.

It was moved by Councillor Sudra, seconded by Councillor Morrison and:-

RESOLVED that in respect of the 2022/23 Statement of Accounts and the associated External Auditor's Combined Audit Planning and Completion Report for the year ended 31 March 2023, the Audit Committee:

- (a) notes the contents of the report;

- (b) approves the management representation letter set out on Pages 23 to 25 of the External Auditor's Combined Audit Planning and Completion Report 2022/23;
- (c) authorises the Director (Finance & IT) and the Chairman of the Audit Committee to sign the management representation letter for forwarding to the External Auditor; and
- (d) approves for publication the audited Statement of Accounts for 2022/23 as attached, and approves for signing, the Annual Governance Statement set out in within Pages A1 to A25 of the same attachment.

It was moved by Councillor Sudra, seconded by Councillor Steady and:-

RESOLVED that the contents of the Combined Auditor's Annual Report for the years ended 31 March 2020, 31 March 2021 and 31 March 2022, including the value for money commentary set out on Pages 7 to 17 of that report, be noted.

The meeting was declared closed at 11.20 am

Chairman