AUDIT AND GOVERNANCE COMMITTEE

Wednesday 27 September 2023

Present:-

Councillor Wardle (Chair)
Councillors Jobson, Allcock, Atkinson, Fullam, Miller, Mitchell, M, Moore, D and Williams, M

Apologies

Councillors Branston, Ellis-Jones and Patrick

Also Present
Director Finance, Director of City Development, Audit Manager, Net Zero Project Manager and Democratic Services Officer (SLS)

53 **MINUTES**

The minutes of the meeting held 26 July 2023 were taken as read, approved and signed by the Chair as correct.

54 **DECLARATION OF INTERESTS**

No declarations of disclosable pecuniary interests were made.

55 **DRAFT AUDIT FINDINGS REPORT 2021/22**

The External Audit Manager (Grant Thornton) referred to the well documented ongoing delays in the completion of audit work nationally and of Grant Thornton's efforts to continue to progress their audit work for Exeter City Council. He presented the interim Audit Findings for the City Council's 2021/22 financial statements and confirmed that a final report would be issued at the completion of their work. There were no matters which required modification of the audit opinion, subject to a number of outstanding matters detailed in the report, including a specific audit focus on the material statement and the accounting estimation element. Grant Thornton have competed the majority of that work, although of note was the updated Pension triennial valuation position.

The following matters were highlighted:-

- the Value for Money arrangement work was ongoing with the recommendations of the 2021/22 accounting average return and the position with regard to providing a defined audit report. To ensure relevancy in terms of the information being used, there would be a combination for the 2022/23 audit report.
- there were no major issues in relation to the management Override of Controls, other than the identification of the level of 'super user access', in respect of system administration and no issues had been identified.
- further work in relation to the high level of activity and the triennial valuation of the Pension Fund had taken place in relation to the current membership numbers. They were seeking a letter of assistance to be able to conclude that element.
- information was awaited to complete the review of the work on the audit for

Exeter City Living, but no issues in relation to the audit had been identified.

- internal control assessment recommendations had resulted in two areas being identified, Declarations of Interest made by senior officers and the individuals with super user access, with recommendations included in the action plan at Appendix A. Management response was awaited on these matters.

The External Audit Manager (Grant Thornton) responded to the following Members' questions:-

- in respect of debt management, the Statement of Accounts included the borrowings of the Council and their role as External Auditors included establishing accurate disclosure as well as the minimum revenue provision for the servicing of debt by the organisation. Although how debt management was handled was part of their VfM review work, it was for Members to consider the appropriate level of debt.
- the Authority's Group Accounts include Exeter City Living, which are audited through PK Francis Clark Accountants.
- the property valuation and estate management offered a broad picture of accuracy in relation to Exeter City Council.
- it was desirable for the receipt of Declarations of Interest in respect of senior officers to be at a nil.
- Materials Requirements Planning (MRP) was a calculation of set aside to cover debt management and management will take the view of the appropriate level based on the debt being carried. Grant Thornton will have a view on this matter in due course.

The Director Finance also responded to the following Members' questions.

- the reference to property ownership raised in the Interim Findings report should be read in conjunction with the Council's Statement of Accounts. There is a description of the related parties in the Group Account's section as well the investment and commercial property portfolio, which included Council dwellings and garages as part of the Housing Revenue Account (HRA) properties, other operational land and buildings where the Council's operational activities are carried out and investment properties as part of the commercial portfolio. Other areas included infrastructure assets such as bridges, footpaths listed in the Corporate Risk Register and heritage assets and a range of community assets that generate a rental income.
- the super user is the System Accountant and the access was monitored through audit logs. The move to the new finance system across the three authorities will address this accounting system in a different way.
- the Government are undertaking a review on MRP and will put in place definitive guidance, but many local authorities have raised issues in relation to the repayment of Council loans and what could be seen as double accounting in the set aside approach. The Council has not taken this approach but a report on this area will be made in due course.
- a link would be provided to the Final Audit Findings with the full Statement of Accounts which will include the Group Accounts.
- the focus of this work was on the 2021/22 audit. In respect of Exeter City Living's audit, PK Francis Clark had completed their work for 2021/22, and the audit for 2022/23 had not been completed. The External Audit Manager (Grant Thornton) stated that as the 2022/23 accounts were still open, any post balance sheet adjustment could be made and the Group Auditors would take a view.

RESOLVED that the Interim Key Findings report by Grant Thornton be noted.

56 **EXTERNAL AUDIT - AUDIT PLAN 2022/23**

The External Audit Manager (Grant Thornton) presented the proposed External Audit Plan from Grant Thornton for the year ending 31 March 2023, which detailed an overview of the planned level and scope of the statutory audit. Although the 2021/22 audit had yet to be completed, there was a need to keep the process moving with the planning of the 2022/23 audit. He referred to the challenges of meeting the Government's deadlines for a timely audit, which was explored in a publication entitled *About Time*. A link was included in the circulated report.

The External Audit Manager (Grant Thornton) referred to a number of areas of work included in the Audit Plan for consideration relating to significant risks, the Value for Money arrangements and the Group audit scope and risk assessment. Recent events had resulted in new areas of work relating to assets being included in the Audit Plan of Reinforced Autoclaved Aerated Concrete (RACC) being present in any of the Council's buildings and also equal pay, which had significant ramifications at Birmingham City Council. This may have an impact on the 2022/23 audit work. The Director Finance confirmed that these matters were already being discussed by the appropriate officers.

A correction was made to the report relating to the materiality figure for the Council's financial statement which was £2,469,000 and not the figure stated of £2,690,000. It was anticipated that the Audit Findings report and Audit Opinion and the Audit Annual report would be presented to the November meeting of the Audit and Governance Committee.

The Audit and Governance Committee noted the External Audit Plan for the year ending 31 March 2023.

57 **INTERNAL AUDIT PROGRESS REPORT 1ST QUARTER**

The Audit Manager (HP) presented the detail of Internal Audit Progress work carried out during the first quarter period of 1 April to 30 June 2023. A summary of progress against the Annual Audit Plan for 2023/24 was included at Appendix A. An Executive summary for each completed audit provided a more detailed breakdown of the work at Appendices B to D. The action plan of the Significant Governance issues identified in the last annual Governance Statement had been included at Appendix E.

Members were advised on the overall progress and that the Plan was on target with no matters to draw to Member's attention.

The Audit Manager responded to the following Members' questions:-

- the City Council's community lottery scheme would be picked up as part of the Audit Work Programme, now that the scheme was in place and operating.
- a request to consider an audit of the fly tipping policy was made and would be considered. The comment that there had been no prosecutions was noted.
- any further areas of concern in relation to community grants would be followed up and brought back for Members' attention. The audit had identified there had been some instances where the terms and conditions

for the recipients have not been met, and a number of recommendations had been proposed.

- Grant payments were made through the Community Grants Board with recommendations made by Ward Members. With regards to the non-return of evaluation forms the process would now ensure the receipt of an evaluation form from the individual organisation or body before any further grant was issued.

The Director Finance added that any exceptions to the agreed management action in relation to community grants would be picked up by the Audit team follow-up, and reported to the March meeting for the Audit and Governance Committee to take a view.

A Member welcomed the summary sheet which was a useful addition to the report format.

The Internal Audit progress report for the first quarter of the year to 2023/24 was noted.

58 **REVIEW OF CORPORATE RISK REGISTER**

The Director Finance presented the report which referred to the revised Corporate Risk process which was presented to the September meeting of the Executive, and which outlined the future reporting arrangements. He now sought Members' endorsement and any comments on the revised risk management process.

It was important to note that the Audit and Governance Committee had a different role to the Executive in terms of the Council's Corporate Risk register and risk management process. The Executive was responsible for delivering the priorities and services and their role was to identify and manage the risk, who with individual Portfolio Holders in conjunction with Directors had responsibility for those risks with appropriate implementation of any necessary mitigations. The role of the Audit and Governance Committee had not changed in terms of being satisfied and ensuring there was an adequate process in place to manage risk, with the opportunity to comment and make recommendations on the process to Council.

Following a Member's question, he confirmed that the role of Audit and Governance Committee in this regard was not that of a scrutiny function, but was a parallel process using the same reported detail on the Risk Register. The Committee could comment on the process in agreement with the Executive with the opportunity to make recommendations to Council to enhance the process.

The new risk management procedure will allow individual Directors to work more closely with the Executive and Portfolio Holders to identify and manage risk. He outlined the key benefits, which included a summary page which included an assessment of resources that would be required to mitigate the risk in terms of the effect on finance, reputational risk, regulatory and legal compliance as well as the impact on the community. The risks are also focused on the Council's Corporate Priorities, alongside the four pillars that underpin the provision of services relating to People, Finance, Assets and Time.

In response to questions from Members, the Director Finance confirmed that:-

- each Director will work with their respective service Portfolio Holder to consider the Risk Appetite rating. Examples might be in relation to property

where a particular scenario might result in a significant change such as danger or loss of life, whereas risk associated with more evolving technology with other benefits and opportunity to contribute to a priority could result in a different approach. It was for Members to consider the outcome, and achievements and the impact of the risks and match that with the appetite for risk. It was for Members as a Council to determine where resources in the widest sense would be targeted, and appetite for risk was not necessarily linked to the level of available resources.

- with a further explanation of the headings and colour coding on the summary sheet relating to the internal assessment of the level of resources in terms of the Council's four pillars of time, financial, people and assets needed to fully mitigate those risks and in relation to the external areas of Drivers for Risk Appetite of wider considerations should the risk materialise including areas such as finance, reputational risk, regulatory and legal compliance as well as the impact on the community. To consider the appetite for risk that the Council would wish to take to deliver the priority and that will vary with the potential risk and impact will be. The aligned dates were now more meaningful and varied from a rolling target such as in the case of financial sustainability to alignment to a work programme or funding.
- the Net Zero Risk Register was about the City Council's attempts to become carbon neutral as a Council. One of the objectives is to deliver a Net Zero city and is a risk that focuses on the City Council and also the wider city.
- SMB and Portfolio Holders will now have better understanding of the risks, and the Audit and Governance Committee will also be able to comment on maintaining the cautious approach or acceptability of any risk.

A Member made a comment in relation to the potential consequences on the community being considered, the wider effect of not understanding the impacts of missing targets that inform the priorities, and also the omission of a section dealing with an unknown or emergency scenario or situation. She made a request if the summary page could include the risk matrix with an explanation of the definitions. These comments along with the other comments and enquiries made which the Director had responded to, would be passed to SMB colleagues. He noted that there should be some consideration of the potential impacts section to be more meaningful.

As previously agreed as part of the reporting format, a Director with responsibility for a particular area of the Risk Register was invited to attend the meeting. The Director City Development was present to comment on *Risk 6 - Delivering and Building Great Neighbourhoods and Communities.*

There were challenges in needing to deliver more homes in the city in the current economic climate, and the focus of using brownfield sites. That was the most appropriate and sustainable strategy to address those challenges, however it was included on the Risk Register. He welcomed the new approach to the Register which would focus draw attention to the most important matters. He advised that a forthcoming Member Briefing session would provide more information on the Housing delivery challenges.

He responded to Members' questions:-

- addressing the housing challenge were not entirely in the City Council's control including establishing the five year housing supply which depended on acquiring the necessary planning permissions and developers' interests

in the sites.

- the risk was not being able to deliver on sites identified in the Exeter Plan. 'The City Council had been quite successful in obtaining grant funding from the Government's Brownfield Land Release Fund. Despite being a smaller authority and not having strategic funding, or being able to attract Levelling Up Funding or of our limited levels of deprivation, the Council will still continue to work with other agencies such as Homes for England and take any opportunity to bid for funding which also requires skills and capacity.
- a report to the Executive would give an in principle approval for purchase powers of some land to help resolve a transport network issue if needed in relation to the proposed Water Lane development. As part of a collaboration they would work with local landowners as the land contributes to the wider infrastructure, with the costs and risk being borne by those landowners.
- the Growth Board was an internal officer group, which he chaired to look at the detailed issues such as viability of the brownfield sites.
- he was unable to comment on the scope of the Devolution Deal in relation to the funding of housing, as those discussions were not in the scope of this Committee.
- a report to the Executive would include a reference to the Clifton Hill site.
- in respect of the five year housing supply, it was not sufficient just to allocate sites in the Local Plan, they had to demonstrate that they were deliverable as they could be deemed not deliverable at appeal.
- the improved process and data set out in the Risk Register will offer a more regular opportunity for review. It is envisaged that any changes will be reported to Members. The Director Finance added that the previous reporting regime highlighted any changes to the risks. It may be that where there are significant changes to the mitigations that they ask each Director to highlight those and include in the report.
- the planning process was not entirely down to the City Council as individual planning agreements including the 35% affordable housing policy were negotiated and subject to viability, but was with Council owned buildings and land brought forward through the Housing Revenue Account (HRA) process. The Risk Register captures the concerns in relation to brownfield site land.
- the business case of the Exeter City Fund project has explored a possible delivery mechanism which went beyond the business as usual scenario. It included the delivery options for further exploration or to establish if it was appropriate for us or any partners to introduce a delivery mechanism..
- the Exeter Development Fund work would explore different forms and there was not one single option.

The Audit and Governance Committee noted the updated Corporate Risk Register and thanked the Director City Development for attending the meeting.

59 **CITY COUNCIL NET ZERO RISK REGISTER**

The Net Zero Project Manager presented the report, which advised the Audit and Governance Committee of updates to the City Council's Net Zero Risk Register, as well as an assessment of the risks in delivering Net Zero within the City Council by 2030. This was the second report, since the Net Zero Risk Register was introduced in July 2022, aligned with the Net Zero Carbon Reduction Plan.

One action that had been implemented and now raised for accuracy was where the Council will use social media communicating platforms to advise of adverse weather conditions.

The Net Zero Project Manager responded to the following comments from Members:-

- data on energy efficiency spend and savings on energy at St Sidwells Point (SSP) can be shared. It was difficult to compare the energy consumption and costings with other city leisure centres, as SSP was a unique building. The percentage consumption over all of the six leisure sites was very positive with gas consumption accounting for 14%, and electricity 34%, of the leisure estate's total consumption. The gas supply at SSP is part of a reserve system in place.
- the Carbon Reduction Action Plan is a live document and reported to Members of Strategic Scrutiny Committee every six months, following six monthly reviews with all responsible officers. In turn, the Action Plan provides for a complete six monthly update of the Net Zero Risk Register. The Director Finance added that the Action Plan was in relation to service operation and had been discussed at SMB, and would be discussed regularly going forward.

The Net Zero Project Manager sought Members' views on the future reporting of the Net Zero Risk Register and if it should also be reported alongside the Net Zero updates made to Strategic Scrutiny Committee. The Director Finance added that Audit and Governance Committee had made the original request for this to be reported to them. In response to a question, he advised that the Portfolio Holders were not involved in this operational Risk Register, as it was by its nature for the Service Leads to manage. A Member stated that it was appropriate for the Scrutiny Programme Board to come to a decision on this matter.

The Audit and Governance Committee noted the City Council's Net Zero Risk Assessment update would continue to be presented every six months, and for the Scrutiny Programme Board to consider if it should be reported to the Strategic Scrutiny Committee as part of their six monthly Net Zero update.

(The meeting commenced at 5.30 pm and closed at 7.20 pm)

Chair