

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 25 July 2018

Present:-

Councillor Natalie Vizard (Chair)
Councillors Foggin, Mrs Henson, Pattison, Sheldon, Thompson and Warwick

Also Present

Chief Finance Officer, Technical Accounting Manager, Audit Manager (HK), Policy Officer and Democratic Services Officer

12

APOLOGIES

Apologies were received from Councillors Begley, Lamb, Musgrave and Wood.

13

MINUTES

The minutes of the meeting held on 14 March 2018 were taken as read and signed by the Chair as correct.

14

DECLARATION OF INTERESTS

No declarations of disclosable pecuniary interests were made.

15

ISA260 REPORT AND MANAGEMENT REPRESENTATION LETTER

Darren Gilbert, Director and Rob Andrews, Audit Manager, KPMG, presented the ISA 260 2017/18 findings reports. They provided a summary of the work completed by KPMG LLP, which included the audit of the financial statements and the value for money conclusion.

They discussed the financial statements, noting the three significant risk areas per the audit plan, were the PPE, Pensions Liabilities and the financial statements faster close. There were no issues raised with PPE valuation following engagement with the authors of the valuation report.

The Pensions liabilities processes had been reviewed for completeness and accuracy of data and the work was complete. KPMG had raised a new recommendation on the creation of a severance policy and noted that two of the four previous year's recommendations relating to payroll signatories and procurement were still outstanding. The accounts production had been prepared to a faster time table to be signed off by 31 July and this had been successful. They commended the hard work of both the audit and finance teams during this period.

KPMG noted that proper arrangements had been made to secure value for money arrangements, except for procurement. Members were made aware of the previous value for money issues with procurement. The two significant value for money risks, delivery of budgets and procurement were discussed, where Darren Gilbert, commented that there had been reductions from central government funding, leading Exeter City Council to make additional savings. The medium term financial plan had been reviewed and there were no issues identified with the work in place.

Further procurement work was still required, now it was three years since the first qualification, but progress was being made and needed to continue.

The Chief Finance Officer provided an update on procurement recruitment, explaining that there had been challenges with recruiting staff due to issues with matching market rate salary demands. Progress had been made to recruit new staff through an external agency and the Council was close to filling the roles. Exceptional candidates had applied for the roles, but the jobs needed amending to recruit the candidate's with the required qualifications. He commented that an Interim Head of Procurement was in post and Council had approved a new tendering system.

In response to questions from Members, Darren Gilbert, Rob Andrews and the Chief Finance Officer responded:-

- The PPE independence valuation referred to the acquisition of a qualified independent team, to value the risk;
- KPMG had made practical recommendations, to support improvements to risks at the Council;
- Work had been done on job evaluations using comparators with the head of Procurement at other authorities. Exeter was offering a much lower salary and could not meet the same salary rate as the other authorities;
- Qualifications from the Chartered Institute of Procurement and Supply (CIPS) were required from candidates who would be working on achieving these whilst undertaking the role;

The Audit and Governance Committee noted the report on Audit Findings from the Exeter City Council (External Auditor).

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FINAL STATEMENT OF ACCOUNTS 2017/18 AND MANAGEMENT REPRESENTATION LETTER

The Technical Accounting Manager presented the report on the Council's final 2017/18 Statement of Accounts for approval and adoption. It was now a statutory requirement to publish the Statement of Accounts by 31 July 2018, following changes to the close of accounts time table. The draft statement of accounts had been issued on 24 May 2018 and despite the significant challenges faced, the deadline date had been met.

Members were advised that there were no significant changes to accounting standards introduced in the 2017/18 Code of Practice on Local Authority Accounting and that a £4.1m lease premium error had been identified during the process of closing the accounts. The prior period figures had now been corrected and a Prior Period Restatement note was included in the report.

The Technical Accounting Manager discussed the key audit findings, highlighting material misstatements, audit adjustments and presentational issues, which would not impact the General Fund balance or the Housing Revenue Account balance, which remained as reported to Council.

The Chief Finance Officer explained that there was a five point plan to reduce operating costs to save £2.75m. Housing benefits were also returning to normal trends, which would impact on income and, following a fair funding review, Central Government would be re-setting business rates from 2021. Further savings still needed to be made and it was the responsibility of Members to set a balanced budget each year.

The Chair expressed her thanks to the finance team for their work on the production of the Final Accounts. The Chief Finance Officer submitted the letter to the External Auditor, KPMG in respect of the 2017/18 Statement of Accounts as required by audit.

RESOLVED that the Audit and Governance Committee approve the representation letter, and request that it be signed by the Chief Finance Officer and the Chair of the Audit and Governance Committee for forwarding to the External Auditor, KPMG.

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EXTERNAL AUDIT FEE LETTER 2017/18

Geraldine Daly, Audit Director, Grant Thornton presented the External Audit Fee Letter 2017/18. She summarised the planned audit fee for 2018/19, which had been set as £44,573 by the Public Sector Audit Appointments Ltd (PSAA), but had been reduced by 23%. The scale fees were based on the expectation that audited bodies would provide the auditor with financial information within an agreed time.

She discussed the value for money conclusions, which would assess if Exeter City Council had made arrangements to secure value for money. The outline audit timetable detailed audit work that would take place between November and February. Grant Thornton would then issue a detailed audit plan for completion by July 2019.

The Audit and Governance Committee noted the External Audit Fee Letter 2017/18.

18

ANNUAL GOVERNANCE STATEMENT 2017/18

The Chief Finance Officer presented the report that set out the Annual Governance Statement to accompany the Council's Statement of Accounts for 2017/18. He explained that the Council was required to prepare and publish the Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. The Governance Statement reported on the Council's performance the Code of Corporate Governance, which had been previously approved by the Audit and Governance Committee on 14 March 2018.

He discussed the report which had been updated to the show the updated Code of Corporate Governance principles, as set by CIPFA/SOLACE.

RESOLVED that the Audit and Governance Committee approve the Annual Governance Statement of Accounts for 2017/18 and be signed by the Chief Finance Officer and the Chair of the Audit and Governance Committee and

- (1) Be included within the Council's Annual Statement of Accounts for 2017/18; and
- (2) Council to note and approve the Annual Governance Statement included within the Council's Annual Statement of Accounts for 2017/18.

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ANTI-MONEY LAUNDERING POLICY

The Chief Finance Officer presented the report on the Council's Anti-Money Laundering Policy and Procedures, which had been reviewed and updated to meet the requirements of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017).

The new legislation had expanded the definition of money laundering and increased the range of activities in the statutory framework. Local authorities had been required to establish internal procedures to prevent the use of their services for money laundering and how the Council would approach the risk of fraud and corruption. Members were informed that money laundering and failure to report money laundering, were the two main offences that could be committed.

The Audit and Governance Committee approved the update to the Council's Anti-Money Laundering Policy and Procedures.

20

ANNUAL INTERNAL AUDIT REPORT 2017/18

The Audit Manager (HK) presented the Annual Internal Audit Report which conformed to the Public Sector Internal Audit Standards (PSAIS) to inform the Council's Annual Governance Statement and included the quarterly update on the progress of Internal Audit work.

She discussed the work undertaken in the year and advised that the Audit and Governance Committee had approved a supplementary budget in December 2017, for additional staffing resources to deliver the approved audit plan. The existing team had worked additional hours between January and March 2018 to complete the audit plan within the approved supplementary budget.

Members were referred to the summary of work completed for quarter ended 31 March 2018 and were advised that of the 16 audit areas, 15 had been completed to a satisfactory level with only the external grants funding requiring significant improvement. The summary of investigations (Appendix C) showed the fraud reported to the Council during the year along with the outcome of subsequent investigations.

The Audit Manager also provided a report on the Internal Audit Performance Management and Quality Assurance Improvement Program.

The Audit Manager reported that the Regulation of Investigatory Powers (RIPA), had not been used during 2017/18, but the Council had recently been inspected by a representative of the Investigatory Powers Commissioners Office (IPCO) to ensure that Council policies and procedures were in accordance with legislation.

The Chief Finance Officer would be presenting a report on the Councils Counter Fraud review to the Senior Management Board and a summary of the Counter Fraud report and ICPO inspection would be presented at the next Audit and Governance Committee in September.

In response to questions from Members, the Audit Manager (HK) responded:-

- Housing Tenancy Subletting was a high risk area for many authorities, and for the case in question the information had been provided by Plymouth City Council who carry out RTB fraud investigations on the Council's behalf. The value of the one case reported would be paid back to Exeter;
- All fraud claims are investigated, however most cases were provided anonymously from the public, with little information to support the investigation;
- The investigations summary report only showed the value of the cases identified as fraud to date, however further information had been provided by Capita that showed forecast losses had the fraud continued;
- The outcome of any Housing tenancy subletting investigation was an issue and was advertised where possible to discourage it. Cyber security was an ongoing

risk that would always remain as high due to the ever changing nature of technology;

The Audit and Governance Committee noted the Annual Audit Report for the year ended 31 March 2018.

21 **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT - EXCLUSION OF PRESS AND PUBLIC**

RESOLVED that, under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting for the consideration of the following item on the grounds that it included the likely disclosure of exempt information as defined in paragraph 3, of Part 1 of Schedule 12A of the Act.

22 **REVIEW OF CORPORATE GOVERNANCE RISK REGISTER**

The Policy Officer presented the report which advised the Audit and Governance Committee of the Council's risk management process and presented the updated Corporate Risk Register. The Audit and Governance Committee was responsible for the monitoring and reviewing the Council's risks.

She explained that one new risk had been added to the register the last quarter, relating to identifying where savings could be made. There were seven high risk areas remaining on the register and that no risks had been removed during this quarter. In response to questions from Members, the Policy Officer and Chief Finance Officer responded:-

- A response from the Head of Legal status on whether the Leisure Complex, St Sidwells point and other Working Groups should be considered to be a committee;
- An update on the Legionella Risk and what was being done to mitigate the risk, would be provided to Members. Information was also available on the Health and Safety risk register;
- A response about the contaminated land at Mincinglake and how it impacts on development in the area would be issued
- A response on how the SWW risks impacts on residents with culverts on their land would be issued
- There would be a 12 month staff training period, to transition to new procurement systems to support improvements to noncompliance with the procurement regulations;
- The out of town shopping developments would remain on the edge of the city, to lower impact on the Bus Station redevelopment;
- The Chief Executive & Growth Director would re-word the risk register terminology for the next meeting;
- Members had the power to make amendments with the Planning Policy. However this was a matter for the Planning team.

The Audit and Governance Committee reviewed and noted the updated Corporate Risk Register.

(The meeting commenced at 5.30 pm and closed at 6.50 pm)

Chair

