

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 26 July 2023

Present:-

Councillor Wardle (Chair)

Councillors Jobson, Ellis-Jones, Fullam, Miller, Mitchell, M, Moore, D, Patrick and Williams, M

Apologies

Councillors Allcock and Atkinson

Also Present

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

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MINUTES

The minutes of the meeting held on 8 March 2023 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

The Engagement Lead, External Auditors Grant Thornton provided an update and highlighted two main areas of their programme of work, namely the audit of the Council's Financial Statement of Accounts and the Value for Money conclusion. Work in relation to the 2021/22 Statement of Accounts and in support of the authority's audit work in preparation of the Council's budget was ongoing. One significant change related to the valuation of the Pension Fund held in the Council's balance sheet, the detail of which was set out in the report. The 2020/21 Value for Money conclusion had identified a number of recommendations which have been followed up with colleagues from the Council's Finance Team, including addressing correspondence from members of public around specific issues of the Council's arrangements, which would be taken into consideration as part of the Value for Money assessment work.

The Engagement Lead responded to the following questions:-

- a number of 'plain english' documents were publicly available from the National Audit office, which set out guidelines on the general value for money approach for local government. A link would be provided to the Democratic Services Officer to circulate to Members and she was happy to provide any further information at a future meeting.
- the regular progress report to this Committee would always highlight any areas of concern for Members' attention. It was anticipated that an update on Value for Money report was due to be reported to the next meeting of the Committee.
- the National Auditors Office, Auditor Guidance sets out the framework and

scope of Value for Money work, and Grant Thornton summarised any key messages that arise from those CIPFA documents in their published reports. The Director Finance added that he would purchase a copy of the Guidance for the Committee, and regular updates would be included.

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

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PUBLICATION OF THE 2022/23 STATEMENT OF ACCOUNTS

The Director Finance presented an update on the publication of the 2022/23 Statement of Accounts and the audit status of the Statement of Accounts for 2020/21 and 2021/22. The report set out the progress made against the background of the current audit environment. The Financial Reporting Council (FRC) had placed significant pressure on the use of estimated figures by the External Auditors and in relation to the Pension Fund was not acceptable. Further work with Grant Thornton to complete the 2021/22 audit would ensure there was the best estimate of the Pension Valuation position. An actuarial report had been commissioned, which concluded that the Pension Fund liability as at 31 March 2022 had reduced by £24 million. All of these changes have had a cumulative effect of the opening balances of the 2022/23 accounts, but the commissioned report for 2022/23 will update the information in the Statement of Accounts which was now anticipated to be published mid-August.

The Director Finance responded to the following Members' questions -

- the increase in contributions related to current members of staff, but the back funding payment towards the deficit had reduced, so in overall terms the contribution would reduce for the next three years. This was included in the medium term financial plan as approved by Members in February.
- many of the leisure staff brought back in house, had not been with the Council long enough to have had a local government pension to carry forward, and the impact on the deficit was small.
- the opportunity to negotiate the Pension Fund contribution had changed, but actuaries still used the current information to determine the conclusion. There had been a positive valuation resulting in the Pension Fund deficit - from an accounting point of view the valuation had changed by £24 million.
- the Council will be the same position for the Statement of Accounts for 2023/24 which would need to be based on the February estimate, as the accounts cannot be completed in two weeks unless the local government audit regime returns to a better position to enable closing and publishing of the accounts each year by 31 May.
- the inspection of the Statement of Accounts would commence the day after their publication.
- this was the first year that Exeter City Council had not met the accounting deadline.
- there have been challenges in finding suitably qualified surveyors to carry out property valuations for all of the Council's properties, which required an evaluation over a five year period and commercial property which was valued every year.
- a Parliamentary Select Committee had been held on the timeliness of local

audit reporting and the Local Government Association had been invited to give evidence in relation to the publication of accounts.

The Engagement Lead responded to the following Members' questions -

- Grant Thornton had given written evidence at the Parliamentary Select Committee and the report had now been published. There was an understanding that the delay in more recent Audits nationally, needed to be addressed. Measures have been proposed for a small number of cases. The Department for Levelling Up, Housing and Communities (DLUHC) will continue to discuss with audit professionals and the FRC to ensure this work was back on track. Whilst Grant Thornton had not concluded all aspects of their audit at Exeter, the Council would not be subject to those extreme measures having no significant concerns or challenges. She was confident the necessary assurances would be given in the revised timeframe.
- only one of the authorities that Grant Thornton provide an audit service for had published their accounts by 31 May, Grant Thornton updated that information every month.

Both a Member and the Director Finance had a copy of the letter from the Under Secretary of State for (DLUHC) following on from the Parliamentary Select Committee which would be circulated to Members.

The Audit and Governance Committee noted the progress and barriers to publication of the Council's Statement of Accounts for 2022/23 and audit status of the Statement of Accounts for 2020/21 and 2021/22.

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INTERNAL AUDIT CHARTER

The Audit Manager (HK) presented the Internal Audit Charter which defined the scope of internal audit, its purpose and responsibility. The Charter was required to be reviewed and updated every two years or following a change in the service. There had been few changes to the service objectives since the Audit Charter was last approved by Members in September 2021. A Member welcomed the helpful change history information as part of the documentation.

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

- the comment made in relation to the objectives set out in the Charter document that there be a specific reference to the Audit and Governance Committee rather than just the Council was noted.
- reporting to the Audit and Governance Committee was made either where a service had not agreed a remedial action or it had not been actioned or implemented. In such cases, Members had the right ask the Manager of that service to attend any of the Committee meetings to explain their action.
- in responding to an enquiry about there being no mechanism for representations to be made by the service, any instances of non-compliance by management on remedial action were rare. A review of the format of the progress reports for any Audit undertaken, would now include an Executive summary to show the detail of any findings and any actions. The Director Finance stated that the Executive summary would provide a snapshot with a rating for each audit. He suggested that following publication of the agenda, Members could request further information on an audit in advance of the

meeting. In addition, the Audit Managers would continue to highlight any issues with the reports.

- the Audit team had access to the centralised computer system used by staff working from home, and access to individual staff members' homes was not required. The printing and retention of printed material whilst working from home was not encouraged. The Director Finance advised that standard wording was taken from a centrally produced Internal Audit guidance which was quite dated and this would be reviewed.
- the suggestion of a notification being sent to Audit and Governance Members when an audit has been completed was noted.
- a reference to the wording 'any embarrassment caused to the Council' in paragraph 12.1 would be reviewed.
- in terms of the risk methodology, the team undertook an annual risk assessment as part of the Audit Plan, in accordance with the Council's risk management process, to determine where their resources were placed for the coming year and consider factors such as finance, the complexity of the IT system used, and their own experience and knowledge of the system. The Audit team had all undertaken carbon literacy training and were committed within their work to help the Council meet the net zero target. Part of the preparations for a service audit included completion of a pre audit questionnaire and this included a section on the service policy approach to carbon emissions. The Audit team would continue to work with the Net Zero team to consider how this would be reported back to Members.

The Audit Manager would speak to her colleague and discuss incorporating Member's suggestions in the Charter.

RESOLVED that the Audit and Governance Committee approved the updated Internal Audit Charter.

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ANNUAL INTERNAL AUDIT REPORT

The Audit Manager (HK) presented the Annual Internal Audit report for the year ending 31 March 2023, which conformed to the Public Sector Internal Audit Standards and was timed to inform the Council's Annual Governance Statement. The report included an audit update, a survey of work and audit standards and the results of the Quality Assurance programme.

The Audit Manager drew Members' attention to key points in Section 3 of the report to be included in the Annual Governance Statement (AGS) which included:-

- Debt Collection with a number of areas requiring attention within service areas relating to raising invoices and subsequent collection of debt for all income streams.
- the Council's Financial Position
- Change Management and the speed of the One Exeter Programme and factors which present a risk in achieving the objectives.

The Audit Manager stated that Section 4, contained an update on the delivery of the Annual Audit Plan 2022/23, which included an outcome of all audits undertaken throughout the year which have also been reported to previous meetings.

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

- improvements to the weaknesses identified in relation to raising invoices and subsequent collection of debt was now part of a management review of

debt collection. Any areas of improvements identified in the audit work would be followed up.

- the scope of the audit of Risk Management completed in 2022 related to operational risk management not corporate risk Management.
- a Member asked for a copy of the recent Hospitality Audit report and the Audit Manager agreed to circulate to members of the Committee.
- key assurances were identified by the Audit Managers as set out in Section 2 of the report, which included their input to the overall opinion. The Director Finance responded to a request for consideration of a specific area of concern and advised that Members may request areas for consideration to the Audit Managers for inclusion in the Action Plan.

The Director Finance also responded to Members' questions and stated that:-

- the audit work covered a range of sundry debt collection in Council Tax and Housing Rents. The teams provided services to either business or the general public across a whole range from the Home Call Alarm scheme through to managing commercial property which included managing leasehold service charges and ground rent.
- a key parameter of the audit was about reporting on the management of the process and not the level of debt of individuals. It was anticipated that the debt system was due to be replaced in two years' time.
- in respect of the Medium Term Financial Plan, the Council's budget for this financial year had taken account of an outstanding sum of £9.7 million, and the correct figure had subsequently been reduced to £5.1million.
- as part of the audit of IT/Strata Asset Management, the Strategic Management Board at Exeter City Council had discussed the current levels and replacement of IT equipment with an inventory to ensure the agreement was updated in line with current practice. It was appropriate for this to be discussed by the tripartite authorities of Exeter City and East Devon and Teignbridge District Councils at the Strata Joint Executive Committee meeting.

A Member proposed and Members agreed for this matter to be referred to both Strata Joint Executive and Strata Joint Scrutiny for the organisational agreement to be updated in line with current practice, noting that IT equipment was an asset.. It was noted that Strata's legal team had drafted up an updated contract which had been agreed by the Council.

The Audit and Governance Committee noted the Annual Audit Report for the year ended 31 March 2023 and the request that Strata Joint Executive and Strata Joint Scrutiny Committees ensure that the organisational agreement is updated in line with current practice noting that the City Council is holding an asset in terms of IT equipment.

The Director Finance presented the report accompanying the Annual Governance Statement setting out key issues, the responses and a summary of action. The Annual Governance Statement would accompany the Council's Statement of Accounts for 2022/23. The Governance Statement was a statutory requirement and reported on the Council's performance against the Council's Code of Corporate Governance which was last approved on 8 March 2023.

In response to a Member's questions, the Director Finance advised the following:-

- the Governance Statement included what happened last year, as well as a summary of actions for 2023/24.
- the Risk Register would continue to be presented to the Audit and Governance Committee.

A Member raised a number of issues on the circulated Statement under the *Review of Effectiveness* section and in relation to a reference on appropriate updates of the Council's Constitution referred to the Governance Review Group and sought an explanation of why the Group had been disbanded, and what was proposed to be put in its place. There was now, no apparent mechanism for Members to feedback on any proposed changes to the Constitution or the operation of Standing Orders. The Group had included Members from all political parties, who had made a number of representations and constructive comments, and she now wished to make a formal request to the Executive or appropriate body for the reinstatement of the Governance Review Group. A Member also made a request for the minutes of a number of those meetings held to be circulated to Members.

In response to a comment on the lack of mechanism to put an item on the agenda of this Committee, they were advised that any concerns or a request for review of a service area of the Council could be made to the Internal Audit Manager. It was noted that a review of the operational requirements and arrangements in relation to officer responsibility was also included in the Scheme of Delegation report and considered annually by the Executive.

The Member also commented on the reference to the work of Customer Focus and Strategic Scrutiny Committees who monitor the overall financial performance of the Council; she referred to the financial performance of the Housing Revenue Account (HRA) which was reported to the Council Housing and Advisory Development Group (CHAD) but not to the Customer Focus Scrutiny Committee. The CHAD Group was not a Council Committee, but operated in an advisory capacity to the Executive and the Scrutiny Committee could include regular budget monitoring.

The Director Finance referred to the review process of the Council's Constitution which was not Member driven and also included regular updates in respect of officer responsibilities. The reference in the Statement was not intended to be in the form of a review that the Member had suggested.

A Member offered a copy of a letter from the Minister of Department for Levelling Up, Housing and Communities (DHLUC) sent on 28th June relating to the issue of governance review and suggested that it be shared with Members.

Following the earlier discussion, a Member proposed that a formal request to the Executive or appropriate body be made for the reinstatement of the Governance Review Group. A Member also made a request for the minutes of a number of those meetings held to be published.

The proposal was seconded and agreed following a vote.

RESOLVED that the Audit and Governance Committee approve the Annual Governance Statement of Accounts for 2022/23 and be signed (at the earliest possible convenience) by the Director Finance and the Chair of the Audit and Governance Committee and included within the Council's Annual Statement of Accounts for 2022/23.

RECOMMENDED to Council to note and approve the following:-

- (1) Annual Governance Statement included within the Council's Annual Statement of Accounts for 2022/23, and
- (2) a request for the Executive or appropriate body to consider the reinstatement of the Governance Review Group, and for the minutes of the meetings to be published.

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REVIEW OF THE CORPORATE RISK REGISTER

The Director Finance referred to the report presented to the Executive which advised of the Council's progress in developing a new Corporate Risk Register.

Senior Management Board colleagues had worked with Zürich Insurance Group to review the Risk Register linked to the Council's Corporate Plan and Strategic Priorities using the four pillars of the Council that underpin the delivery of People, Property and Infrastructure, Finance and Digital. Each area of work would have a risk owner at Executive with support from the relevant Director. He set out the revised format which included a summary sheet to show the scope and risk in summary with an assessment of the level and the resources required from a very high to very low ratio; and an assessment of the impact of failure to deliver and of the effect on a range of drivers such as political, financial, reputational, regulatory, legal, compliance and community. The Register will also assess the Council's risk appetite whether it is open to risk, more cautious or risk adverse. Further work will be undertaken on the Risk Register, and the updated document will be presented to the Executive in September and continue to be presented to the Executive and the Audit and Governance Committee on a quarterly basis.

Following on from the previous invitation for a Director to attend the Audit and Governance Committee to provide further detail on the risks identified in their area of work, the Director City Development will be invited to the September meeting to provide an update.

The Director Finance welcomed the feedback on the specific targets being identified, of the Executive and officer areas of responsibility and responded to the following Members' comments:-

- Zurich had suggested a number of topics from around the country, with the impact of the risk mitigation based on that.
- every service has an individual Service Risk Register, but only when a risk become significant, would it be included on the Corporate Risk Register.
- when an asset would be impacted upon for example in the case of flooding, working in partnership with for example the Environment Agency would be acknowledged, but the Risk Register did not include working in partnership.

The Audit & Governance Committee noted the progress made in producing the new Corporate Risk Register.

(The meeting commenced at 5.30 pm and closed at 7.40 pm)

Chair