

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 18 September 2019

Present:-

Councillors Foggin, Hannaford, Henson, D, Mrs Henson, Lamb, Mitchell, M, Pattison and Sheldon

Also Present

Chief Finance Officer, Deputy Chief Finance Officer, Audit Manager (HP) and Democratic Services Officer (MD)

Also Present

Geraldine Daly – Key Audit Partner, Grant Thornton

22

APPOINTMENT OF A CHAIR

Councillor Hannaford was appointed as the Chair of the Audit and Governance Committee for this meeting, following a nomination and seconded by Councillor Foggin. The nomination was put to and won by a unanimous vote by the Members.

23

APOLOGIES

Apologies were received from Councillors Wardle, Atkinson and Warwick.

24

MINUTES

The minutes of the meeting held 24 July 2019 were taken as read, approved and signed by the Chair as correct, subject to the following amendment:-

Minute 15 – The Chief Finance Officer would proceed with signing the statement, subject to confirmation about the compliance with the regulatory standards, as set by the Regulator for Housing in England to conform to consumer standards.

25

DECLARATION OF INTERESTS

No declarations of disclosable pecuniary interests were made.

26

EXTERNAL AUDITORS INTERIM FINDINGS REPORT

Geraldine Daly, Key Audit Partner from Grant Thornton, presented the External Auditors interim findings report, informing Members that the audit began in August 2019 following a delay caused by resource issues and that the report provided key messages that the Audit and Governance Members would need to know.

Members were referred to the report, where it was noted that there were a number of audit adjustments that had been agreed with officers and that recommendations based on the audit work had been raised, which would not be adjusted. Geraldine Daly discussed the value for money arrangements at Exeter City Council, which were considered to have satisfactory arrangements and that the procurement issues were no longer a concern and could be removed. She commented on the group accounts and materiality level, highlighting that it would be £1,950,000 for the group amount and £1,800,000 for the Council amount. Materiality for the Council

had been set at 1.8% of the prior year's gross expenditure and it was required that group accounts are prepared, in which the same 1.8% was applied.

Members were referred to the significant audit risk findings and noted that the improper revenue recognition and risk of fraud was not considered to be a significant risk, with there being little incentive for staff to engage in such activity. Issues had been identified with the Management override controls, which would be disclosed at the conclusion of the audit work. No issues had been raised on the land and buildings valuation, and any risks related to price changes in commercial properties across a financial year and how the market was assessed.

The Chief Finance Officer and Geraldine Daly discussed the valuation of the pension fund net liability, which had initially been identified as a significant risk based on the £114 million deficit in the Authority's balance sheet at 31 March 2018. However, audit work since this time had not identified any issues, but discussions with officers would be ongoing.

Members were provided an overview on the potential impact from the McCloud court appeal, which had ruled on age discrimination in judge and firefighter pension schemes and could potentially increase the pension liabilities by £1.629 million and result in an increase in service costs of £132,000 for the 2019/20 year. Officers considered that the ruling was not material for Exeter City Council and would be considered for future years' actuarial valuations. Grant Thornton, who had an obligation to report anything over £50,000, had suggested that the accounts be amended to include the £1.629 million. The Chief Finance Officer explained that the decision had occurred after the accounts had been completed, but the outcome would not impact the tax payer. The £1.629 million figure equated to a change of 0.7% and would not affect the General Fund reserves, however a disclosure note would be added to the Statement of Accounts. A letter of representation would be issued at the end of the audit process to be signed by the Audit and Governance Committee

Members were informed that the liability was controlled by regulations set by Central Government, and when the new regulations come into effect, more information could be disclosed.

Should the amount of errors identified in the accounts go over £1.8 million then an adjustment to the accounts would be made. The Chief Finance Officer confirmed that most other Local Authorities were in the same situation and had not adjusted accounts at this time. He considered that the figure did not warrant a change at this time and should there be any further issues in the future, the accounts would be amended accordingly. Members were satisfied with this recommendation.

Geraldine Daly highlighted the prior period adjustment which was below the level set for material amounts, was in Grant Thornton's view unnecessary and the Council did not need to make an adjustment following an error identified in the 2018/19 financial statements relating to a home improvement loan as it was not a material amount. The Chief Finance Officer stated that it was a matter relating to money that was owed to the Council under the IFRS 9 and was unable to get back. As this impacted on money owed to the Council he felt it appropriate to provide the adjustment on significance grounds, whilst acknowledging the fact that it was below the monetary value of materiality. To avoid any impact on how the accounts were read by the public, he would amend the Management response in the report to provide a clearer explanation.

Geraldine Daly provided an overview on value for money and procurement follow up work, which was considered to be adequate, but had made a recommendation to develop an action plan against which progress and remedial action could be taken.

In response to Members' questions, the Chief Finance Officer and Geraldine Daly explained

- The term 'adjustment' used in the report referred to financial adjustments;
- The valuation of land and buildings, was the land, buildings, plant and equipment owned by the Council. The owned buildings that were commercially leased were re-valued each year;
- There were no concerns for democratic accountability in the governance arrangements for Exeter City Group Limited;
- Grant Thornton were required to remain independent for their audit work and were required to demonstrate this in the report with their fees for transparency;
- The report was marked as 'draft' until it was presented to the Audit and Governance Committee, where it would then be the final version.
- Recommendations on the pension liability would be brought back to Members once they had been completed.

Members thanked the external auditor and requested that the external audit report be provided to Members sooner.

The Audit and Governance Committee noted the External Auditors interim findings report.

27

INTERNAL AUDIT PROGRESS REPORT

The Audit Manager (HP) presented the report on the internal audit work carried out during the period 1 April 2019 to 30 June 2018, advising Members on the overall progress against the Audit Plan, which had been approved by the Audit and Governance Committee on 13 March 2019 and reported on any issues that would require Member consideration. She explained that progress against the annual audit plan was on target, however there would be a reduction in the number of productive audit days, to allow the audit office to attend the agile and flexible working workshops and have an impact on delivering the full plan. Should there be an issues, then the audit plan would be reassessed and reported back to the Audit and Governance Committee.

Members were referred to Appendix A in the report, which detailed the progress of the 2019/20 Audit Plan to date and it was highlighted that that the three reports marked as final, were the Creditors – duplicate payments, Environmental Health – Warm-up grants and Disabled Facilities Grant. The Audit Manager (HP) commented on the progress update for outstanding action completed, noting that the CIL/Section 106 had been completed since the report was published and that an update would be issued to Members.

The Audit Manager referred Members to the action plan, presented in Appendix B, which highlighted the proposed measures to monitor and improve Governance arrangements and noted the changes to the organisational structures and that the Procurement Team was now fully established and the next phase would be to ensure that contract management is an integral part of the procurement cycle.

In response to Members' questions, the Audit Manager (HP) and the Chief Finance Officer explained:-

- There were no concerns for the progress on the audit plan work;
- It was not usual practice to hold a database of data relating to the audit plan work for Members to access. Until work was completed, it was considered to be appropriate to disclose the information ahead of presenting to Members at the Audit and Governance Committee. However Members were welcome to visit the Civic Centre and read reports with the Audit Managers.

The Audit and Governance Committee noted the Internal Audit Report for the first quarter of 2019/20.

28

CORPORATE GOVERNANCE RISK REGISTER SUMMARY PAPER

The Chief Finance Officer presented the report paper which advised the Audit and Governance Committee of the progress on the review of the updated Corporate Risk Register. He explained that updated register would be focussed on strategic risks and remove operational risks. A draft list of strategic risks had been created following ongoing work and would be presented to the Strategic Management Board (SMB) at a meeting in October 2019, and will be presented to Members as a part 1 item at the December Audit and Governance Committee.

The SMB recognised that the risk landscape had become more complex and that effort from both the SMB and Audit and Governance Committee was needed to focus on managing the most significant risks to the council. This approach would avoid time being spent on discussing operational risks that should be managed at a service level. The Chief Finance Officer referred Members to the summary paper, to note the strategic risks identified from the progress work undertaken by the Strategic Management Board and the Council's insurer – Zurich.

In response to questions from Members, the Chief Finance Officer responded that:-

- Homeless sleepers and residents with complex needs would be raised with the Strategic Management Board, to consider if the risk should be included under Counter Terrorism and Community Cohesion;
- Issues of cyber terrorism would be categorised under the risk for Information Governance and Cyber Security;
- The Sport England Delivery Pilot was considered to be a reputational risk , in the event that the Sport England partnership no longer proceeded;
- Risks concerning Brexit would be added for the review by the SMB at the meeting in October to see if it should be included on the risk register. Consideration would be taken on the potential impacts to the care sector and similar areas. Since the work to the register began, the risk likelihood of there being a no deal Brexit, had increased, and would be raised with the SMB.

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

(The meeting commenced at 5.30 pm and closed at 6.46 pm)

Chair