

## **AUDIT AND GOVERNANCE COMMITTEE**

Wednesday 28 July 2021

### Present:-

Councillor Tony Wardle (Chair)  
Councillors Atkinson, Jobson, Mitchell, M, Martin, A, Pearce, Sparkes and Warwick

### Also Present

Director Finance, Audit Manager (HK) and Democratic Services Officer (SLS)

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### **MINUTES**

The minutes of the meeting held on 10 March 2021 were taken as read, approved and signed by the Chair as correct.

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### **DECLARATION OF INTERESTS**

No declarations of disclosable pecuniary interests were made.

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### **EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Director Finance presented the progress report on behalf of Grant Thornton, as the Senior Manager, Audit was unable to attend the meeting having been required to self-isolate due to coronavirus. The report from Grant Thornton provided Members with detail of the External Auditor's work as at July 2021, which included their audit approach following the introduction of the new Code of Audit Practice, and requirement for a more detailed value for money assessment.

The Director Finance responded to the following Members' questions:-

- as well as an overall value for money assessment for the Council, the detail of specific projects and how they had been managed may also be included as part of the overall conclusion, if they were considered material;
- Members had the opportunity to request information on any of the companies owned by the Council in their entirety; and
- the auditors had access to business transacted with private commercial companies, where that business was part of a Council contract. This ensured that the business conducted was appropriately and accurately reflected, rather than the wider aspects of that company's business.

A Member referred to the value for money assessment and considered there was a duty when procuring services to include social value as well as the economic, social and environmental wellbeing of Exeter's citizens. She welcomed further guidance on how that could be achieved. The Director Finance confirmed that Grant Thornton followed the prescribed process as set out in the Code of Auditing standards, and he would pass the Member's comments to them. However it would be for the National Audit Office to consider any changes or widening of the scope of value for money.

The Audit and Governance Committee noted the External Audit Progress Report and Sector Update.

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### **EXTERNAL AUDIT PLAN 2020/21**

The Director Finance presented the proposed External Audit Plan from Grant Thornton for the year ending 31 March 2021, which detailed an overview of the planned scope of the statutory audit, the significant risks identified and a number of key changes. It was notable that identified risks were not unique to Exeter as an authority and were likely to be identified as significant for many Councils.

The cost of the audit was a key issue highlighted every year and the proposed fee was £70,523, which was substantially higher than the original estimate of £44,573. The Public Sector Audit Appointments Ltd (PSAA) had overseen the contract and had agreed to fund additional audit costs. They had provided the Council with extra funding, but there remained a shortfall in the budget. The final outcome of the Redmond Review would offer a useful starting point of what value for money represented as part of the negotiations for the next contract.

In response to a Member's question the Director Finance stated that each Council should include a note of the audit cost in their published accounts which offered the opportunity to determine whether value for money was achieved. Exeter City Council's external audit fees were likely to be slightly higher compared to other Devon District Councils, due in part to including group accounts and other work included the need to produce (and audit) a separate set of accounts for the city's Harbour Authority.

The Audit and Governance Committee noted the External Audit Plan for the year ending 31 March 2021.

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### **INFORMING THE AUDIT RISK ASSESSMENT REPORT**

The Director Finance presented the report to Grant Thornton, which set out responses from the City Council to help inform the risk assessment of Exeter City Council as part of the planned audit process. Colleagues from the finance teams, the internal audit team and legal services had compiled responses to over 30 questions to gain an understanding of the Council's management processes and oversight in the following areas –

- General Enquiries of Management
- Fraud
- Fraud Risk Assessment
- Impact of Laws and Regulations
- Related parties and
- Accounting Estimates

The Director Finance responded to a Member's question and offered further reassurance regarding the potential for misreporting. He confirmed there was nothing identified that offered cause for any concern at this stage. He also agreed to send the partially obscured detail of a response made on impairments to Members.

The Audit and Governance Committee noted the responses given to the Risk Assessment report.

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### **ANNUAL INTERNAL AUDIT PROGRESS REPORT**

The Audit Manager (HK) presented the Annual Internal Audit report for the year ending 31 March 2021, which conformed to the Public Sector Internal Audit Standards and was timed to inform the Council's Annual Governance Statement. She drew Members' attention to key points within the report and advised on the overall opinion and assurance. The overall opinion was included at paragraph 2.5 of

the circulated report, with confirmation that key systems were operating satisfactorily with no fundamental breakdown of control resulting in material discrepancy.

A summary of the audit reports undertaken throughout the year was included and the following points were highlighted from within the report:-

- Section 2 - offered the overall opinion on the assurance statement which was required on an annual basis and also fed into the Annual Governance Statement. It was noted that the work undertaken throughout the year showed that key systems were operating satisfactorily and there had been no fundamental breakdown of control.
- Section 3 - identified the key issues and themes and listed five areas which were included in the Annual Governance Statement, and reported quarterly to this Committee along with a statement of the action that had been taken to date.
- Section 4 - a summary of the audits throughout the year was set out as the delivery of the 2020/21 Council's Audit Plan.

The Audit Manager responded to Members' questions regarding an audit of the carbon neutral policy. She confirmed that time was included within the 2021/22 Audit Plan and a new Net Zero team would also shortly be in place. Once in place, the scope of the audit will then be agreed with the team. Responding to a question regarding the reported incidences of fraud, the Audit Manager confirmed that in all cases, the money was recovered following the fraud investigations.

The Audit and Governance Committee noted the Annual Audit Report for the year ended 31 March 2021.

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### **ANNUAL GOVERNANCE STATEMENT 2020/21**

The Director Finance presented the Annual Governance Statement that would accompany the Council's Statement of Accounts for 2020/21. 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 was a statutory requirement and reported on the Council's performance against the Code Corporate Governance which was last approved on 10 March 2021. The report set out key issues, the responses and a summary of action.

In response to questions from a Member, the Director of Finance stated that there was effective accountability by ensuring good systems to those who could be impacted by the services provided by the Council. He added that driving good governance was not necessarily referenced in the reporting process but it was considered as part of the work of Internal Audit and the Audit and Governance Committee to ensure that the governance of the Council was appropriate and working effectively.

**RESOLVED** that the Audit and Governance Committee approve the Annual Governance Statement of Accounts for 2020/21 and be signed (at the earliest possible convenience) by the Chief Finance Officer and the Chair of the Audit and Governance Committee and included within the Council's Annual Statement of Accounts for 2020/21; and

**RECOMMENDED** to Council to note and approve the Annual Governance Statement included within the Council's Annual Statement of Accounts for 2020/21.

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### **REVIEW OF CORPORATE GOVERNANCE RISK REGISTER**

The Audit Manager (HK) presented the report and referred to their coordinating role in drawing the updated Corporate Risk Register together to advise the Audit and Governance Committee of the Council's risk management process. She had met with members of the Council's Strategic Management Board to review and it was updated on a quarterly basis. An update on each risk was included in the notes column of the Corporate Risk Register which had been circulated as an appendix to the report presented at the meeting.

The report included the following changes which included -

- *Risk 3*—related to the lack of leadership capacity to effectively deliver additional Council objectives and priorities, had been placed onto the operational risk register and judged to be a low risk; and
- *Risk 8*—the inability to deliver carbon neutral operations for Exeter City Council by 2022, the focus on the Council's own carbon footprint and the challenging earlier Net Zero 2030 target date. Additional resources would support a more focused programme but this was now judged to be a high risk.

The four risks rated as high on the register were :-

- the inability to meet the carbon neutral aspirations for Exeter by 2030 (*Risk 4*);
- maintaining the financial stability of the Council (*Risk 7*);
- the inability to deliver the carbon neutral operations for the Council by 2022 (*Risk 8*); and
- the increased cost of St Sidwell's Point and Bus & Coach Station (*Risk 9*)

The Director Finance responded to a Member's reference to the carbon neutral risk matter which had been raised at the last meeting and reiterated that the Risk Register was a governance report to the Audit and Governance Committee, and was independent of the Executive. If there were any issues that the Member wished to highlight for debate they could be raised directly at Council. Officers had highlighted the challenges of delivering the carbon neutral aspiration in terms of the target set and it was noted that a team had been established to help address the aspiration, but this risk would nevertheless remain high for some time.

A Member also referred to the lack of government grants to insulate or retrofit Council houses to reduced carbon emissions and considered there must be a raft of opportunities to improve the carbon neutral achievements that were outside of the Council's control. The Director of Finance stated that the Council was working on a significant plan to deliver a retrofit solution for council housing stock to help meet the challenges. However it was a problem that every occupier would face and of whatever tenure of housing they lived in.

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

(The meeting commenced at 5.30 pm and closed at 6.15 pm)

Chair