

## **AUDIT AND GOVERNANCE COMMITTEE**

Wednesday 1 December 2021

### **Present:-**

Councillor Atkinson (Chair for the meeting)  
Councillors Begley, Hannaford, Mitchell, M, Moore, D, Pearce, Sparkes and Warwick

### **Also Present:-**

Councillors Jobson, Martin, Quance and Wardle

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

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### **CHAIR**

In the absence of the Chair, the meeting was chaired by the Deputy Chair, Councillor Atkinson.

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### **MINUTES**

The minutes of the meeting held on 10 November 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 an update from Grant Thornton on their activities since the last meeting of the Audit and Governance Committee in November, and an indication of when the Audit would be completed. The Engagement Lead and Senior Manager were unable to attend the meeting due to concerns relating to Covid. The following matters were reported:-

- the external valuer expert, supporting Grant Thornton with their valuations work was reviewing the responses from the Council's internal valuer;
- there was an outstanding query with the Council's actuary regarding significant movements in experience.
- an independence issue was being considered by the National Audit Office (NAO) in respect of the group audit for Exeter City Living (ECL). The Audit Findings report included a reference to additional unrelated work that had been undertaken by ECL's External Auditor. Members would be updated on the outcome once clarification was obtained. It was noted that a dedicated accountant had been appointed to oversee the accounts of ECL.
- a view on the treatment of the Minimum Revenue provision (MRP) on the Council's statutory repayment of debt in respect of capital loans made to third parties had been made. Grant Thornton's view differed to the Council, and would be reported in the Audit Findings report. Loans made by the Council to a number of third parties, included Exeter City Living, Exeter Science Park and also local collaborator of partnerships, CoLab. An assessment had been made on the associated risks, as it was not the intention to offer any loan where there was no chance of recovery, and a

suggested over provision for the same debt was not prudent or in the best interest of the tax payer. This matter would be raised with the Department for Levelling Up, Housing and Communities (DLUHC).

The Director Finance stated that Grant Thornton had indicated that they expected to conclude the Audit by 10 December. He would keep Members informed with regard to the Audit Findings report, but an unqualified audit opinion was still anticipated.

In response to Members' questions, the Director Finance explained:-

- the independence issue raised was in relation to formal sense checking on the Business Plan last year. ECL's own auditor had taken on this additional work in excess of the tendered External Audit, so it was an issue with that rather than an issue with ECL or their accounts, which are included in the City Council's accounts. Grant Thornton had indicated that they may not be able to place reliance on that work and would likely have to do some targeted testing and may make an additional charge as part of their fee.
- work on the financial statements was ongoing and should have been completed at the end of September. There was now a new target date of 6 December. The value for money work was due to be finished by the end of December and should be reported at the next meeting.

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

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### **INTERNAL AUDIT PROGRESS REPORT**

The Audit Manager (HK) presented the report, and appendices which detailed the internal audit work carried out during the second quarter of the year for the period 1 July to 30 September 2021. All of the agreed actions from previous audit reports were progressing satisfactory and there were no instances where remedial action had not been agreed by management. Despite making some additional provision in the 2021/22 Audit Plan, a significant amount of Covid 19 related work in respect of the post award assurance work on the business grants made had been undertaken, and a request was made to defer the main accounting systems and the Arts, Events and Culture audits until next year. The implementation of new modules to the main accounting system had been delayed and no events had been held to date and deferral of these audits would not have any significant impact.

In response to Members' questions, the Audit Manager had agreed that a review of the anticipated guidance from the professional body in relation to Council owned private companies, when received would be reported back to this Committee.

A Member thanked the Audit Manager for forwarding a copy of the Annual Housing Repairs and Void Works audit report and for a discussion on where audit overlaps with performance. She considered it was important to examine how that contract was working to ensure the nature, and quality of the performance as well as any issues of staff capacity could be addressed. The Audit Manager reported that she had clarified the role of Internal Audit with the Member as one of compliance and assurance that the Council's policies, procedures and any relevant legislation were being followed as opposed to monitoring performance. The Chair also noted the area of work and welcomed the audit report. Following a Member's comment, the Audit Manager agreed to circulate a copy of the report to all Members of the Committee.

The Director Finance reminded Members of the opportunity for advance questions to be submitted, as this enabled an appropriate response to be sought from colleagues, most notably in relation to the Risk Register because of the wide scope of the subject matter.

In response to Members' questions, the Audit Manager and Director Finance explained:-

- the Arts, Events and Culture audit would cover events and any audit of RAMM would be separate. Other strategic work would be covered by the Strategic Management Board (SMB), as Internal Audit had no strategic or performance management role.
- the Anti-Racism Strategy was being developed by a working group chaired by the Portfolio Holder for Communities & Culture, Councillor Ghusain and included Councillor Allcock, as well as the Director (DB), the Community Safety, Safeguarding and Equality & Diversity Officer, and other officers as well as two members of the Council's Equality Champions Group. The working group was due to meet on 6 December, when a report from Devon County Council would be presented. This work was separate to that of the Equalities and Diversity Strategy.
- Strata have implemented a new income management system, in part to allow the continuation of card payments to the City Council. The audit had been delayed as the appropriate testing had not been able to be completed due to an external supply issue.

The Audit and Governance Committee noted the Internal Audit report for the second quarter of 2021.

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#### **DECISION TO OPT INTO NATIONAL EXTERNAL AUDIT TENDER**

The Director Finance presented a report which sought Member's support for a recommendation that the Council opt into the national scheme for auditor appointments from April 2023, using Public Sector Auditor Appointments Limited (PSAA). They were in part, set up to address the challenges of local authorities from drawing from the same pool of external auditors to carry out their audit. Exeter City Council had opted to join the PSAA scheme in 2017, but it had not been a completely satisfactory contract, particularly as the current audit was once again delayed. The challenge remained that there were very few firms in the public sector audit market place, and no local firms able to undertake this work. He had approached PSAA to set out some of his concerns, and they agreed to discuss some of the issues. He understood that a National Board to identify ways to address some of the issues was being implemented.

In response to Members' questions, the Director Finance explained:-

- there were no large Audit firms based in the city, with Bristol based firms being the closet hub. Cornwall County Council had opted out of the PSAA national scheme, but found that Grant Thornton were awarded the tender and would have been the same company as had they used the Scheme.
- many of the public sector audit firms had an issue with retention of staff, as this area of audit presented a continual challenge.
- there was no appetite from other local authorities to join together to offer a tender, but there were with implications for each of the Councils, with an independent Audit Panel having to be set up alongside their Audit and Governance Committees to oversee the whole process.

- only Grant Thornton offered the public finance professional qualification of the Chartered Institute of Public Finance Accountancy (CIPFA) and the public sector specialism was not as transferable. Many entrants into audit wished to pursue the Institute of Chartered Accountants (ACA) route which offered greater employment opportunities. PSAA have signed more firms to undertake local authority audits which offered some future reassurance.
- the concern of the lack of External Auditors who offered a robust challenge was noted, but the Redmond Review had made a number of recommendations to Government, including the setting up of an independent regulator.

**RECOMMENDED** that Council approve that Exeter City Council opts into the national scheme for auditor appointments from April 2023, using Public Sector Audit Appointments Limited (PSAA).

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### **EXTENSION OF THE APPOINTMENT OF THE COUNCIL'S TWO INDEPENDENT PERSONS**

The report of the Director Corporate Services was presented which sought Members' consideration for the extension of the current term of office of the Council's Independent Persons, Professor Brian Kirby and Mr Ian Brooking. This would enable compliance with the principles set out in the Regulatory Framework of the Audit and Governance Committee and the provisions of Section 28(7) of the 2011 Localism Act 2011. Members were advised that there was a continuing obligation for the appointment of at least one 'Independent Person' whose views could be sought in the event of an investigation pertaining to the Members' Code of Conduct.

The Chair commented on the appointments and was advised that that there had only been male applicants for the post in more recent times.

In response to a Member's questions, the Director Corporate Services explained that the appointment for the Independent Persons was for four years, with no prescribed maximum term. She welcomed the comment on there being adequate succession planning to ensure there was always an experienced Independent Person. There had been little uptake when the positions became available, but the calibre of the Council's current Independent Persons was excellent. Both Professor Kirby and Mr Brooking had received the appropriate training over the years and were in regular contact to assist.

**RECOMMENDED** that Council approve that the term of office for Professor Brian Kirby and Mr Ian Brooking as the Council's Independent Persons, be extended for a further period of four years until the Meeting of Council on 24 February 2026, pursuant to Section 28(7) of the Localism Act 2011.

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

The Audit Manager (HK) presented the report and referred to the coordinating role in drawing the updated Corporate Risk Register together, to present to the Audit and Governance Committee. Following the quarterly review by the Strategic Management Board, (SMB) a proposed update on each risk was included in the appendix to the report. A new risk relating to the Exeter Liveable Programme had been added.

A Member asked if more consistent language could be used throughout the Risk Register in relation to the references to carbon neutral and Net Zero, which were different. The Audit Manager had spoken to the relevant Director and he agreed that

the consistent phrasing of Carbon Net Zero would be used in all such future communication.

In response to Members' questions, the Audit Manager and Director Finance explained:-

- Risk 1 - the Member's comment in relation to the header for the risk relating to St Sidwells Point (SSP) and the Bus & Coach Station would be passed to the relevant Director to ensure the information was updated.
- the financial benefits would be measurable once SSP was open and operating.
- the Risk Register was not an audit, although the Internal Audit Managers oversee the compilation of the Schedule, which feeds into the risk assessment, which underpins the Audit Plan.
- the Director Corporate Services stated that the contractor for SSP were paid when payments were required, with an assimilation of the accounts at the end of the contract when requested. The contractor would then identify any additional works requested by the Council and invoice accordingly. Legal discussions had centred around Covid related delays.
- Risk 3 - Exeter City Futures are a Community Interest Company, and it was not unusual for companies of that nature, delivering a purpose, and relying on external funding rather than an emphasis on profit had weaker accounts. This is an organisation that has been built up with some of the largest public sector organisations in the city and it presented an opportunity to work together to deliver one of the Council's highest objectives.
- Risk 4 - the Five year housing land supply position has improved from that set out in the 'Existing Mitigations and Controls' column of the Risk Register. The Council's latest Five Year Housing Supply Statement (dated September 2021 and referred to in the 'Notes' column of the Risk Register) concludes that the Council is currently able to demonstrate a housing supply of five years and five months. The Corporate Risk Register will be updated to reflect this position. In order to help maintain this healthy supply, it is important that the mitigations and controls set out in the Risk Register continue to be pursued. The Notes column highlights that developers are challenging the latest Five Year Supply position via appeals.
- Risk 8 - the Corporate Risk Register highlights significant risks to Members, in terms of either financial loss or reputational damage. The Government have awarded funding via Exeter City Council to Exeter City Futures to develop an Exeter City Fund proposal. This is currently not identified as a corporate risk and the City Fund proposal would be reported to Executive, with a business case made.

The Director Finance presented the following comments from the Chief Executive & Growth Director which were reported to the meeting in response to a Member's question on the transparency and accountability of the Exeter Liveable Place Board which was as follows: -

The Liveable Exeter Place Board was established in order to provide additional confidence on delivery of the programme, the Board does not replace the formal decision making processes. The Place Board sits outside the formal planning process. The City Council is the planning authority and decisions are taken through the planning process in public. The Place Board allows candid conversations between the city's institutions on matters associated with delivery of the programme. The key test for the programme is can it be delivered, this relates to viability and a raft of issues because it is a brownfield regeneration programme with challenging abnormal and infrastructure costs. Having all the key institutions around

a table to take collective responsibility for working with the Council to assist delivery of the Council's housing programme, is a major advantage in convincing a local plan inspector, that the city's organisations are working together on meaningful action to co-ordinate their investment plans to support the delivery of the overall programme. Open and frank conversations between the leaders of these organisations is important to help address barriers to delivery. The Board does not bind individual organisations, it is a Steering Board and not a decision making Board. In providing infrastructure in a timely fashion asset plans for infrastructure providers will need to be informed by regular dialogue and engendering confidence in our partners will be important. Having a Board that brings key organisations together is valuable, likewise having the most senior people around the table is a big advantage. An understanding of what it takes to get these leaders in the room and for them to spend significant time invested in the wider city agenda has shaped the way the Board has been put together.

The Director Finance made further clarifications on the following matters raised by a Member:-

- in respect of the proposed Exeter City Fund, it would be work that was being funded by Central Government to develop a concept of working together with others to develop housing at scale on Exeter's brownfield sites. There might be ambition to do work around some Council owned sites, but there was no commitment that this would be delivered through this proposed development fund and would require Council approval in any case.
- in response to the due diligence of Exeter City Futures and the possibility that the City Council could continue to be liable for any further losses, it was important to remember that Exeter City Council was one of seven constituent members and any support would be shared. The Director Corporate Services would discuss the Articles of the company with the Director of Finance.
- the Council's commitment to deliver Net Zero for the city by 2030 was at the core of every activity. The risk was about a whole commitment, and there was little benefit in dividing its delivery. It was important to wait until the Net Zero team were able to report back with an assessment of what and when we can deliver in our own areas of responsibility. The discussion at the recent Executive reiterated the significant challenges of delivering such a programme.

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

(The meeting commenced at 5.30 pm and closed at 6.55 pm)

Chair