

# AUDIT COMMITTEE

30 JANUARY 2025

## REPORT OF ASSISTANT DIRECTOR (FINANCE & IT)

### A.3 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES

#### PART 1 – KEY INFORMATION

##### **PURPOSE OF THE REPORT**

To present to the Committee the progress on outstanding actions identified by the Committee along with general updates on other issues that fall within the responsibilities of the Committee.

##### **EXECUTIVE SUMMARY**

- A Table of Outstanding Issues is maintained and reported to each meeting of the Committee. This approach enables the Committee to effectively monitor progress on issues and items that form part of its governance responsibilities.
- Updates are set out against general items within **Appendix A and B**.
- To date there are no significant issues arising from the above, with work remaining in progress or updates provided elsewhere on the agenda where appropriate.

##### **RECOMMENDATION(S)**

**It is recommended that the Committee notes the progress against the actions set out in Appendices A and B.**

##### **REASON(S) FOR THE RECOMMENDATION(S)**

To provide a timely update to the Committee along with reassurances that actions previously identified are being addressed accordingly.

##### **ALTERNATIVE OPTIONS CONSIDERED**

There are no alternative options associated with this report.

#### PART 2 – IMPLICATIONS OF THE DECISION

##### **DELIVERING PRIORITIES**

The existence of sound governance, internal control and financial management practices and procedures are essential to the delivery of Corporate priorities supported by effective management and forward planning within this overall framework.

##### **LEGAL REQUIREMENTS (including legislation & constitutional powers)**

The recommendation to appoint an Independent Person(s) to the Audit Committee, initially stemmed from the Redmond Review. This has not materialised into legislation, as is the case with other Independent Persons appointed by the Council (e.g. Independent Persons for the Standards Committee and Independent Remuneration Panel); however CIPFA guidance recommends this practice to be implemented by Audit Committees.

## **FINANCE AND OTHER RESOURCE IMPLICATIONS**

### **Finance and other resources**

There are no significant financial implications associated with monitoring of the agreed actions or responses. If additional resources are required then appropriate steps will be taken including any necessary reporting requirements.

## **USE OF RESOURCES AND VALUE FOR MONEY**

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	Not directly applicable
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	Not directly applicable
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	Not directly applicable

## **MILESTONES AND DELIVERY**

The Table of Outstanding Issues is presented to the Audit Committee at each of its standard meetings.

## **ASSOCIATED RISKS AND MITIGATION**

The Table of Outstanding Issues is in itself a response to potential risk exposure with further activity highlighted to address matters raised by the Audit Committee.

The report does not have a direct impact although such issues could feature in future recommendations and actions. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

## **OUTCOME OF CONSULTATION AND ENGAGEMENT**

There is no requirement to seek consultation on this report. This is a public document to be presented to the Audit Committee.

## **EQUALITIES**

The Table of Outstanding Issues aims to deliver fairness, transparency and consistency to all customers and stakeholders.

## **SOCIAL VALUE CONSIDERATIONS**

The Table of Outstanding Issues is in itself a response to potential risk exposure, including considerations towards social value, with further activity highlighted to address matters raised by the Audit Committee.

<b>IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2050</b>	
There are no direct implications associated within this report.	
<b>OTHER RELEVANT IMPLICATIONS</b>	
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.	
<b>Crime and Disorder</b>	Not applicable
<b>Health Inequalities</b>	Not applicable
<b>Area or Ward affected</b>	All Wards could be affected
<b>ANY OTHER RELEVANT INFORMATION</b>	
None	

### **PART 3 – SUPPORTING INFORMATION**

<b>BACKGROUND</b>
<p><b>TABLE OF OUTSTANDING ISSUES</b></p> <p>The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee in September 2024.</p> <p>There are two main elements to this report as follows:</p> <ol style="list-style-type: none"> <li>1) Updates against general items raised by the Committee – <b>APPENDIX A</b></li> <li>2) Updates against the 2023/24 Annual Governance Statement Action Plan – <b>Appendix B</b></li> </ol> <p>In terms of item 1) above, there are no significant issues to raise, with actions remaining in progress or further details set out below.</p> <p>In respect of the 2023/24 Annual Governance Statement Action Plan, although this remains subject to the Committee's final approval via a separate item on the agenda, for timely and practical reasons the unaudited version published at the end of May 2024, alongside the Unaudited Statement of Accounts presents the most up to date position for the Committee's consideration. This approach enables the actions and associated updates to be considered as early as possible within the Committee's annual work programme. Appendix B therefore includes outstanding items from last year's Annual Governance Statement alongside new items for the year. There are no significant issues to highlight at the present time with actions and activities remaining on-going, with the plan subject to amendment following the external audit process.</p> <p><b><u>Appointment of Independent Person(s) to the Audit Committee</u></b></p> <p>It was originally planned to present a draft person specification to this meeting of the Committee, however due to a number of competing priorities it is now planned to present this to the Committee at its March 2025 meeting. Although this introduces a slight delay to the process it will still be possible to carry out the necessary process to enable an Independent</p>

Person to be appointed to the Committee as early as possible in 2025/26.

### **External Funding Review**

As highlighted within the report to the Audit Committee at its September 2024 meeting, the Committee have been asked by Cabinet for their support and assurance on the associated governance processes. This item has now been captured within Appendix A with further updates to be presented to future meetings of the Committee.

### **External Audit Delays**

The outstanding Statement of Accounts and associated External Auditor's reports for the years up to and including 2022/23 were considered and agreed by the Committee at its December 2024 meeting. Although it was hoped to present the Statement of Accounts and associated external auditor reports for 2023/24 to this meeting of the Committee, work remains ongoing to finalise the position, and it is therefore proposed to seek to arrange a special meeting of the Committee in early February 2024 to consider this item.

### **Local Audit Reform: The Government's strategy for overhauling the local audit system**

The recently published English Devolution White Paper set out the Government's intention to legislate to radically streamline and simplify the local audit system, bringing as many audit functions as possible into one place.

The Government's associated strategy aims to set out a new and proportionate Local Audit Office that will seek to bring together the following key elements of a local audit system:

- Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers;
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- Setting the Code of Audit Practice;
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Government also highlighted their intentions in respect of building on the previous reviews and recommendations such as the most recent Redmond Review.

The strategy therefore includes a range of other measures, including:

- Setting out the vision and key principles for the local audit system;
- Committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- Enhancing capacity and capability in the sector;
- Strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- Increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

Taking the above into account, the Government's strategy commits to establish the Local

Audit Office (LAO), to radically simplify the system and bring as many audit functions as possible under a single organisation with a focus and expertise in local audit. This therefore builds on the previous Government's intentions which were broadly similar in nature.

Although the Government have stated that the proposals are not a return to the previous Audit Commission regime, there are clearly similarities. The Government have stressed that the LOA will be proportionate and operate within its strategic objectives and the principles of this strategy and then goes on to list the following 5 strategic responsibilities:

1. Coordinating the system

- i. Coordinate and lead the local audit system
- ii. Champion auditors' statutory reporting powers

2. Contract manage, set fees, procure, commission and appoint auditors to all eligible bodies (excluding the NHS at this stage).

3. Code of Practice

- i. set the Code of Audit Practice
- ii. issue statutory guidance to auditors

4. Oversight

- i. a quality regulatory framework (inspection, enforcement and supervision)
- ii. professional bodies

5. Reporting, insights and guidance

- i. collation of reports made by auditors
- ii. national insights of local audit issues

The Financial Reporting Council's (FRC) current responsibility in relation to audit quality and inspection, enforcement, and some elements of supervision for the audit of English local bodies as well as system leadership will end. The LAO will take on responsibility for the NAO's Code of Audit Practice, but the FRC will continue to oversee International Standards on Auditing (ISAs).

Once established, the LAO would adopt PSAA's full responsibilities to procure, appoint and contract manage, further streamlining the local audit system.

In the short term, the government will work with all stakeholders to develop a transition plan which will clearly set out roles and responsibilities. In the longer term, clear governance and escalation routes will ensure that concerns raised about any aspect of the local audit process will be considered by a single authority. Suitable ethical walls will be established to mitigate conflicts of interest.

The intention is that the LAO will coordinate and lead the sector, harnessing the opportunity of having related functions within a single organisation. It will work closely with local bodies, system partners, the market and government, and maintain focus on the purpose of local accounts and local audits to serve the users.

In terms of Local Authority Accounts, the Government have committed to review, in consultation with relevant stakeholders, their content and format, which will include ensuring that the accounting code does not require more disclosures than are necessary and consider the purposes and users of local authority accounts. This is a welcomed approach which is

hoped will have a positive impact for both the internal finance team and the users of the accounts.

The Government has defined the primary purpose and priorities of local audit and have highlighted the following key functions /outcomes:

- a. Confirm that financial statements are true and fair;
- b. Examine and comment on the body's arrangements for securing value for money and report on any significant deficiencies in those arrangements;
- c. Examine and comment on the financial resilience of the body;
- d. Provide early warning of major governance and financial risks, including the risk of material fraud and financial failure, and make appropriate recommendations for managing such risks;
- e. Report on major failures in governance and value for money through a separate public interest report and make recommendations for improvement where appropriate;
- f. Assist those charged with governance to fulfil their responsibilities for stewardship of public funds;
- g. Support transparency by communicating effectively with the main users of the accounts.

The Government have stated their agreement with the Redmond Review's recommendation for a post-implementation review to assess whether changes to the 2020 and 2024 Code of Practice, concerning the requirement to consider VFM arrangements, have improved this core function. For local bodies, the Government commits to MHCLG or the LAO holding this review by the end of 2027, to give time for the backlog to clear and for authorities to receive at least three VFM commentaries.

It is understood that this review will consider if auditors should assess whether local bodies achieve VFM, rather than purely assessing their arrangements to secure it. This review would need to be cognisant that responsibility for VFM in local authorities sits with elected members. The Government acknowledge that such a review would also need to consider the need to maintain auditors' independence and whether there is a risk of being drawn into challenging political decisions. There would also need to be consideration of the capacity and capability of the system to respond to an extension of auditors' responsibilities.

In addition to all of the above, the Government also confirmed that they will be consulting on the potential delivery of local audit through a mixed market, supplementing the private market with public delivery of local audit.

In terms of Audit Committees, the Government proposes to mandate audit committees, including the provision for one independent member, and for audit reports to be considered by full council. The Government would also like to understand views on whether the chair of the Audit Committee should be an independent member in order to rebuild confidence and value for money oversight.

Alongside a reformed local audit system, the government is also considering new local public accounts committees for strategic authority areas in England. With greater powers and funding comes more responsibility, and there is a need to ensure that robust accountability is in place. This includes reporting and monitoring, strengthening public spend oversight and improving transparency of spending decisions.

Although subject to change, the Government have published the following provisional timeline for the transition to a new local system audit:

Milestone	Indicative timeframe
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Engagement, technical workshops and consultation January - February 2025

Engagement continuing on elements of secondary legislation  
Spring 2025

Introduction of primary legislation, subject to Parliamentary timetable  
Mid-2025

Laying of relevant secondary legislation, subject to Parliamentary timetable  
Mid-2026

LAO legally established, public delivery built up (either within LAO or separately as consulted upon) with the ability to take on vacant contracts where appropriate  
Autumn 2026

Procurement exercise for next appointing period (further clarity on the quality oversight framework, including enforcement, would be provided by this point)  
From early 2027

LAO fully resourced and begins contract management with other elements of its oversight, as set out in the transition plan to give the market clarity and time to adjust.  
By 2028

It is felt that the above provides a positive basis for the future of local authority audit and the preparation of annual accounts. There will also likely to be a considerable amount of work involved in supporting the change / transition which will have to be balanced against existing capacity and the need to continue to deliver current activities and functions. It is also acknowledged that the timescales above run alongside those associated with Local Government devolution / LGR, so subject to associated future decisions, the need to balance capacity with demand would come into even sharper focus. The above will be kept under on-going review with further updates presented to the Members as necessary.

### **RIPA – Regulatory Investigatory Powers Act 2000**

To inform the Committee of any activity conducted under RIPA by the Authority – the Authority has not conducted any RIPA activity in the last quarter and it is rare that it will be required to do so.

### **Whistleblowing**

To inform the Committee of any activity under the Whistleblowing Policy as part of the monitoring arrangements. The Authority has not received any Whistleblowing notifications since the adoption of its policy in July 2023.

### **PREVIOUS RELEVANT DECISIONS TAKEN BY COUNCIL/CABINET/COMMITTEE ETC.**

The Table of Outstanding Issues is presented to the Committee at each of its meetings.

### **BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL**

None

### **APPENDICES**

**Appendix A – Table of Outstanding Issues (January 2025) – General**

**Appendix B – Table of Outstanding Issues (January 2025) – Update against 2023/24 Annual Governance Statement Actions**

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