

**AUDIT AND GOVERNANCE COMMITTEE**  
**(HELD AS VIRTUAL MEETING)**

Wednesday 25 November 2020

**Present:-**

Councillor Tony Wardle (Chair)  
Councillors Atkinson, Foggin, Hannaford, Henson, D, Mrs Henson, Mitchell, M, Oliver and Warwick

**Also Present**

Director Finance, Deputy Chief Finance Officer, Service Lead Legal Services, Audit Manager (HK), Democratic Services Officer (SLS) and Democratic Services Officer (MD)

Jackson Murray, Engagement Lead – Grant Thornton  
Steve Johnson, Audit Manager – Grant Thornton

31 **MINUTES**

The minutes of the meeting held 16 September 2020 were taken as read and approved as correct for signing by the Chair at the earliest possible convenience.

32 **DECLARATION OF INTERESTS**

No declarations of disclosable pecuniary interests were made.

33 **AUDIT FINDINGS REPORT (ISA 260)**

Jackson Murray, Engagement Lead, for the Council's External Auditor, Grant Thornton presented the ISA 260 Audit Findings report, and referred to the Audit Risk Assessment of the financial statements for the financial year 2019/20 which had been circulated as a supporting document. The detail was presented as a PowerPoint presentation and included questions put to the Council's management, as well as the response by Grant Thornton. It was confirmed that the responses had not resulted in any additional significant audit risks. The Director Finance responded to a Member who was disappointed that there had been a lack of time to view the Risk Assessment information and as it was technical in nature, was able to assist in its understanding.

The Engagement Lead introduced the Audit Findings report in respect of the 2019/20 Financial Statements and the Value for Money conclusion. It was reported that the audit was substantially completed with only a small number of areas in progress, with the audit expected to be concluded by the deadline of 30 November. Subject to the satisfactory finalisation of the audit testing, an unqualified audit opinion will be issued.

The following areas were highlighted:-

- the inclusion of an 'emphasis of matter' paragraph in relation to the potential for material valuation uncertainty in the sector as a result of Covid-19, and valuation of the Council's land and buildings and investment properties;
- the completion of the risk based review on the Council's value for money;
- that no additional statutory powers or duties were exercised;

- a number of disclosure and classification adjustments to the financial statements had been agreed, which had no impact on the overall financial position of the Council, and
- a prior period adjustment was made in respect of the NDR appeals provision following its reclassification from short-term creditors to provisions on the balance sheet.

The Engagement Lead advised that they would issue an unqualified value for money conclusion for 2019/20 on the Council's value for money arrangements.

The Engagement Lead also gave the following response to a Member's question and confirmed that the cyclical five year rolling programme related to the Council's other assets, including Council dwellings within the Housing Revenue Account (HRA). A full valuation of the Council's investment properties is performed annually in accordance with accounting standards. The valuation programme had been revised for 2019/20, with a requirement for a minimum 20% valued, as well as the top four highest valued assets from the previous year. Any significant movement or concern of a wider market impact would lead to further assets being valued. The Director Finance clarified that commercial rent performance had been very positive, and the City Council continued to work with businesses in support of rent deferral plans wherever necessary.

In response to a Member's question the Service Lead Legal Service, stated that once the matter was concluded, the detail of a Health and Safety Executive breach would be reported to Members.

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

In accordance with Standing Order 43, two Members wished to abstain from noting the supporting document on the Audit Risk Assessment as they had not had sufficient time to review the information.

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### **STATEMENT OF ACCOUNTS 2019/20**

The Deputy Chief Finance Officer presented the report on the Council's Statement of Accounts for 2019/20 for approval and adoption. It is a statutory requirement to publish the Statement of Accounts which are intended to provide a 'true and fair view' of the financial position and transactions of the Council, including group financial statement as at 31 March 2020. Due to the coronavirus pandemic, the statutory deadline for publishing the audited accounts was deferred from 31 July to 30 November 2020.

The Deputy Chief Finance Officer was pleased to report that the auditors expected to issue an unqualified audit opinion. Only a small number of audit adjustments and presentational changes had been identified during the course of the audit, all of which had been resolved and had no impact on the General Fund balance or the Housing Revenue Account balance, which remained as reported to Council on 21 July 2020. There had been one narrative change since the agenda was circulated, which was to highlight the risk uncertainty of property investments held by the Devon Pension Fund, which could impact on the Council's net pension fund liability. It was noted that the pension fund had a statutory override, so there would be no impact on the Council tax payer until the next valuation.

The Director Finance thanked both the Finance team and the auditors for achieving the 30 November deadline under extraordinary circumstances. The audit was

undertaken entirely remotely for the first time and although remote working had presented a number of challenges it had proven a success.

**RESOLVED** that the Audit and Governance Committee approve the audited Statement of Accounts for 2019/20.

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### **MANAGEMENT REPRESENTATION LETTER**

The Director Finance submitted the letter to the External Auditor, Grant Thornton in respect of the 2019/20 Statement of Accounts as required by the audit.

The Chair wished to place on record the appreciation of the Director of Finance and his team despite the difficult circumstances due to Covid 19.

**RESOLVED** that the Audit and Governance Committee approve the representation letter, and request that it be signed by the Director Finance and the Chair of the Audit and Governance Committee for forwarding to the External Auditor, Grant Thornton.

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### **STATEMENT OF REASONS ISSUED TO THE OBJECTOR IN RESPECT OF THE 2018/19 ACCOUNTS**

The Engagement Lead, Grant Thornton circulated a copy of the redacted letter and statement of reasons which detailed the outcome of a process which commenced with a member of the public who had placed an objection on the 2018/19 financial statement under the provision of the Local Audit and Accountability Act 2014. The letter detailed the issues raised to Grant Thornton, the work they had undertaken and the reporting back to the objector of the conclusion.

The Engagement Lead referred to the matter which was discussed at the last meeting of the Audit and Governance Committee. The objection related to the grant funding mechanism used in respect of the Pinhoe Community Hub. He confirmed that since the statement of reason was issued, no further expenditure had occurred from the earmarked reserve set up for this matter. There were no other significant concerns identified in the 2019/20 financial statements as stated earlier in the meeting.

The Director Finance stated that given the issues raised over the legality of grant expenditure made by the Council, it was important that he provided some context in this regard. He referred to February 2016, just prior to the decision for the Pinhoe Community hub, when a resolution was passed at Council to allow funds from the New Homes Bonus to be spent in the following way, with a £1.1m top sliced for revenue and a sum £150,000 to be set aside for community projects. Consideration of this sum was made at the particular Committee, with £39,000 for ward grants. A report came to the Executive on 11 October 2016 with a recommendation to Council on 18 October to approve a sum of £100,000 as Exeter City Council's contribution to a new community hub planned for Pinhoe. There were no conditions attached to the approved sum.

A Member asked a number of questions which the Engagement Lead, Grant Thornton responded in the following terms:-

- he acknowledged the comment on the £10,000 seed fund and need for appropriate records, but he would have anticipated that any expenditure through the Council would be subject to the relevant approval process as set out in the Scheme of Delegation. Not every company organisation would be

able to produce a full financial statement under the Companies Act, thus making the raising and authorisation of invoices to a third party difficult. The Director Finance also responded to the Member who was also concerned over expenditure made by the Council and having matched to submitted invoices to offer an appropriate audit trail. The purpose of the seed funding was to support the new project and enable initial payments to be made as part of that work. It would not be appropriate for the City Council to pay any of the suppliers for the Pinhoe Community led project directly. An invoice would then be made to the City Council to replenish the stake amount to continue the project.

- from an audit viewpoint, any new grant awarded under Exeter's grant programme should follow the process outlined for the 2019/20 financial year. The recommendations in the Statement of Reasons were to ensure there was an appropriate review of the implementation of the grant policy, with any conditions associated with the grant fund would be clearly articulated as well as the maintenance of an adequate audit trail. A post implementation review has been recommended.
- an external audit of the grants made would depend on the size and value of the grant awarded and identified in the financial statement, and also if it was selected as part of an audit sample when they would wish to see supporting documentation.
- the Councillor's Code of Conduct states that Councillors must declare any interest at Council meetings but that it was for the individual to raise. He was satisfied that there was no interest issue that should have been raised at any of the meetings.

A Member referred to this opportunity for probity, but he welcomed the opportunity for a community hub in an area of the city where this facility was needed. It was appropriate that a local authority should support such projects to help foster a community spirit. He recalled he had been involved with a similar funding exercise for the Newcourt Community Centre with a capital grant and funding for capacity building within the community. The Director Finance added there had been other Council support from a range of funding for the new community facility at Belmont Park.

A Member thanked Grant Thornton for a thorough reporting and investigation of this matter. She hoped that the Pinhoe community hub would be a success but she still had a number of concerns. In response, the Director Finance confirmed that he was very comfortable with the approved grant funding by Members at Council and also in his role as the Section 151 officer and his responsibility to the Council tax payers within Exeter.

The Engagement Lead concluded the discussion by confirming that despite the reference to a number of recommendations contained in the letter, they had been included in the ISA 260 Audit Findings report and the contents in the circulated letter had been brought to the Members of the Audit and Government attention for noting.

The Audit and Governance Committee noted the contents of the letter.

The Audit Manager (HK) presented the report which detailed the internal audit work carried out during the second quarter of the year for the period 1 July to 30

September 2020 and the overall progress on the Audit Plan was good. The Audit Manager proposed a postponement of planned work on the Sports England Project to 2021. This has been agreed with the Director of Transformation to enable the service to be more flexible with regard to any other work that may occur in relation to Covid. The Audit Manager reported that she would continue to monitor and work on the Plan, but it was likely that this more flexible approach would be continued and she anticipated coming before Members at the next meeting in March 2021 with some further amendments.

Members were referred to the report appendices presented to the meeting, which detailed the progress of the 2020/21 Audit Plan to date and the Action Plan, which highlighted the proposed measures to monitor and improve governance arrangements at the City Council. An update on each significant issue was included.

The Audit and Governance Committee noted the Internal Audit report for the second quarter of 2020.

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### **OVERVIEW OF THE REDMOND REPORT RECOMMENDATIONS**

The Director Finance submitted a report which updated the Committee on the recommendations of the Redmond Review, which was published in September 2020 and, if accepted by Government, would have a significant impact on both the financial reporting and audit of local government.

The report set out the key findings which were:-

- the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act;
- the overriding concern was a lack of coherence and public accountability within the existing system;
- the fragility of the local audit market and current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way with 40% of audits failing to meet the required deadline for report in 2018/19; and
- without prompt action to implement the recommendations, there was a significant risk that the firms currently holding local audit contracts will withdraw from the market.

It was noted that some of the recommendations would require changes in legislation, which will take time to enact. One of the recommendations includes a further financial report reconciled to the Statement of Accounts, which will not necessarily add to the public's understanding in the Director of Finance's opinion and there were likely to be additional costs.

The Director Finance responded to a Member's question on the abolition of the Audit Commission and the transition from 2012, which has resulted in a cheaper cost for local government audit. He explained that the external audit for local authorities was run on a similar basis as for the private sector, but the standards for a set of shareholders as opposed to protecting Council tax payers was completely different. It was necessary to have a different body that allowed the public audit to consider the terms of the value that they provide to the Council tax payers.

The Audit and Governance Committee noted the report.

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

The Audit Manager (HK) referred to the Audit and Governance Committee's responsibility for monitoring and reviewing the Corporate Risk Register and in

presenting an update advised that there was one new Risk Number 14 to the Corporate Risk Register since the last meeting. The detail of this risk had not been replicated in the version of the appendix circulated with the agenda. This had been rectified by later circulation.

The Audit Manager and Director Finance responded to Member's questions in the following terms:-

- Risk number 9 - a report with an update of the future of the Greater Exeter Strategic Plan, following the withdrawal of the East Devon District Council was being considered by the Executive on 1 December with a recommendation that the City Council will formally withdraw from the arrangement and in principle agreement was being sought for a non-statutory joint strategy and infrastructure arrangement;
- Risk 1 - following the Council having taken this function back in house this risk would be updated to reflect this;
- it had not been possible to obtain a response in respect of a question on Risk Item 2 about the Council's role in engaging with other sectors in regard to the pandemic. A response would be circulated.
- in respect of Risk Item 9 –It was noted that there was a High Court Judgement in 2015, in which the Council was told that purpose built student accommodation could not be counted towards meeting our adopted housing requirement/five year land supply. That is because the Council's current adopted housing requirement does not take full account of the growth in student numbers that Exeter has seen in recent years. This will be the position until the Council adopts a new Local Plan for Exeter, containing a new housing requirement that does take account of the increased number of students in the city. There is no definitive legal ruling of the counting or otherwise of co living housing towards the local planning authority housing requirements. It would seem reasonable to assume that co living housing can be counted towards the Council's adopted housing requirement because, unlike student's accommodation anyone can occupy a co living home.
- in respect of Risk Item 11 – the Director Finance responded to a comment on the lack of a reference to potential capital receipts losses due to any decline in the value of our commercial estate. The Strategic Management Board will update the Register collectively, so that each entry can be challenged with each other to ensure that all entries are updated. He added that local authorities have a statutory override that offers as protection from any fluctuation of the market value of the Council's commercial property to ensure there is no impact on the Council tax payer.

The Director Finance also referred to a question about other Councils' investment portfolios and stated that such valuations were not an issue for Exeter's council tax payers and referred to his previous response of the Council's statutory override. He also responded to the Member who sought clarification about the Council's liability for borrowing for investment. He confirmed that only two of 900 commercial properties had any borrowing attached to them. The income of £5million was set against an annual agreement to repay borrowing of between £200,000 and £300,000.

A Member also sought further information on Risk 14 relating to St Sidwell's Point and the additional costs for the site. The Director Finance confirmed that the site would have to be Covid compliant with all that required, including additional PPE and fewer construction workers at any one time, which would impact on the schedule. He referred to his Section 151 comments in the relevant section of the report which referred to the financial challenges from the Covid 19 pandemic. There

had been some respite from the Government's Sales, Fees and Charges compensation scheme. He would report to Members the continuing risks of the Council's income streams in his annual Budget Member Briefing in January.

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

In accordance with Standing Order 43, two Members wished to abstain from noting the supporting document on the Audit Risk Assessment as they had not had sufficient time to receive all of the information.

(The meeting commenced at 5.30 pm and closed at 7.10 pm)

Chair

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