

## **AUDIT AND GOVERNANCE COMMITTEE**

Wednesday 30 November 2022

### Present:-

Councillor Wardle (Chair)  
Councillors Moore, D, Allcock, Branston, Ellis-Jones, Mitchell, M, Packham, Rees, Snow and Warwick

### Apologies

Councillors Leadbetter and Sutton

### Also Present

Director Finance, Corporate Manager – Executive Support and Democratic Services Officer (SLS)

Julie Masci, Director Audit, External Auditors (Grant Thornton)

### 24 **MINUTES**

The minutes of the meeting held 28 September 2022 were taken as read, approved and signed by the Chair as correct.

### 25 **DECLARATION OF INTERESTS**

No declarations of disclosable pecuniary interests were made.

### 26 **EXTERNAL AUDIT PROGRESS REPORT**

The Director, External Audit, Grant Thornton presented a verbal update and advised Members of the progress in respect of the Audit of the Financial Statement of Accounts. The Audit Manager had provided an update at the last meeting. The audit had commenced slightly later than planned in the middle of October due to the team's commitment to a prior audit and a delay in transitioning to the Exeter audit. However the audit was now underway and progressing well and they acknowledged the increased demands on the Director Finance and his team. There was good cooperation with no specific issue or concerns raised so far and the intention was to bring forward the report to the next meeting.

Members noted the report.

### 27 **EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT ON EXETER CITY COUNCIL 2020/21**

The Director External Audit (Grant Thornton) referred to the new approach to the value for money assessment which changed in 2021 introduced by the National Audit Office to a much broader scope of work using the three pillars of

- Financial sustainability
- Governance
- Arrangements for improving economy, efficiency and effectiveness.

She advised that, rather than report by exception, they now had to offer a more detailed narrative statement giving positive assurances as well as those areas which require attention and scope for improvement. She also referred to the three classifications and recommendations that could arise from the work that they undertake as part of the assessment including:-

- Improvement - with more value added and improved recommendations to help improve and strengthening the Council's existing arrangements;
- Key recommendations - if a significant weakness in arrangements was found, a key recommendation was required to be issued, and to formally follow up any such recommendations as part of the following year's assessment and report on progress; and
- Statutory recommendation – this was limited to the most serious of weaknesses and requires Council to sit to receive the recommendation, debate and respond with a plan of action to address.

On that basis, she drew Members' attention to the Executive summary of the report and identified three possible areas with scope for further improvement of the existing arrangements. It was not uncommon in this first year of the new regime to have a baseline assessment where there are a number of recommendations and it is consistent from findings from many other local authorities. She referred to one area of significant weakness relating to the governance arrangements of Exeter City Living. The recommendation was set out which included along with the potential impact on the authority, the management response and action being taken to address that particular matter.

The Director Audit responded to the following Members' comments –

- in terms of a comparison, there was still some 2020/21 work to complete on the national picture. They were aware of a number of authorities where a key recommendation had been identified, with an escalation to a higher level of a statutory recommendation for a small number. The National Audit Office published all the Auditor's data on the reports.
- the audit had commenced with Exeter City Living in the context of it being the most significant entity in the Group Accounts, but the team also considered the arrangements for other group entities where the activity was significant in the context of the Council's operations. They also consider other entities in varying stages of formation, as risks can be more prevalent in the set up phase and it was important to identify risk and exposure as early as possible.
- in respect of dormant and new companies, External Audit also make a determination before a Value for Money (VFM) assessment is conducted. If they are aware of a significant group entity in the process of being established they will pick that up as part of that process through a review of papers, discussion with officers and engagement with the Audit and Governance Committee.
- a view on considering what is deemed to be commercially sensitive information should be given close legal consideration by the Council's Monitoring Officer. It was not appropriate for her, as External Auditor to comment on documents that were deemed commercially sensitive for the authority. They had noted the scope to improve the visibility of operation and performance of an external company to the authority to see how the performance was being reported in terms of holding the company to

account.

- establishing a shareholder board was a mechanism that could be used to manage governance of the Councils' external companies, but it was important to consider the most appropriate model of governance for the individual authority
- company directors had a specific legal duty to act in the best interest of that company, and there may be an issue for officers in that position who may be expected to hold and challenge the company to account. She had no concerns over Member representation. The Director Finance contributed to this discussion and confirmed that he along with the Corporate Director were no longer Directors of one of the Council's companies, Exeter City Living.

The Director Finance confirmed that the review of the governance of external companies was underway and he would enquire on the timeframe for the process from the Leader and the Chief Executive & Growth Director. Following some discussion, a proposal to ensure the Chartered Institute Public Finance and Accountancy (CIPFA) Guidance was taken into consideration in the review of governance arrangements for Exeter City Council was made. It was anticipated that the report on the outcome of the review would be made to the Executive and then Council before coming back to the Audit and Governance Committee.

The Director External Audit stated that their report had included a factual interpretation of the current regulations relating to what should be included in the Minimum Revenue Provision (MRP) calculation, which has an element of interpretation by some authorities. The proposed consultation should make this clearer. Capital loans to third parties should be in the spirit of what they were intended, and incorporated as part of the MRP calculation. The Director Finance had met with the Government's Capital Financing team and discussed this issue. He understood the challenge that the Government has in relation to ensuring all Councils were properly addressing this issue and protecting future taxpayers.

The Director External Audit stated that when delivering value for the tax payer it was important to focus on the important risk areas, identifying the lowest level of tolerance. The starting point was an authority's Risk Register and reviewing the significance of the risk to the organisation of the high value areas which often support the Council's strategic objectives. She invited Members to make a case for any areas of key risk for future focus of their value for money assessment.

The Audit and Governance Committee noted the report and added two further recommendations:

- (1) to ensure the options as set out in the Chartered Institute Public Finance and Accountancy (CIPFA) Guidance are taken into consideration in the review of governance arrangements for Exeter City Council companies; and
- (2) Audit and Governance Committee to receive a report on the approved Governance arrangements once adopted by Council.

The Director Finance explained that the Audit Manager had unexpectedly been unable to attend the meeting. He presented the report on the internal audit work carried out during the period 1st July to 30th September 2022, to advise on overall

progress against the Audit Plan and to report any emerging issues requiring consideration. It was important to note that there were no significant weaknesses identified but there were weaknesses that had been identified in the Debtors system which was being addressed. He provided an update on the terms of reference of the Greater Exeter Building Partnership and that recommendation had been addressed and would be taken off future reports and two high risk issues identified would continue to be reported until the appropriate action has been taken to address them.

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

- Internal Audit were satisfied that the terms of reference for the Greater Exeter Building Partnership have been updated, but that did not mean they had been signed off on behalf of the Council, Audit had advised that the weakness identified had now been addressed. He would update the Member in terms of the sign off status.
- in respect of the raising of purchase orders and invoicing, a new system has just been introduced so that the majority of invoices will require a purchase order to be raised, so there is a much stronger process and management tool in place. This area would continue to be checked by audit as part of their creditor and debtors work carried out every year and be reported to the Audit and Governance Committee. Should Audit identify an issue with a particular service, the finance team would work with that service to ensure that the Council are operating efficiently. Some work had already been identified to be carried out on the income side. Audit have also just completed a piece of work on sundry debtors.

The Audit and Governance Committee noted the second quarter of the year 2022/23.

29

### **COUNTER FRAUD STRATEGY**

The Director Finance presented an update of the Council's Counter Fraud Strategy and the requirement for a Counter Fraud Strategy to be considered by the Audit and Governance Committee and adopted every two years. At the last review there had been no changes to the policy, but the External Auditors, Grant Thornton recommended that the Audit and Governance Committee should review the document and recommend adoption to Council in line with the policy.

The Audit and Governance Committee approved the updated Counter Fraud Strategy which was circulated with the report as an Appendix.

30

### **LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW OF COMPLAINTS 2021-22**

The Corporate Manager (Executive Support) presented the report, and explained the role of the Local Government Ombudsman (LGO) in investigating and resolving complaints about councils. There was a legal duty to communicate the LGO's annual review and details of complaints to Members. He explained the two stage complaints process operating in the Council which, if the complainant was not satisfied and all other avenues were exhausted then the complainant can refer their complaints to the LGO seeking an independent investigation. This report set out the details of the complaints received by Exeter City Council and the decisions made by the LGO for the year ending 31 March 2022 which were set out in Annex A of the report presented to the Committee.

In paragraph 8.3 of the report, the complaints and decisions made by the LGO numbered 12 cases in that period, which included seven cases completed after initial enquiries, two being not upheld, with advice given to the complainant in two and one, referred back to the Council for resolution. Significantly, the LGO did not propose a remedy or recommend service improvements for any of the 12 cases. He added that this period covered the Covid pandemic when many of the Council's services were under significant pressure and for no decisions to be upheld was a positive outcome.

The Corporate Manager (Executive Support) responded to the following Members' comments:-

- in relation to including historic and comparative data in future reports, the reports for all councils are published by the LGO and future reports to Audit and Governance would include comparative figures for other Devon councils, councils in Exeter's 'family group' and historic data to see any trends.
- although this report focused on non-housing, formal complaints, he would pass the Member's comments to the Housing team about the definition of complaints for housing repairs and the point at which they become formal complaints. The Member also suggested the Council Housing and Development Advisory Board may find this matter of interest.

The Audit and Governance Committee noted the report for the Local Government Ombudsman's Annual Review of Complaints 2021/22.

31

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

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

It was noted that the Strategic Management Board (SMB) were currently working with Zurich Municipal to refresh the Risk Register and look at the wider landscape and ensure all of the risks that are potentially impacting on the Council were included. It was anticipated that the updated Risk Register format would be presented to the next Audit and Governance meeting in March. He did not expect any of the current risks to be removed, but it was about identifying any other matters that should be on the agenda going forward. The first meeting had taken place with further work anticipated over the next few months with a revised Risk Register being available to consider at the next Audit and Governance meeting in March.

The Director Finance would report back the following comments to SMB and Zurich Municipal:—

- whether to request the Executive to reconsider the achievability of the challenge of the delivery of achieving the carbon neutral aspirations by 2030 for the Exeter area. The reliance, interrelationship and cooperation of other bodies such as Devon County Council was needed and they have set a different timetable. The Member found the separate register for the Council's own aspirations to be acceptable as that target can hopefully be reached.

- there should be more specific detail of the targets being set and the narrative in relation to the mitigation controls offered, as there was no detail on the measures and targets, or whether any controls or mitigations were on target or effective.
- that an assessment of progress including over what period of time with a reference to the carbon budget included.
- although the Risk Register was not the Roadmap or the Net Zero Plan for implementation, the risks that might be encountered in implementation should still be noted. Measurable outputs and indicators were needed for the Net Zero Plan with reports back to the Scrutiny Committee. The Risk Register set out the potential barriers that could impact the delivery and the mitigation column could be refined to include those barriers, rather than set out the actual roadmap objectives.

The Director Finance responded to a Member's comment on Risk 6 – in relation to the Brownfield Release Fund, One Public Estate and the Department for Levelling Up, Housing and Communities (DLUHC) which will have time limits on their availability, but which may be negotiable. He explained the funding process, and stated it was important to mitigate any risk of how the funds used would be repaid. He would raise a point with the risk owner relating to the Exeter Development Fund, where an inability to offer funding for the infrastructure had not been identified as a risk.

The Director Finance also provided, as an invitation to the Strategic Management Board to provide further information on individual risks under their area of responsibility. He explained the financial risks associated with Risk 4, *maintaining the financial sustainability of the Council* and Risk 5, *increased costs of all capital building projects*, in more detail.

In respect of Risk 4 there were factors mainly outside of the Council's control that could have a significant impact on the funding available to deliver Council services. Most funding was set by Central Government, which limited the Council's ability to increase income streams and manage service levels. Mitigation included a professionally qualified finance team to guide and support Members as the decision makers. External Audit also had a role in providing assurance and monitoring the financial position of the Council.

Reference was also made to the Medium Term Financial Plan (MTFP), Capital Programme and borrowing requirement, and the Council's spending pressures of inflation and in particular energy costs. An independent assessment from the Local Government Association has been made of the Council's MTFP as the impact was likely to be so great and the feedback reflected as an adjustment. He further explained the financial position for the coming year and referred to the One Exeter Programme which had identified changes to a number of work streams for consideration to help balance the Council's budget.

He responded to the following Members' questions:-

- a number of local authorities have significant financial challenges.
- there has been a pause in a review of the funding formula being undertaken, but they await any opportunity to feed back the comments made by a Member over the unfairness of inadequate restitution from Government in respect of council tax exemptions.

- a review of commercialisation opportunities for the Council will be undertaken. Some of the elements in the initial Commercial Strategy have either not been successful or were not progressing for a variety of reasons. Opportunities to deliver additional income to the Council were still being explored and some will come forward as proposals for balancing the budget and future ideas through a different mechanism. The Commercial Strategy did need a refresh in the light of some of the recent challenges, and he assured Members that work was ongoing to identify income opportunities which were now more often at a service level.

In respect of Risk 5 which relates to the Capital Programme. It was acknowledged that much of the risk lay outside of the Council's control and following the end of Covid and the current volatility of the economy particularly, has resulted in a shortage of materials and labour in the country to deliver construction projects. Mitigation was limited due to the global economic conditions and labour challenges, but the Council's Capital Programme will be reprioritised to make it more affordable. The approach to borrowing had changed with the Council's own internal resources used where appropriate over the next two to three years until the interest rates reduce to a reasonable level.

The Council's current borrowing was all for a long term period of 25 and 50 years, with no short term refinancing needed. There was, however, also a tranche of borrowing with the assets financed through using the Council's own internal cash resources, which remained manageable.

The following responses were given to Members' questions:-

- the condition survey was being reviewed and prioritised. The Member's suggestion for an internal company to carry out the Capital Programme works was not needed, as the Council could legitimately maintain a work force but finding the necessary labour remained a challenge. A number of sectors, particularly property and engineering, were facing challenges in recruitment.
- a pipeline of sales of assets was in place with the sales receipts financing shorter dated assets, such as vehicles, and borrowing against longer term assets was more appropriate to offer the best financial outcome for the council tax payer.

The Audit and Governance Committee reviewed and noted the updated Corporate Risk Register and presentation by the Director of Finance.

(The meeting commenced at 5.30 pm and closed at 7.50 pm)

Chair