

## **AUDIT AND GOVERNANCE COMMITTEE**

Wednesday 6 March 2024

### Present

Councillor Wardle (Chair)

Councillors Jobson, Allcock, Fullam, Miller, Mitchell, M, Moore, D, Snow and Williams, M

### Apologies

Councillors Atkinson, Branston and Patrick

### Also Present

Chief Executive, Director Finance, Deputy Chief Finance Officer, Service Lead Legal Services, Audit Manager, Net Zero Project Manager and Democratic Services Officer (SLS)

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### **MINUTES**

The minutes of the meeting held 29 November 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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### **CITY COUNCIL NET ZERO RISK REGISTER**

The Net Zero Project Manager presented the report, which advised the Audit and Governance Committee of updates to the City Council's Net Zero Risk Register, and key measures introduced to deliver the Council's Net Zero aspiration by 2030. The report linked to the Net Zero Scrutiny report and updated Carbon Reduction Plan, and the 2022/23 Greenhouse Gases Inventory report, which offered detail of the latest carbon footprint. The Net Zero Project Manager reported an overall reduction of 4% compared to 2021/22. That Social Housing accounted for 39% of overall emissions and non domestic (corporate estate) accounts for 42% spread across everything we have purchased as a Council. Grants were limited by scope and funding is needed, to reduce risk, and for implement of measures needed to protect ourselves from the effects of global warming.

The Net Zero Project Manager responded to the following comments from Members:-

- the carbon reduction plan linked to the original Greenhouse Footprint report produced for the City Council by the University of Exeter in 2022. The report provided potential measures needed to achieve net zero for each sector and a trajectory of outcomes to achieve Net Zero. The Carbon reduction Plan was built on this information and the measures to be undertaken to get to net zero;
- the Council was working with larger suppliers to address their supply chain, which included Mears, proving housing maintenance works and accounting for one of the biggest contractor spend. As a priority they were rolling out of

the Green Accord Accreditation Scheme to all such suppliers to help them work towards reducing their emissions in the services provided to us. Further work with procurement and housing had just commenced, and the Net Zero Project Manager would provide a further update in six months' time;

- it was estimated that, by March 2025, retrofit delivery to 929 housing properties would be completed. It was difficult to calculate the exact timescale for full delivery of the Council housing retrofit programme. This was primarily due to the fact that over the past three years, the Council has been successful in securing Government grant funding (£4.1m) for retrofit upgrades and this had assisted the completion rates. Should grant funding not be available or not be secured over the next few years this would adversely impact the number of properties completed and the ultimate timescale. Our estimated cost for full retrofit roll-out was £88m at current prices;
- the Net Zero team were currently working with the University of Exeter in respect of an Investment Plan, which would help identify more accurate costings in relation to the cost of achieving the Council's Net Zero ambition by 2030;
- the Net Zero Project Manager took an action to seek further information in relation to the Member's comment on the reference to afforestation and the Council's relationship with the Devon Wildlife Trust, and to provide at a later date in relation to the Council's relationship with Devon County Council and the local nature strategy; and
- in terms of the different net zero targets of 2030 and 2050, the Net Zero Team were working with neighbouring local authorities, and were involved in joint working and projects. The Council also benefitted from its membership of a number of different groups including the Climate Emergency Task Force for Devon (and districts), and membership of the South West Energy and Environmental Group (SWEEG), drawing on the expertise of all of those groups and the Centre for Energy and Environment at Exeter University.

The Audit and Governance Committee noted the City Council's Net Zero Risk Assessment update which included key measures introduced, and which would continue to be presented every six months.

#### 4 **INTERIM AUDIT FINDINGS REPORT FOR EXETER CITY COUNCIL 2021/22**

The Director, External Audit (Grant Thornton) presented an update of the Interim Audit Findings report on the Council's 2021/22 financial statements. She provided an update on further work undertaken since the last Committee meeting in September 2023, and confirmed there were no matters that would require a modification of their audit opinion. There had not been any significant changes or additional issues to bring to Members' attention. The Value for Money work was ongoing and work in respect of the 2021/22 audit was a joint exercise with the 2022/23 arrangements. As part of the final part of the formal process, she confirmed that there were no issues resulting from investigative work undertaken in relation to a formal response to two public objections made on the 2021/22 accounts. She was required to formally respond to the objectors giving statement reasons and setting out the work she had conducted and the conclusions reached.

The Director, External Audit made the following responses to Members' enquiries:-

- the Executive summary set out the latest position and the changes were

now shown with track changes. The main adjustment was an update on the minimum revenue provision.

The Director Finance also responded to a Member's questions:-

- the provision of loans was not included in the MRP provision, because they were being repaid and equated to an amount that was set aside. Debt was reducing at the correct amount. He explained that changes to Government regulations would address the issue of MRP against the loans. The financial year of 22/23 was likely to be the final year that Exeter did not charge MRP for loans as the Council was scaling back ECL.
- there was no charge against the property and it was just in respect of an unsecured loan that was being repaid on an annuity basis.

**RESOLVED** that the Audit and Governance Committee note the update of the Interim Audit Findings report.

## 5 **THE AUDIT FINDINGS REPORT FOR EXETER CITY COUNCIL 2022/23**

The Director, External Audit (Grant Thornton) presented an update of the Interim Audit Findings report on the Council's 2022/23 financial statements and confirmed that whilst there had not been any significant changes or additional issues to bring to Members' attention there were still some areas of work that were outstanding at the point of publication of the agenda. She provided an update on each area including the completion of debtors, creditors and collection fund testing and work in relation to Exeter City Living which would be concluded by the end of the week with some follow up work in relation to the completion of valuation work in respect of St Sidwell's Point and the audit testing on pension liability. Further information on the Council's Minimum Revenue provision was also forthcoming. The remainder of the work had been completed.

The Director External Audit made the following responses to Members' enquiries:-

- an external valuation expert provided a valuation of St Sidwell's Point, which had a recognition that St Sidwell's Point was constructed to a particularly high specification standard and of the discrepancy between the true actual cost of building and the cost to rebuild and deliver an equivalent leisure centre of that nature. The audit would consider the assumption and conclusion of the Council's valuation and recognition of the difference between the cost to build and the current carrying value was materially accurate and was reflected as an impairment adjustment.

The Deputy Chief Finance Officer responded to a Member's question over the values and reported that she had checked the Asset Register and the accumulative spend which was £44.6 million. A sum of £37.76 million was included on the balance sheet as at the end of March 2023.

- it was important to recognise that the Statement of Accounts should include instances where the Council had related parties with external bodies and if there had been significant transactions or element of Council with those parties. A formal process and return of Declarations of Interests from the Strategic Management Board was a part of this work and following further contact, the appropriate responses were received to ensure the disclosures were accurate.

The Director Finance confirmed that the Strategic Management Board did agree with the recommendation and further work on the required annual return, including a nil return, would be completed to ensure the process was followed, and any Declarations of Interest relevant to Council business declared.

The Director Finance made the following responses to Members' enquiries:-

- the new finance system would be live from April 2025. A review of superuser access would be included as part of a restructure of the Finance team.
- the Strategic Management Board would be monitoring the recommendations for the Council identified in the report and Action Plan throughout the year to ensure they were addressed. Any failure to implement the recommendations would be reported to the Audit & Governance Committee.

The External Audit Director added that an update in the key recommendations would be included as part of their year-end report. She provided assurances that her team formally followed up progress on key recommendations as she was duty bound to report back and would report back as scheduled but was able to provide an interim update if required.

The Chief Executive provided assurance to the Committee that the Strategic Management Board which included the Director Finance would be monitoring progress against the recommendations. She said she could see no reason why they could not report back to the Committee on the progress of that. She was happy for the Director Finance to report back progress on the recommendations.

The Member appreciated this and said she was concerned about the recommendations in relation to the shareholder's representatives and this has been an ongoing issue for the last two years now. The Audit and Governance Committee had looked at this before and attempted to clarify but there were a number of associated companies and the issues still that remain and she would appreciate and update at the next Committee and see if we can focus on this issue and how it can be resolved, and look into the CIPFA Guidance on associated companies and a report and some changes made.

The Chief Executive was happy to come back to the next Audit & Governance Committee or the one after but she certainly agreed that it was an area that they started to look at and they would come back with responses.

**RESOLVED** that the Audit and Governance Committee note the update of the Interim Audit Findings report from the Exeter City Council (External Auditor), Grant Thornton.

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## **INTERIM ANNUAL AUDITOR'S ANNUAL REPORT ON EXETER CITY COUNCIL 2021/22 AND 2022/23**

The Director External Audit (Grant Thornton) referred to the approach to assess the Council's arrangements for 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 required attention and scope for improvement about how a Council was operating. She was pleased to report that was not the case at Exeter City Council. There were three classifications and recommendations that could arise from their work as part of the assessment including improvement, key recommendations and a statutory recommendation.

On that basis, she drew Members' attention to the Executive summary of the report and confirmed that they had not identified any significant weaknesses, but had in recognition of ongoing financial challenges for the Council identified a number of recommendations with scope for further improvement of the existing arrangements for the financial years of 2021/22 and 2022/23.

This included one key recommendation relating to Exeter City Living.

They had identified one further key recommendation and a broad assessment in the governance arrangements of the Council working with External Parties such as Exeter City Futures, Exeter Science Park, Exeter Business Centre and Exeter Canal and Quay Trust.

The Council should have defined and specific objectives so the performance of the specific arrangements could be effectively monitored and there was not enough reporting on the performance objectives and financial impacts. The Council had agreed with that recommendation and there were assurances from the Chief Executive already in the measures that were in place to respond to the recommendations.

The next recommendations related to the economy and effectiveness and they had raised another key recommendation because they felt there was a significant weakness in relation to performance management, they looked at performance reporting of the council in 2021 and to the end of 22/23 and there was not sufficient reporting of how the council was performing against strategic priorities. She was pleased to note that there had been some discussion on this internally and from Members of the Executive and officers within service areas. They were not saying that performance management was non-existent but in terms of transparency and reporting how the council was performing and achieving the objectives needed to be more formally set out.

There were a number of other recommendations in the report across the areas.

The Democratic Services Officer would follow up an enquiry about the Scrutiny proposals proposed and including those in the Scrutiny Bulletin. The notes of the Scrutiny Programme Board were already included in the Scrutiny Bulletin.

The Director Finance responded to the following Members' comments –

- there had been limited public consultation on the budget due to the scale and pace and changes to the budget. He agreed with the recommendations and will review as part of a wider consultation approach to understand the governance priorities. They already intended to start engaging with Members much earlier in the budget process, commencing in the summer.

The Director External Audit responded to the following Members' comments:–

- in respect of the significant weakness in relation to Exeter City Living and if we should be concerned. The table broke down the different components of the recommendation and it was the principle of how the Council managed its Companies and Exeter City Living was the biggest, and whilst the principle would be superseded by the winding down of the company, the principle did hold.
- as a result of a different approach having been taken in relation to advertising Chief Officers' post, this was an improving recommendation and the financial context of restricting was noted but was a recommendation in respect of the interests of public transparency.

The Audit and Governance Committee noted the report.

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### **FINAL STATEMENT OF ACCOUNTS 2022/23**

The Deputy Finance Officer presented the report on the Council's Statement of Accounts for 2022/23 for approval and adoption. It was a statutory requirement to publish the Statement of Accounts which were intended to provide a 'true and fair view' of the financial position and transactions of the Council, including the Group financial statements as at 31 March 2023. She was pleased to report that there were minimal changes to the accounts as published on the 31 August 2023. There was also no change in the overall position as reported to Members in November 2023 on the final Outturn position for the Council and she anticipated an unqualified opinion by the Auditor being issued.

The recommendation included a request for delegated powers to be granted to the Director Finance with the Chair of the Audit and Governance Committee to sign off the 2022/23 accounts.

The Director Finance gave the following responses:-

- the proposed Guidance for local authorities would provide for a summary of the accounts but that had not come into force yet, but should make the required documentation more accessible. He suggested the report to the Executive and Council on the final Outturn position provided the information more clearly;
- he explained that the process of noting a profit or loss on disposal did not mean necessarily a financial loss and it related to what was received for the asset compared to the value in the accounts. The Council had stock that may have been written out of the accounts and if sold the Council made a gain and sometimes it gave assets away at less than best and on occasion could get nil consideration, which would result in a loss. However, it would not impact the council taxpayers as it was written off to the balance sheet; and
- officers would be bringing back a report on our companies and other structures that we have.

**RESOLVED** that:-

- (1) the Audit and Governance Committee approve the audited Statement of Accounts for 2022/23, and
- (2) subject to any additional material changes to the accounts be delegated to the

Director Finance and the Chair of the Audit and Governance Committee to be agreed, and to make any further amendments before signing the accounts and to report back to the July meeting of this committee any findings if they are identified in the remainder of the Audit.

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### **MANAGEMENT LETTER OF REPRESENTATION 2022/23**

The Director Finance referred to the Management Letter of Representation to the External Auditor Grant Thornton in respect of the 2022/23 Statement of Accounts, which confirmed the Council had provided all the necessary information, and followed the correct practices in delivering the Statement of Accounts as required as part of the Audit.

Exeter City Living was included in the Statement of Accounts as at the end of the financial year of 31 March 2023 and whilst there has subsequently been a resolution to scale back the operations, that information was not known at that time and so whilst there had been an impact, it will be disclosed in a note rather than materially impacting the accounts.

**RESOLVED** that the Audit and Governance Committee approve the Management Letter of Representation, and request that it be signed by the Director Finance (Section 151 Officer) and the Chair of the Audit and Governance Committee for forwarding to the External Auditor, Grant Thornton.

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### **INFORMING THE AUDIT RISK ASSESSMENT**

The Deputy Chief Finance Officer presented the completed questionnaire for Grant Thornton, which set out responses from the City Council to help inform the risk assessment of Exeter City Council as part of the planned audit process. Due to the delay in presenting the audit for 2021/22 and 2022/23 which have been reported in quick succession, this was the first opportunity to present this information to the Committee. Colleagues had compiled responses to questions to offer an understanding of the Council's management processes and oversight in the following areas:-

- General Enquiries of Management,
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

The Director Finance noted the Member's comments in relation to an allegation of fraud by a member of the public in support of a planning application.

The Audit and Governance Committee noted the responses given in respect of the Audit Risk Assessment report.

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### **ANNUAL INTERNAL AUDIT PLAN 2024/25**

The Director Finance advised the retirement of Helen Kelvey as one of the two Audit Managers of Internal Audit. She has provided an excellent service in her 36 years supporting the strengthening of the internal control environment. He also

referred to the remainder of the Internal Audit team who were transferring to the South West Audit Partnership (SWAP) and Members also wished them well in their future endeavours. The Chair joined Members in offering their best wishes to Helen Kelvey for her retirement and for all of her years of service for the Council.

The Audit Manager (HP) presented the annual Internal Audit Plan for 2023/24, attached as an appendix and presented to the meeting, which required Members' approval. Despite the move to the Partnership, the Council's Annual Plan would be produced on a rolling plan basis and any changes to the Plan would be brought back to this Committee during the year. Input from the Senior Management Board has been very welcome.

The Audit Manager noted a Member's suggestion regarding future audits of planning, to take into account the outcomes of any judicial reviews to ensure that their recommendations are being actioned.

**RESOLVED** that the Audit and Governance Committee approve the annual Internal Audit Plan for 2024/25.

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### **INTERNAL AUDIT QUARTERLY PROGRESS REPORT**

The Audit Manager (HP) presented the quarterly report on the internal audit work carried out during the period 1 July to 30 September 2024, and advised on overall progress against the Annual Audit Plan. The team were on target to deliver the Plan with no outstanding remedial actions to report, and agreed actions from previous reports were being progressed satisfactory and would continue to be monitored.

The Audit and Governance Committee noted the Internal Audit Progress Report for the third quarter of the year 2023/24.

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

The Director Finance presented the report and advised the Audit and Governance Committee of the Council's risk management process, which was monitored by the Strategic Management Board (SMB) in consultation with the relevant Portfolio Holders. The report was also presented to the Executive meeting on 5 March and no significant risks were added to the Register. Members of the Audit and Governance Committee were invited to review and comment on the Risk Register, and any comments would be reported to SMB to continue to strengthen the approach and ensure the Risks were identified and accurately linked together.

The Director Finance responded to the following Members' comments:-

- training for both officers and Members would be offered as support for their respective roles in terms of risk management;
- the revised approach to Risk Management with the Executive now charged with determining whether any actions should be undertaken to further mitigate the risks. The role of Audit and Governance Committee was different but nevertheless was about being satisfied that there was an appropriate mechanism in place to ensure any risks were identified and managed.
- the Capital Programme was prioritised on the basis of health and safety with those schemes where there was the greatest risk. The property team regularly inspected the Council's properties to ensure they remained fit for



purpose with an assessment for a range of approaches from partial or complete closure of the property or structure in question.

- the final part of the Business Case for the Development Fund to provide an opportunity for homes still needed to be completed and that would determine if it could provide a suitable mitigation against risk or not.

The Audit and Governance Committee noted the quarterly report in the Corporate Risk Register.

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**SHARON SISSONS**

The Chair noted that the Democratic Services Officer, Sharon Sissons, would shortly be changing jobs and starting work at the Royal Albert Memorial Museum. He expressed his thanks for all the support offered to him as both as Chair and as a Councillor and wished her well in the future.

(The meeting commenced at 5.30 pm and closed at 7.25 pm)

Chair