

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 24 July 2024
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Liz Smith, Democratic Services Officer on 01392 265 425.

Entry to the Civic Centre can be gained through the rear entrance, located at the rear of the Customer Services Centre, Paris Street.

Membership -

Councillors Wardle (Chair), Jobson (Deputy Chair), Atkinson, Begley, Ketchin, Knott, Miller, Mitchell, M, Moore, Palmer, Patrick and Williams, M

Agenda

Part I: Items suggested for discussion with the press and public present

1 **Apologies**

To receive apologies for absence from Committee Members.

2 **Minutes**

To approve and sign the minutes of the meeting held on 6 March 2024.

3 **Declaration of Interests**

Councillors are reminded of the need to declare any discloseable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion on the item.

Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

4 **Local Government (Access to Information) Act - Exclusion of Press and Public**

It is considered that the Committee would be unlikely to exclude the press and public during the consideration of the items on this agenda, but if it should wish to do so, then the following resolution should be passed:

"**RESOLVED** that, under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting for the particular item(s) of business on the grounds that it (they) involve(s) the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part 1, of Schedule 12A of the Act."

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|-----------|---|----------------------|
| 5 | External Audit Progress Report
To consider the report of the Council's External Auditor. | (Pages 5 -
22) |
| 6 | Informing the Audit Risk Assessment 2023/24
To consider the report of the Strategic Director of Corporate Resources. | (Pages 23
- 54) |
| 7 | Annual Governance Statement 2023/24
To consider the report of the Strategic Director of Corporate Resources. | (Pages 55
- 72) |
| 8 | Code of Corporate Governance 2024/25
To consider the report of the Strategic Director of Corporate Resources. | (Pages 73
- 88) |
| 9 | Annual Internal Audit Report
To consider the report of the Audit Managers. | (Pages 89
- 126) |
| 10 | Review of Corporate Governance Risk Register
To consider the report of the Strategic Director of Corporate Resources. | (Pages
127 - 130) |

Date of Next Meeting

The next **Audit and Governance Committee** meeting will be held on Wednesday 25 September 2024 at 5.30 pm

Individual reports on this agenda can be produced in large print on request to Democratic Services (Committees) on 01392 265 425

Exeter City Council

Audit progress report and sector updates

July 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

<https://www.grantthornton.co.uk/industries/public-sector/local-government/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at July 2024

Financial Statements Audit

We set out below the latest position on each of the outstanding audits for the Council.

2021-22

Our audit fieldwork is complete and our audit findings were reported to the Audit and Governance Committee in November 2023 and March 2024.

We expect to certify the audit upon the completion of our work which is subject to formal conclusion of two elector objections on the 2021-22 financial statements. In addition, whilst we have fully concluded and issued our 2020-21 audit opinion, our final certificate of audit closure for that year also remains open, given that aspects of the objections also draw our attention to matters relating to the 2020-21 year. An update on these objections is set out separately below.

Correspondence from local electors

Under the Local Audit and Accountability Act 2014, a local elector has the rights to inspect the accounts and books and records of the Council and write to the external auditors, to ask questions about the accounts. They may also object to the Council's accounts asking that the auditor issue a report in the public interest (under Section 24 and paragraph 1 of Schedule 7 of the Local Audit and Accountability Act 2014) or apply for a declaration that an item in the accounts is contrary to law.

We received two written objections during the public inspection period for the 2021-22 accounts. Having carefully considered the grounds for both objections and further information highlighted by both correspondents, we concluded that these were matters to be considered by the auditor, in part through our financial statements work and in part through our value for money assessment. We have considered the specific aspects of the matters raised and made further enquiries with Council officers and reviewed further documented.

Our provisional views letter has been drafted for one objection and is currently proceeding through internal review and clearance. The second objection is currently in report drafting stage. Both reports will be shared with the correspondents and the Council for comments prior to finalisation.

This work is additional work required as part of our responsibilities as auditors and will be subject to a separate fee. Final fees at the conclusion of our work will be discussed and agreed with management and require final approval by PSAA.

2022-23

Our audit team has concluded its detailed testing for the 2022-23 financial statements and our audit findings were reported to the Audit and Governance Committee in March 2024. Work is currently undergoing final manager and engagement lead quality review. We are also concluding some final audit enquiries relating to the accounting treatment of the Council's acquisition of the Guildhall during the 2022-23 year.

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2023-24

We commenced the planning work in March 2024 and have been liaising with management to complete this work.

Our planning and interim work includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements and early work on emerging accounting issues

We have recently received responses from management to our planning enquiries and are in the process of preparing the draft audit plan. Our 2023-24 audit plan will be presented to the next Audit & Governance Committee.

Value for Money

2021-22 and 2022-23

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We reported a combined commentary on the Council's arrangements for 2021/22 and 2022/23. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The VfM work for 2021-22 and 2022-23 is complete and we issued and reported the interim Auditor's Annual Report to the March 2024 Committee which highlighted significant weaknesses within the Council's arrangements. Management should continue to progress its implementation of actions to address these matters. Upon completion of the financial statements audits we will issue a final updated version to record our final conclusions from the financial statements' audits, when these opinions are signed.

2023-24

Our 2023-24 VfM work is scheduled to commence in July 2024 and updates on progress of this work will be provided to future Committee meetings.

Progress at July 2024 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Works and Pensions (DWP). The certification work for 2021-22 has been completed and the 2022-23 work is in progress. We will report any significant findings to the Audit and Governance Committee.

We also certify the Authority's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Department of Levelling Up, Housing and Community (DLUHC). The certification work for 2022-23 has been completed and the final certificate was issued on 14 February 2024.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report

Audit Fees

PSAA have published their scale fees for 2023/24 [2023/24 auditor appointments and audit fee scale – PSAA](#).

For Exeter City Council these fees are £157,572 for the Council audit. These fees are derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date*	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.</p>	September 2024	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit and Governance Committee.</p>	December 2024	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	December 2024	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	December 2024	Not yet due

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period. However, our expectations is to complete all necessary work by 31/12/2024

Audit Deliverables

Below are some of the audit related deliverables planned for 2023/24.

2023/24 Audit related deliverables

	Planned date*	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	October 2024	Not yet due
Pooling of housing capital receipts - certification This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.	October 2024	Not yet due

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period.

Audit Backstop - update

As we have previously updated, the Government consulted in February 2024 on a proposal to introduce a series of statutory backstops to bring the local audit system back on track. The proposals also included a series of updates to the NAO's Code of Audit Practice.

Our understanding was that the necessary regulations to enact the backstop legislation were due to be laid before Parliament prior to summer recess in July 2024. This would have enabled the legislative framework which would have enabled the 30 September 2024 backstop to be implemented.

The calling of a General Election on July 4th puts this timetable in considerable doubt. The Government that is elected will have to both decide if it wants to implement the backstop solution and if so, determine the timetable by which it happens. In the meantime we will continue with the plan we have informed you of in respect of your audit.

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Audit sign off as at 31 May 2024

As at the end of May, we had signed 136 audits for 2022/23, representing 65% of our local government population. We envisage achieving a 75% sign off rate by the end of September. This compares with a sign off rate for other firms at the end of May of 7% (18 audits). If the backstop is extended to the end of the year – we envisage this figure moving to 80% completion.

We had signed off 81% of our 2021/22 audits by the end of May. We envisage achieving an 85% sign off rate by the end of September. Other firms had signed off 48% of audits by the end of May.

Audit year	Grant Thornton audits signed	Grant Thornton audits signed	Other firms
	Position as at end of May 2024 (%)	Forecast position end of Sep 2024 (%)	Position as at end of May 2024 (%)
2022-23	65	75	7
2021-22	81	85	48
2020-21	92	92	81

Local government elections – what do they mean for Audit Committees?

With the 2nd May 2024 local government elections having seen changes at many of the 107 local authorities that took part, for many local authorities it is now time to agree Audit Committee membership at the start of a new municipal year.

Whilst newly elected administrations will inevitably want to focus on new strategic vision and “fixing things”, it will be important to remember to continue to “defend things” and protect the underlying mechanics of effective government as well.

The Audit Committee is one of the key lines of defence for a local authority. Its members oversee governance, risk management, internal and external audit, anti-fraud arrangements, financial reporting and statutory duties.

Following the local elections there may be changes to appointments to the Audit Committee. Experience shows that the Committees are more effective when appointments are non-political; cover a range of relevant skills and experience (including financial expertise); and include at least one independent, co-opted member. Two independent co-opted members is generally considered best practice.

Once appointed, the new Audit Committee will need to build relationships with internal audit, external audit, and senior management. It may also want to review its terms of reference. Training needs of new Audit Committee members will also need to be identified and training provide.

Annual reviews of Audit Committee effectiveness are common, but for the early days, new Committees may wish to make use of the Local Government Association’s April 2024 “Ten Questions” to make sure they start by steering on the right path.

For a full copy of the Local Government Association’s guide, see [Ten questions for audit committees](#).

Ten questions for a newly formed Audit Committee

- **How can we be an effective Audit Committee?**
- **What might we miss as an Audit Committee?**
- **How will we get assurance for ourselves and others regarding governance, risk management, internal control, and the accuracy of financial reporting?**
- **What is management doing to ensure there is an effective culture?**
- **How does management support and promote the role of audit (internal and external)?**
- **How will management provide us with practical support?**
- **What is internal audit’s role, scope, and mandate? How should internal audit be resourced?**
- **How does internal audit set its audit plan? Is internal audit providing assurance around business-critical risks?**
- **How do we know we have an effective internal audit function?**
- **How should internal and external auditors work together to complement each other?**
- **What are the 2-3 things we should be most worried about?**

LGA Improvement and Assurance Framework

On 24 May 2024 the Local Government Association (LGA) published an Improvement and Assurance Framework which is applicable to unitary, county, district and borough councils in England, and to English authorities with all types of governance system.

There has not previously been a document or framework which sets out, in one place, the various required components of local government assurance, how they all fit together, how to use them effectively and what improvement support is available to help. This framework aims to:

- support councils to understand how to use the components within the framework and how they fit together;
- increase the effectiveness of assurance in the sector. While it cannot itself prevent failures, its use may reduce the risk – and costs - of statutory or non-statutory intervention, whether by Oflog, central government or other regulators;
- make it easier for local residents and businesses to understand how to hold their local authority to account.

The framework includes content on:

- A definition of assurance.
- How does accountability work?
- Components of the improvement and assurance framework.
- Working with auditors.
- Guidance on taking a structured and robust approach to considering commercial activity.

- Guidance for officers in key statutory roles and for key committees including the Audit Committee.
- How does the council hold itself to account?
- Key principles of good assurance and accountability.

The framework can be accessed here:

<https://www.local.gov.uk/publications/improvement-and-assurance-framework-local-government-0>



The State of the Locals

In April, shortly before the recent local government elections, a “State of the Locals” report found that public trust in government at all levels is falling, but that public trust in local councillors and the Local Authorities they run is still almost twice as strong as public trust in the national UK government.

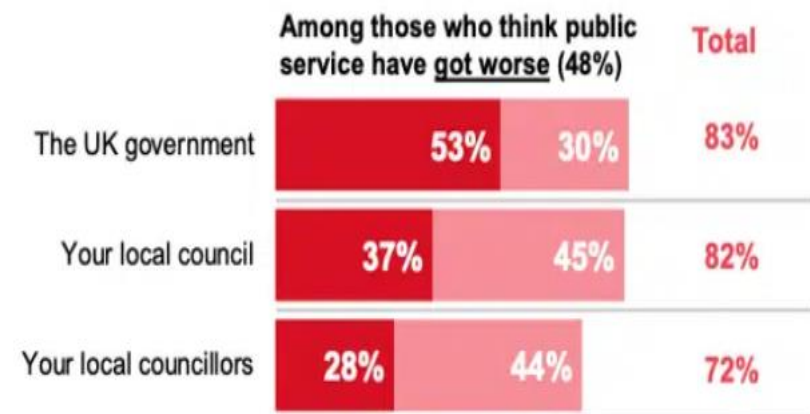
The report, published by the Local Government Information Unit (LGIU), found that the public do recognise the role that Local Authorities and their members play and do credit them when things go well. However, the report also found that the public believe services have got worse over the last five years overall; believe Local Authorities play a significant role in this (although not as great a role as the national government); and do not always understand what Local Authorities do.

For new members joining local government for the first time and for the more experienced members starting or continuing their term, it’s worth reflecting on LGIU findings. From the surveys that LGIU carried out, detailed findings show that people feel residents should be included more within decision-making processes; but there remains a low level of public awareness about what local government does.

This may be a good time to revisit communications strategies. Educating the public about the role and functions of local government, as well as the outcomes that members are actually able to achieve, might not only protect trust at its current level above national government, but also pave the way for a stronger level of trust overall in the future.

For a full copy of the LGIU report, see [The State of the Locals 2024 - LGIU](#)

State of the Locals extract: Who do the public think are responsible?



Productivity plans – new guidelines revealed and a note of caution

On 16th April 2024, Local Government Minister Simon Hoare wrote to all Local Authority Chief Executives, asking them to formally begin compiling their productivity plans. Key things for members to be aware of are:

- There is no formal template and there are no specific metrics to report;
- Four categories are proposed for consideration. These surround resources; technology; reducing wasteful spend; and the barriers preventing progress;
- Metrics and performance indicators are expected to be included in the plans, but Local Authorities can decide for themselves which ones are relevant to include;
- Plans should be three to four pages long and need to be returned to DLUHC by 19th July 2024, with members having endorsed them first; and
- For transparency, plans should then be published on the Local Authority's website, so that residents can see them and, over time, monitor progress.

Whilst this may feel like additional burden, there will presumably be scope for using key performance indicator metrics already available.

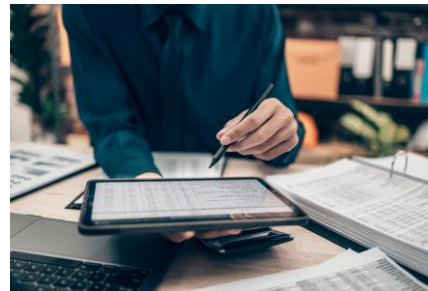
The current intention of government is not to use Productivity Plans for rating or scoring or for league tables, but rather to inform policy considerations in the future. However, most Councils will remember that the Times recently used Office for Local Government data to compile and publish its own league table, so far without any redress from national government.

For Productivity Plan metrics, as for any other performance indicators, it will be important to be clear about what drives the metrics. Whether for a three-to-four-page productivity plan or for any other domain, simply obtaining data isn't enough. Understanding the data, explaining it to residents, and acting on it is ultimately what matters most.

For recent comments from the Local Government Lawyer on Simon Hoare's letter to Chief Executives and on the Times's league table see:

[Government reveals guidelines for new council 'productivity plans'](https://www.localgovernmentlawyer.co.uk/government-reveals-guidelines-for-new-council-productivity-plans/) ([localgovernmentlawyer.co.uk](https://www.localgovernmentlawyer.co.uk))

[Councils cry foul after Oflog data used for Times article on 'worst-performing councils'](https://www.localgovernmentlawyer.co.uk/councils-cry-foul-after-oflog-data-used-for-times-article-on-worst-performing-councils/) ([localgovernmentlawyer.co.uk](https://www.localgovernmentlawyer.co.uk))



Housing and homelessness – continuing crisis and a new reform

The Levelling-Up, Housing and Communities (LUHC) Committee published a report on the finances and sustainability of the social housing sector on 29th April 2024, arguing that the Government needs to deliver 90,000 more social homes for rent each year to alleviate the “continuing chronic shortage” of social housing.

Just one day later, latest quarterly statistics on statutory homelessness and households in temporary accommodation were released. They made for sobering reading when compared with equivalent quarterly statistics from the previous year, underlining the real affect that our shortage of housing is having:

- 4.8% increase in overall initial assessments for homelessness year on year;
- 15.8% increase in households owed a relief duty this year compared to last;
- 15.3% increase in households owed a main homelessness duty;
- 12.1% increase in households in temporary accommodation;
- 15% increase in households with children in temporary accommodation.

For short term responses to homelessness, the February 2024 announcement that the Government would top up local authority homelessness prevention grants by £109 million will doubtless be helpful, as perhaps could be some certainty around the future of no-fault eviction laws. For a long-term solution though, addressing the supply of housing stock itself may still the best means of addressing the root cause of homelessness issues.

A new reform came into effect on the same day that homelessness statistics were published. Since 30th April, Local Authorities have been empowered to buy land for development through using Compulsory Purchase Orders without paying inflated ‘hope value’ costs. ‘Hope value’ estimates the cost land could be worth if it was developed on in the future, often meaning that Local Authorities have been forced to pay potentially thousands more to buy the land they need for housing and/ or have become entrenched in protracted disputes.

Housing and homelessness are complex areas and there is unlikely to be any quick fix solution. The new reform may help stimulate the building activity needed to address at least one part of the problem though, and in this respect is likely to be welcome.

For a full copy of the LUHC Committee report, see

[The Finances and Sustainability of the Social Housing Sector \(parliament.uk\)](https://www.parliament.uk/publications/2024/04/levelling-up-housing-and-communities-committee-report-the-finance-and-sustainability-of-the-social-housing-sector)

For the latest statistics on homelessness and households in temporary accommodation, see [Statutory homelessness in England: October to December 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/statutory-homelessness-in-england-october-to-december-2023)

For details of the new reform around hope values, see [New powers for councils to help build more affordable homes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/new-powers-for-councils-to-help-build-more-affordable-homes)

Design for life – the smart regeneration journey to 2030

Leading think tank Localis published an analysis of local regeneration policy on 8th May 2024, making a series of recommendations to national government around how best to develop the public realm over the rest of this decade.

Localis highlighted that local regeneration projects, particularly in urban areas, are key to addressing the national housing crisis; national net zero targets; and national health aspirations.

Recommendations that the report called on national government to implement included:

- Return to strategic regional planning;
- Establish regional planning offices;
- Provide single revenue and capital budgets to Local Authorities instead of splitting the budgets;
- Stop loosening regulation over council asset sales;
- Mandate that local and regional development plans will include carbon assessments and promote urban sites;
- Provide long term financial settlements, to reduce fiscal uncertainty and encourage public-private partnership; and
- For health and wellbeing aspects of regeneration, base additional funding on demographic profiles.

Localis described local authorities as “the hinge around which regeneration actors revolve.” Whilst their recommendations would require changes in national policy, there are best practice questions that Local Authorities can be asking themselves now:

- Is our planning department properly financed?
- Are our regeneration goals sufficiently balanced across housing, carbon and community health needs?
- Do we have effective ongoing relationships with partners so that we can leverage short term funds quickly when they do become available?
- Can we scale up capacity for regeneration by pooling leverage with local NHS bodies, the third sector and community organisations?

For a full copy of the Localis report, see

<https://www.localis.org.uk/research/design-life-smart-regeneration-journey-2030/>



Simpler Recycling – new rules to be aware of

The Department for Environment, Food and Rural Affairs (DEFRA) announced on 9th May 2024 that simpler recycling rules are going to be introduced. Local Authorities are likely to be required to comply by 2026. The new rules aim to simplify recycling processes and boost recycling rates, although they have met with significant criticism.

To be ready for compliance with the new rules, Local Authorities need to prepare for:

Standardisation:

All Local Authorities in England will be required to collect a consistent set of recyclable materials: Plastics; Glass; Metals; Paper and Card; and Food Waste. The intention is to remove uncertainty and variation around the country about what can and cannot be recycled.

A three-bin arrangement:

‘Dry recycling’ items such as cardboard and paper, tins and glass will be collected in one bin. Organic waste (food and garden) will be collected in a second bin. Residual (non-recyclable) waste will be collected in a third.

Weekly and fortnightly requirements:

Food waste collection will be required weekly. Local Authorities will be required to collect residual waste on a fortnightly basis, even if at present they have already successfully transitioned to a three-weekly cycle.

Critics have pointed out that mixed dry recycling may contaminate paper and lead to less of it being recycled; whilst the move away from three weekly residual waste collection in favour of a fortnightly residual waste collection is likely to reduce recycling overall. Nevertheless, the reform has been passed and Local Authorities will need to be ready. Important steps to take now are:

- Review and update the Waste Management Strategy;
- Engage with finance business partners to ensure that activity will be accurately recorded and, in turn, translated to relevant new funding claims;
- Explore whether the changes in themselves generate new income opportunities; and
- Assess the readiness of contract delivery partners.

For DEFRA’s comments on the reform, see [Simpler bin collections for England to boost recycling - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/simpler-bin-collections-for-england-to-boost-recycling)



Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

<https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

Public Sector Internal Audit Standards

<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

Code of Audit Practice for local auditors (NAO):

<https://www.nao.org.uk/code-audit-practice/>

Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS):

<https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/>

The Three Lines of Defence Model (IAA)

<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

Risk Management Guidance / The Orange Book (UK Government):

<https://www.gov.uk/government/publications/orange-book>

CIPFA Guidance and Codes

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

Audit Committees: Practical Guidance For Local Authorities And Police

<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

Delivering Good Governance in Local Government

<https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition>

Financial Management Code

<https://www.cipfa.org/fmcode>

Prudential Code

<https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition>

Treasury Management Code

<https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition>



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Informing the audit risk assessment for Exeter City Council 2023/24

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Agenda Item 6

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Exeter City Council's external auditors and Exeter City Council's Audit & Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit & Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit & Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Governance Committee and supports the Audit & Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from Exeter City Council's management. The Audit & Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>Cost of living crisis. Significant inflation, high interest rates and a higher than anticipated national pay settlement. In terms of key event, the Council resolved to significantly reduce the capacity of its housing development company, Exeter City Living Ltd, in October 2023 which resulted in an asset transfer agreement being completed on 26 March 2024.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Exeter City Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes accounting policies reviewed and remain appropriate for 2023/24</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>CCLA Property Fund and money market funds. Classified as FVTPL, but statutory reversal in place for 2023/24, as extended for 2 years from 1 April 2023 for unrealised fair value movements</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Support measures for those affected by the cost of living crisis and providing support to Ukrainian refugees. Significant transaction in respect of the asset transfer agreement between the Council and Exeter City Living Ltd.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	A guarantee to the University of Exeter remains in place for a lease granted to Exeter Science Park Ltd
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Exeter City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Foot Anstey LLP Ashfords LLP Freeths LL Chilcotts Law Limited No instructions concern open litigation or contingences from prior years

General Enquiries of Management

Question	Management response
9. Have any of the Exeter City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Various consultants employed in respect of the capital projects, as the Council appoint multi-disciplined teams for QS, design, project management for certain schemes.</p> <p>Barnett Waddingham provide actuarial reports for Devon LGPS</p> <p>The Council subscribes to the Ichabod (local government technical accounting service) for bulletins on emerging accounting issues</p> <p>VAT advice is provided by PSTax</p> <p>JLL were instructed to perform a range of asset valuations, including all investment properties and certain operational assets</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	<p>Yes, impairment losses are assessed for financial assets exposed to credit risk, including sundry debtors, statutory debtors (e.g. council tax and NDR), rents, investments and loans. A collective assessment approach is taken where a group of receivables have shared risk characteristics. Where loss allowances are calculated for individual financial assets, it is based upon an assessment of the risk of default occurring and estimated losses if default occurs.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Governance Committee and management. Management, with the oversight of the Audit & Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Exeter City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Exeter City Council's management.

Fraud risk assessment

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Question	Management response
<p>1. Has Exeter City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>During 23/24 Internal Audit reviewed fraud risk using their fraud risk table.</p> <p>Horizon scanning, participation in audit groups and networks for updates. Identification of Council services and assessing the risk of fraud for each and recording results in fraud risk table. This information is shared with the Section 151 officer and the PFH with responsibility for Counter Fraud.</p> <p>Any financial risks arising from the Council's risk management processes are taken into consideration as part of the preparing the Council's medium term financial plan and help inform financial plan and help inform decisions on minimum General Fund and HRA working balances as a contingency. Under Section 25 of the Local Government Act 2003 the section 151 officer has a duty to report on the robustness of estimates and adequacy of reserves, appropriate for the risks to which it is exposed.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Areas identified as high risk of fraud before mitigations are: ICT, Main Accounting, income Management, Procurement, Creditors, Insurance, Private Sector Waste Services, Taxi Licensing, Social Housing, Housing Right to Buy, Housing Benefit, Payments and Collection, NDR Business Rates, Contract Management and Grants. The only area remaining high after mitigations is ICT/Cyber due to external risks and constantly emerging risks.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Exeter City Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>None</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Internal Audit report on their work to the Audit and Governance Committee on a Quarterly basis.</p> <p>The Corporate Risk Register is reviewed and updated by the Senior Management Board on a Quarterly basis in conjunction with the relevant portfolio holder. This is then presented to the Executive and Audit and Governance Committee for review on a quarterly basis.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Exeter City Council where fraud is more likely to occur?</p>	<p>We do not have any specific concerns regarding risk of fraud.</p> <p>No</p> <p>No</p>
<p>6. What processes do Exeter City Council have in place to identify and respond to risks of fraud?</p>	<p>Fraud risk assessment Counter Fraud Strategy Anonymous Whistleblowing DWP shared information NFI Data matching Fighting Fraud Locally self-assessment</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Exeter City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit review the internal control processes and provide assurance to Management. The risk based audit plan determines the areas to be covered each year.</p> <p>Management have agreed remedial action for all high and medium risk issues identified within the Internal Audit reports during the year.</p> <p>Counter fraud and whistleblowing e-learning, articles in the staff newsletters, participation in the NFI matching, online reporting facilities for members of the public.</p> <p>No new areas.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Not that we are aware of</p>

Fraud risk assessment

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Question	Management response
<p>9. How does Exeter City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Codes of conduct in place, counter fraud/whistleblowing training is undertaken as part of new starter induction e-learning, articles in staff newsletter.</p> <p>Raising awareness in staff newsletters. Whistleblowing policy.</p> <p>Staff are encouraged to report any concerns they may have and all will be appropriately investigated. None</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>S151, Accountants, Contract Managers, Procurement, Planning Officers</p> <p>Their service areas are considered higher when establishing the audit plan.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Partnership protocol in place, condition sin Partnership/contract agreement, Pre-procurement vetting process (incl Bribery risks) in place, data matching and NFI.</p>

Fraud risk assessment

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Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit & Governance Committee?</p> <p>How does the Audit & Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit provide a quarterly progress report to the A&G committee. Any concerns would be raised here.</p> <p>Quarterly Internal Audit progress reports. Counter Fraud and Whistleblowing Policies regularly reviewed, updated and approved by the A&G Committee.</p> <p>No issues arising.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Governance Committee, is responsible for ensuring that Exeter City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Exeter City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Council's Monitoring Officer provides advice on all laws and regulations. The Legal Services team provides professional support to services to assist with compliance. No system of assurance can provide 100% assurance.</p>
<p>2. How is the Audit & Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Any significant new laws and regulations are highlighted to Council along with the implications. Audit & Governance Committee receive reports on new laws and consultations on Governance related issues.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>There are no instances of non-compliance or suspected non-compliance to the best of our knowledge.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>There is no actual or potential litigation or claims that would affect the financial statements to the best of our knowledge.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Exeter City Council have in place to identify, evaluate and account for litigation or claims?	The interim Monitoring Officer and Section 151 Officer are both part of the Strategic Management Board (SMB) and work closely together. Insurance is managed with Finance and reports new claims to our insurers.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Exeter City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Exeter City Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

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Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Exeter City Council's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Exeter City Council whether Exeter City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>The group boundary and related parties have been reviewed and there have been two changes to report during 2023/24. On 17 October 2023 the Council resolved to significantly reduce the capacity of Exeter City Living Ltd. The company has been retained for the limited purpose of holding and managing six residential flats in the Guildhall Shopping Centre. An asset transfer agreement was completed on 26 March 2024, whereby the Council acquired all ECL's assets (excluding the six leasehold flats) in return for releasing ECL from its loan obligations.</p> <p>Exeter City Futures Community Interest Company has also ceased to be a related party. Instead, the goals will continue to be delivered through strategies of the Council, Devon County Council, University of Exeter, Exeter College and the Royal Devon University Healthcare NHS Foundation Trust.</p>
<p>2. What controls does Exeter City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Regular review of group boundary and assessment of relationships with the Council. Member Services also manage declaration of interests, so that Members/Officers omitted from participating in Council discussions/decisions where appropriate</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>As above. Authorisation limits are in place and the Constitution sets out how decisions are made and procedures to be followed, including delegations to officers and deputies and financial regulations.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Page 40 Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Exeter City Council will no longer continue?</p>	<p>The Council has a robust financial management process, including a medium term financial plan and regular budget monitoring. The medium term financial plan is updated every one or two months and issues arising are brought to the attention of the management team. Budget monitoring includes a process for action where overspends are identified, involving either the Director or the Management Team as a whole to ensure mitigating steps are taken. The Council also holds reserves to protect against short, sharp economic (or other) shocks. These are monitored in line with the regular budget monitoring reports.</p>
<p>2. Are management aware of any factors which may mean for Exeter City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>ECC is not aware of any factors that will impact on statutory services being unable to continue. The mitigations listed above will help to protect against the current economic challenges facing the Country.</p>
<p>3. With regard to the statutory services currently provided by Exeter City Council, does Exeter City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Exeter City Council to cease to exist?</p>	<p>The City Council is in a position to continue to run its statutory services for the foreseeable future. Whilst there is a gap in funding anticipated over the life of the medium term financial plan, there is a clear plan in place (One Exeter) to address this.</p>
<p>4. Are management satisfied that the financial reporting framework permits Exeter City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes, there is no reason to assume that Exeter City Council will cease to be run as going concern. As set out above the financial position is such that there are sufficient safeguards in place to run Council Services for the foreseeable future.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit & Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Critical judgements are disclosed in Note 4 to the accounts. Major sources of estimation uncertainty are disclosed in Note 6. Classes of transactions that are significant include; pension liability, valuation of property, plant and equipment, valuation of investment properties and business rates.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	We seek professional advice in respect of accounting estimates in respect of asset valuations and the pension scheme. Other accounting estimates are calculated by professionally qualified accountants, in accordance with the Code of Practice on Local Authority Accounting in the UK 2023/24.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	We seek professional advice in respect of the key accounting estimates and assess the impact of emerging accounting standards as adopted by the Code
4. How do management review the outcomes of previous accounting estimates?	We seek professional advice in respect of whether previous assumptions and estimates need to be updated
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	JLL were instructed for the valuation of a number of operational properties and investment properties.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Accounting estimates that require specialist advice or knowledge are determined following a review of in-house expertise and capacity and are procured externally, where deemed necessary.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The instruction of Barnett Waddingham is co-ordinated on behalf of Devon authorities by Devon County Council, as the administering authority to the Devon County Council Pension Fund.</p> <p>The instruction to external valuers specifies that valuations are to be provided in accordance with Internal Financial Reporting Requirements and the current RICS Valuation guidance.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Specialist advice is provided by suitably qualified professionals</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Accounting estimates are reported to Audit and Governance Committee as part of approving the annual Statement of Accounts</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No, other than those set out in Appendix A.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	No changes in accounting estimates, as set out in Appendix A.
12. How is the Audit & Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting estimates are reported to Audit and Governance Committee as part of approving the annual Statement of Accounts.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Property, Plant and Equipment valuation</p>	<p>Fair value for land/buildings defined as 'existing use' by the Council, but where there is no market based evidence of fair value because the specialist nature of the asset, depreciated replacement cost is used.</p> <p>Community assets and assets under construction are held at historical cost.</p> <p>Non-property assets with short useful lives and/or low values and infrastructure assets are held at depreciated historical cost.</p>	<p>Full valuations are performed on a rolling basis to cover 20% of assets per annum, but with the top 4 highest value assets re-valued every year. Assets not included in the full valuation are assessed at the reporting date in order to ensure that carrying amounts are not materially different to current values</p>	<p>In-house and external RICS valuers</p>	<p>Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion</p>	<p>No</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Valuation of the Pension Fund's assets and liabilities are provided by experts in this field, using financial assumptions that comply with IAS 19.	Specialist advice is provided by the external actuaries. The Council reviews the data to be provided to the actuary by Devon County Council, updating as necessary.	Valuations provided by external actuaries; Barnett Waddingham	The employer is exposed to a number of risks; investment risk, interest rate risk, inflation risk and longevity risk. An annual Pension Fund report is obtained to reflect the actuaries latest estimates and assumptions, in accordance with IAS 19.	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where the recoverable amount of the asset is estimated that is lower than the carrying amount of the asset, an impairment loss is recognised.	Specialist advice is instructed to undertake annual impairment reviews	In-house and external RICS valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Accruals are made in line with the Council's accruals accounting policy	Regular budget monitoring, engagement with budget holders, mandatory purchase order policy, reviewing the invoice register all support the identification of accruals	Qualified accountants and budget holders	Accruals are made when a reliable estimate can be made.	No
Provisions	Provisions are measured at best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation	Provisions are identified through regular budget monitoring and engagement with budget holders, which flags potential issues to management	VOA data in respect of NDR appeals	Each provision is assessed on an individual basis to ensure it meets criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Initially measured at cost and subsequently at fair value. Fair values are based upon Level 2 measurements; being prices for similar assets and liabilities in active markets	Annual revaluations are performed in accordance with Accounting Code requirements	External RICS valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Council dwelling valuations	Existing Use Value – Social Housing, valuations use the beacon method, which is based on estimated vacant possession value, adjusted to reflect continuing occupation by a secure tenant	Full valuations are performed every 5 years and interim desktop valuations are performed in the intervening financial years to ensure the carrying amounts are not materially different at the reporting date	In-house valuers with external advice for beacon valuations	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Straight line depreciation, except reducing balance method for vehicles	Significant components in relation to the total cost of an asset are depreciated separately and asset lives and residual values are also assessed and adjusted if appropriate	In-house and external RICS valuers	Depreciation reflects the consumption of assets and assumptions are made in respect of the level of repairs and maintenance in relation to individual assets. In-house valuers benefit from records of property condition, planned maintenance and capital enhancements. External valuers perform inspections and liaise with the in-house valuers for further property information.	No



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REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: 24 July 2024

REPORT TO COUNCIL

Date of Meeting: 15 October 2024

Report of: Strategic Director of Corporate Resources

Title: Annual Governance Statement – 2023/24

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 The report sets out the Annual Governance Statement that will accompany the Council's Statement of Accounts for 2023/24.

2. Recommendations:

It is recommended that:

2.1 Audit and Governance Committee supports the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2023/24; and

2.2 Council notes and approves the Annual Governance Statement to be included within the Council's Annual Statement of Accounts for 2023/24.

3. Reasons for the recommendation:

3.1 The Council is required to prepare and publish an Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. It reports on the Council's performance against the Code of Corporate Governance.

4. What are the resource implications including non financial resources.

4.1 There are no resource implications contained within the report.

5. Section 151 Officer comments:

5.1 The production of the Annual Governance Statement is a statutory requirement, which reviews any significant issues raised in respect of Corporate Governance. .

6. What are the legal aspects?

- 6.1 The Annual Governance Statement is a statutory requirement as set out in Regulation 4 of the Accounts and Audit (England) Regulations 2011.
- 6.2 Regulation 4 is headed 'Responsibility for financial management'. It specifies that the Council is responsible for ensuring that its financial management is 'adequate and effective' and that it has '...a sound system of internal control which facilitates the effective exercise of [its] functions and which includes arrangements for the management of risk'.
- 6.3 The Council is required to conduct a review '...of the effectiveness of its system of internal control' at least once per year.
- 6.4 The findings of the review are considered by the Council's Audit and Governance Committee. Following the review, the Committee '...must approve an annual governance statement, prepared in accordance with the proper practices in relation to internal control.'
- 6.5 Once approved, the annual governance statement must accompany the Council's statement of accounts.

7. Monitoring Officer's comments:

7.1 Local authorities are required to ensure that their business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the council is required to have proper arrangements in place for the governance of its affairs, facilitating the effective exercise of its functions and ensuring arrangements are in place for the management of risk.

7.2 Exeter City Council's Governance framework comprises a system of processes, culture and values by which we engage with and lead the community. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

8. Report details:

Background

- 8.1 The Code of Corporate Governance, which the Annual Governance Statement reflects, has been updated to reflect the new principles set by CIPFA/SOLACE.
- 8.2 The Annual Governance Statement should include the following information:
- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control);
 - An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide;

- A brief description of the key elements of the governance framework, including reference to group activities where those activities are significant;
- A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
 - the authority;
 - the executive;
 - the audit committee/overview and scrutiny function/risk management committee/standards committee (as appropriate)
 - internal audit
 - other explicit review/assurance mechanisms
- An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

8.3 The Annual Governance Statement is attached at Appendix A.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 This is a statutory requirement and does not contribute directly to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

10.1 There are no direct risks associated with this report

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation,

pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because:

11.4.1 The report does not set policy.

12. Carbon Footprint (Environmental) Implications:

12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

13.1 Not applicable.

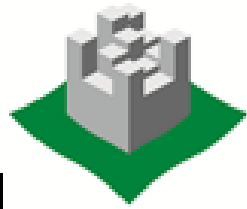
Strategic Director of Corporate Resources, Dave Hodgson

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 4.36
01392 265275



Exeter
City Council

Annual Governance Statement

2023-24

Annual Governance Statement

Scope of Responsibility

Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016). This statement explains how Exeter City Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, paragraph 4(3), which required all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the seven principles of good governance and the arrangements the Council has put in place to meet each of these principles:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the Council's capacity. Including the capability of its leadership and individuals within it.
6. Managing risk and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

A copy of the Council's code is available on our website.

Annual Governance Statement

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled together with activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its purposes and to consider whether those purposes have led to the delivery of appropriate, cost-effective services.

The Council's system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. There is an ongoing process designed to identify and prioritise risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at Exeter City Council for the year ended 31 March 2024 and up to the date of the approval of the annual statement of accounts.

The Governance Framework

The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focused upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Council's Corporate Plan 2022-26. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

The local Code of Corporate Governance is reviewed annually through the Audit and Governance Committee and was last reviewed and recommended for approval by Council on 08 March 2023. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Strategic Management Board (SMB) which comprises the Chief Executive, Directors, Director Finance (Section 151), Director Corporate Services (Monitoring Officer).

The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

Annual Governance Statement

The key elements of the Governance Framework

Role of Governance Arrangements

The Council operates Executive governance arrangements, which consist of Executive and Scrutiny function. All Executive members have been allocated a specific portfolio and are responsible for driving forward the Council's key strategic aims.

The Council has a constitution which sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. This was approved in (insert date) and will be kept under review throughout the year.

Role of the Council

Council

- Comprises 39 elected Members (Councillors)
- Approves the Council's Corporate Strategy, Policy and Budgetary Framework
- Approves the Constitution
- Appoints to Committees, Sub-Committees and Outside Bodies

Role of Executive

Executive

- The Executive is responsible for most of the day to day decisions of the Council which are not delegated to officers. It is made up of the Leader of the Council and Portfolio Holders who have responsibilities for various service areas. It develops policies and strategies for approval by Council, exercises overall control of resources within the Council's policies and budget, and recommends the level of council tax to the Council. It also considers any matters specifically referred by a Scrutiny Committee

The Executive now regularly considers strategic risk registers, performance, complaints and other items which make up the governance framework. Scrutiny Committee are sighted on the Executive's work plan and may consider as appropriate. The Executive provides strategic leadership to the authority and is held to account by the Council's Scrutiny Committees.

Annual Governance Statement

Role of Scrutiny

Scrutiny

- Not a decision-making body but seek to influence policies and decisions prior to them being made
- Have the ability to challenge/review decisions by calling them in
- Can investigate issues of public importance

The role that Scrutiny can play in holding an authority's decision-makers to account makes it fundamentally important to the successful functioning of local democracy. Effective scrutiny helps secure the efficient delivery of public services and drives improvements within the authority itself.

Role of Audit and Governance Committee

Audit & Governance

- To provide independent assurance to the Council on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment
- Approves the Annual Governance Statement and the Statement of Accounts
- To promote high standards of member conduct

The Committee meets with the external and internal auditor to discuss findings in the Annual Audit Management Letter and Reports and the Committee is responsible for ensuring that the Council's system for internal control is sound by reviewing control mechanisms, and guidelines (both internal and external) as well as adherence to these, ensuring continued probity and good governance of the Council's operations.

Annual Governance Statement

Role of Management

The Authority has two layers of management and its management teams each play an important role in maintaining the governance framework.

Strategic Management Board (SMB)

- Implements policy and budgetary framework set by Council and provides advice to Committees of the Council on the development of future policy, procedure and budgetary issues
- Oversees the delivery of the Council's Corporate Strategy and implementation of Council Policy
- Oversees the implementation of audit recommendations to improve weaknesses in controls in a timely manner

Operational Management Board (OMB)

- Responsible for developing, maintaining and implementing the Council's governance risk and control framework
- Contribute to the effective corporate management and governance of the Council
- Responsible for ensuring audit recommendations to improve weaknesses in controls are actioned in a timely manner

The Strategic management Board ("SMB") comprising the Chief Executive, Directors and the Monitoring Officer meet weekly and focus on strategic issues, projects and programs and the health of the organisation.

The Operational Management Board ("OMB") comprises all service managers and they meet monthly to consider operational service issues and ensure compliance with corporate matters, such as performance, risk registers, compliance.

The Extended Leadership Team ("ELT") comprising SMB and OMB meet regularly and focus on both the Council's strategic direction, leadership and organisational development.

All Directors meet with the Service Leads in their respective Directorates to consider specific service matters regularly.

Annual Governance Statement

Role of Statutory Officers

Head of Paid Service

- Overall Corporate management and operational responsibility for the Council, including overall management responsibility for all employees
- The Head of Paid Service will determine how the Council's functions are discharged, the Council's structure, the number and grade of officers required to discharge those functions
- The provision of professional advice to all parties in the decision making process and responsibility for a system of record keeping for all the council's decisions
- Proper Officer for Access to Information

Chief Finance Officer (s.151)

- Accountable for developing and maintaining the Council's governance, risks and control framework
- Ensuring lawfulness and financing prudence of decision making and the administration of financial affairs
- Providing advice to all Councillors' on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues
- Support and advise Councillors in their respective roles
- Contributes to the effective corporate management and governance of the Council

Monitoring Officer (MO)

- Monitoring, reviewing and maintaining the Constitution
- Ensuring lawfulness and fairness of decision making
- Supporting the Audit & Governance Committee by conducting investigations and/or undertaking other action in respect of matters referred by the Committee
- Advising whether decisions are in accordance with the Constitution
- Providing advice to all Councillors on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues
- Support and advise Councillors in their respective roles
- Contribute to the effective corporate management and governance of the Council

Annual Governance Statement

The three statutory officers; the Head of Paid Service (the Chief Executive), the Monitoring Officer (Service lead- legal) and Section 151 Officer (Director of finance) fulfil the statutory duties associated with their roles as detailed above.

The Council's financial management arrangements conform to the governance requirements as set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016).

The Council formally reviews its Financial Procedure Rules on a regular basis. On-going updates are implemented as part of the regular reviews of the Constitution.

Role of Southwest Audit Partnership

Internal Audit (South West Audit Partnership)

- Provides independent assurance and opinion on the adequacy and effectiveness of the Council's risk management and control framework
- Delivers an annual program of risk-based audit activity, including counter fraud and investigation activity and makes recommendations for the improvement in the management of risk and control

The Southwest Audit partnership is responsible for monitoring the quality and effectiveness of systems of internal control. The Council has delegated its Internal Audit function to Southwest Audit partnership. Internal Audit undertakes its work in accordance with the CIPFA Code of Practice for Internal Audit in the United Kingdom and the Public Sector Internal Audit Standards.

A risk model is used to formulate an annual audit work plan, progress against which is reviewed each quarter by Senior Leadership Team and the Audit & Governance Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Director and Service Lead as well as the Section 151 Officer.

The reports include an independent opinion on the adequacy of the applicable internal controls, audit findings and recommendations for improvements with an agreed timescale for implementation.

Progress against recommendations is followed up by Internal Audit and reported to Audit and Governance Committee at each meeting throughout the year.

The Internal Audit Annual Report 2022/23 was considered by the Audit and Standards Committee in July 2023. Internal Audit's opinion overall, based on all Internal Audit work during the year is that Satisfactory Assurance can be given over the adequacy and effectiveness of the Council's control environment for 2022/23.

Annual Governance Statement

Role of External Audit

The current external auditors are Grant Thornton. External Auditors audit the financial statements and provide an audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended.

External auditors also consider whether the Council has put in place proper arrangements to secure economy, efficiency, effectiveness on its use of resources.

This Annual Governance Statement for 2023/24 is the latest accountability statement for governance.

Role of Risk Management

A robust risk management framework is an integral part of operational service delivery and the decision-making process. The Council has a Performance and Risk Management Framework in place which provides visibility and assurance that there is a robust approach to managing performance and risk. An up to date and regularly reviewed Risk Management Policy and Strategy is maintained. This requires that both Directorate and Strategic Risk Registers are maintained with appropriate action plans to mitigate and manage identified risks. The strategic risk registers are reviewed and updated at the SMB Team as appropriate.

Responsibility for assessing the adequacy of the risk management process sits with the Audit and Governance Committee. Review of the risks and the implementation of mitigating controls included in the Corporate Risk Register (CRR) is undertaken by the Executive as owners of the CRR, this is done on a quarterly basis. The Council's Strategic Management Board (SMB) are responsible for constantly reviewing the risks being posed to the Council

Service Leads monitor risks at operational level and feedback any issues to their Director. Any significant risks, at operational level, that could impact the Council corporately are escalated to the CRR. The administrative support for the CRR process is provided by Lorraine Betts, the Chief Executives support Officer.

To ensure that risk is considered when decisions are made, all reports presented to Members must include a risk assessment of the actions or implications within the report. This assessment also covers legal and financial considerations. Risk assessments are also put in place as part of the Council's Project Management process.

The Strategic Risk Register is reported to the Executive to ensure those agreeing and implementing policy decisions, do so in knowledge of the context of the risks being faced by the Council.

Annual Governance Statement

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

- ✓ The work of the Strategic Management Board who have responsibility for the development and maintenance of the governance environment.
- ✓ The work of Executive who are responsible for considering overall financial and performance management and receive comprehensive reports throughout the year.
- ✓ The work of Customer Focus and Strategic Scrutiny Committees who monitor the overall financial performance of the Council.
- ✓ The work of the Audit & Governance Committee who monitor the standards of conduct of Members, effectiveness of risk management, the work of Internal Audit and the system of internal control.
- ✓ The Section 151 Officer who is responsible for delivering and overseeing the financial management of the Council.
- ✓ The Monitoring Officer who provides assurance that the Council has complied with its statutory and regulatory obligations.
- ✓ Annual reviews of the Council's key financial and non-financial systems by Internal Audit against known and evolving risks which are reported on a quarterly basis to the Audit & Governance Committee.
- ✓ Annual reviews of the Council's financial accounts and records by the External Auditors leading to their opinion as published in the year-end statements.
- ✓ Ongoing reviews of strategic and operational risks in each service area and the conduct of risk analysis and management in respect of major projects undertaken by the Council.
- ✓ Reviews and, where appropriate, updates of the Council's Constitution including Financial Regulations and Standing Orders
- ✓ Comments made by other review agencies and inspectorates.

Financial Management Arrangements

The Council's financial management arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2010) as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The Section 151 Officer is a member of the Council's Strategic Management Board.

Annual Governance Statement

Internal Audit

The Internal Audit Service has been managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013. It is a requirement of the standards that an independent external review of Internal Audit's compliance with PSIAS is undertaken every five years. This external review was completed in January 2020 when the external assessor concluded that:

"It is our overall opinion that the Exeter City Council Internal Audit Team generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards." Generally Conforms is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

Based on the assurance work undertaken by Internal Audit, the Audit Manager has provided an opinion on the adequacy of the control environment as part of the Annual Internal Audit Report which concluded that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy.

External Audit

The Council's external auditor (Grant Thornton) has not yet issued a certificate of completion in respect of 2020/21, although all necessary audit work has been completed. With regards to 2021/22, again Grant Thornton has not yet issued a certificate of completion, but all work has been completed. For 2022/23 the audit of the Council's financial statements remains ongoing but is virtually complete. Unfortunately, the audit commenced later than planned.

Corporate Complaints

During 2023-24, 23 corporate complaints were received compared to 14 in 2022-23. Of the 23 complaints received, 17 were dealt with at Stage 1, 6 were dealt with at stage 2 and there are no complaints waiting to be resolved. There were multiple complaints in the year relating to the same issues, which contributed to the increase.

Performance Management

Performance management of individual services, for example building control, planning and waste management has been developed in our Power BI dashboards. The scope of these dashboards continues to expand and the reports enable accessible, visible data and analytics to support managers in monitoring performance. A review of the priorities and objectives in the corporate plan will be undertaken shortly following the appointment of the new Chief Executive. When completed a performance framework will be introduced to enable reporting and monitoring of performance across key areas of the council.

Annual Governance Statement

Key Issues 2023-24

This Statement is intended to provide reasonable assurance. It is stressed that no system of control can provide absolute assurance against material misstatement or loss. In concluding this overview of the Council's governance arrangements, three key issues have been identified for 2023-24 shown in the table below. Progress will be subject to regular monitoring by the Audit and Governance Committee.

Issue no.	Issue Identified	Summary of Action to be Taken
1	<p>Financial position – Significant inflation fuelled by high energy prices, a higher than anticipated national pay settlement and income streams still struggling to reach the budget meant that the Council had to take action to address significant issues during 2022/23 and the unprecedented cost pressures also meant that significant reductions and additional income were required to deliver a balanced budget for 2023/24.</p> <p>The Council's medium term financial plan anticipates reserves being reduced to the minimum required by 2024/25 and a budget gap of £3.5m is to be addressed in setting the estimates for 2025/26.</p>	<p>It is imperative that strong financial discipline is maintained across the Council to ensure that the reductions are delivered. Members are aware there is significant work required now to deliver a balanced budget in 2025/26.</p>
2	<p>The Council is undergoing a senior management and staffing restructure with a review of roles and responsibilities at service level. Such changes can create a risk to internal controls such as separation of duties. It is important that any changes in structure do not compromise such internal controls.</p>	<p>Management must be clear about the internal controls operating within their service areas and ensure that proposed new structures maintain a strong internal control environment.</p>

Approval of the Annual Governance Statement

To the best of our knowledge, the governance arrangements, as outlined in this AGS have been operating effectively during the year. During the review of effectiveness, we have identified three key areas of concern and we propose over the coming year to take steps to address these concerns in order to enhance our governance arrangements and are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness. Progress against the action plan will be monitored quarterly by the Audit & Governance Committee.

Signed:

Date:

Councillor Wardle

Chair of Audit & Governance Committee

Signed:

Date:

Dave Hodgson CPFA

Director Finance & Section 151 Officer

Signed:

Date:

Councillor Bialyk

Leader of the Council

Signed:

Date:

Bindu Arjoon

Chief Executive

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 24 July 2024

Report of: Strategic Director of Corporate Resources

Title: CODE OF CORPORATE GOVERNANCE – 2024/25

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 The report sets out the proposed Code of Corporate Governance to reflect the updated principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016).

2. Recommendations:

It is recommended that:

2.1 Audit and Governance Committee supports and Council approves the Code of Corporate Governance for 2024/25.

3. Reasons for the recommendation:

3.1 The Council is required to prepare and publish an Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. It reports on the Council's performance against the Code of Corporate Governance. It is best practice to review and update the Code annually.

4. What are the resource implications including non financial resources.

4.1 There are no resource implications contained within the report.

5. Section 151 Officer comments:

5.1 The production of the Code of Corporate Governance is considered best practice. However the requirement to produce an Annual Governance Statement, which reports on the Council's performance with reference to the Code is a statutory requirement.

6. What are the legal aspects?

- 6.1 The Annual Governance Statement, which reports on performance against the Code of Corporate Governance is a requirement of Regulation 4 of the Accounts and Audit (England) Regulations 2015 concerning the statutory obligations to maintain accounting records and financial control systems.

7. Monitoring Officer's comments:

- 7.1 The scope and purpose of the Code of Corporate Governance is set out within the Code attached at Appendix A. The Code sets out the Governance Framework and identifies the key documents and processes it has in place to support the delivery of good governance across the Council.

The Code of Corporate Governance sets out the principles of good governance and what arrangements it has in place to ensure that the Council conducts its business in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

8. Report details:

- 8.1 The Code of Corporate Governance is required to be updated annually. The updated Code is attached at Appendix A.
- 8.2 The code has been updated to reflect the new principles set by CIPFA/SOLACE and the opportunity has been taken to present it more in line with the Annual Governance Statement that reports on the Council's performance. Two additions to the Corporate Governance Framework have been included. Under Regulatory, recognition that there are other Council constituted Boards, Groups and Committees, which contribute to the Governance of the Council's operations and under Corporate, inclusion of the requirement for oversight & performance monitoring of Companies in which the Council has an interest.

9. How does the decision contribute to the Council's Corporate Plan?

- 9.1 This is a statutory requirement and does not contribute directly to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

- 10.1 There are no direct risks associated with this report

EQUALITY ACT 2010 (THE ACT)

- 11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:
- eliminate discrimination, harassment, victimisation and any other prohibited conduct;

- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

11.4.1 The report sets out a framework that does not directly impact on people.

CARBON FOOTPRINT (ENVIRONMENTAL) IMPLICATIONS:

12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

13.1 Not applicable

Strategic Director of Corporate Resources

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:

Democratic Services (Committees)

Room 2.3

01392 265275

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Code of Corporate Governance

Scope of Responsibility

Exeter City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of Delivering Good Governance in Local Government (CIPFA/Solace 2016). This statement explains how Exeter City Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, paragraph 4(3), which required all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the seven principles of good governance and the arrangements the Council has put in place to meet each of these principles:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the Council's capacity. Including the capability of its leadership and individuals within it.
6. Managing risk and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

A copy of the Council's code is available on our website.

Code of Corporate Governance

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled together with activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its purposes and to consider whether those purposes have led to the delivery of appropriate, cost-effective services.

The Council's system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. There is an ongoing process designed to identify and prioritise risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at Exeter City Council for the year ended 31 March 2024 and up to the date of the approval of the annual statement of accounts.

The Governance Framework

The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focused upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Council's Corporate Plan 2022-26. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

The local Code of Corporate Governance is reviewed annually through the Audit and Governance Committee and was last reviewed and recommended for approval by Council on 08 March 2023. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Strategic Management Board (SMB) which comprises the Chief Executive, Directors, Director Finance (Section 151), Director Corporate Services (Monitoring Officer).

The Council has designed systems and processes to regulate, monitor and control its activities in order to achieve its vision and objectives. The Code of Corporate Governance sets out the controls in full.

Code of Corporate Governance

The key elements of the Governance Framework

Role of Governance Arrangements

The Council operates Executive governance arrangements, which consist of Executive and Scrutiny function. All Executive members have been allocated a specific portfolio and are responsible for driving forward the Council's key strategic aims.

The Council has a constitution which sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. This was approved in (insert date) and will be kept under review throughout the year.

Role of the Council

Council

- Comprises 39 elected Members (Councillors)
- Approves the Council's Corporate Strategy, Policy and Budgetary Framework
- Approves the Constitution
- Appoints to Committees, Sub-Committees and Outside Bodies

Role of Executive

Executive

- The Executive is responsible for most of the day to day decisions of the Council which are not delegated to officers. It is made up of the Leader of the Council and Portfolio Holders who have responsibilities for various service areas. It develops policies and strategies for approval by Council, exercises overall control of resources within the Council's policies and budget, and recommends the level of council tax to the Council. It also considers any matters specifically referred by a Scrutiny Committee

The Executive now regularly considers strategic risk registers, performance, complaints and other items which make up the governance framework. Scrutiny Committee are sighted on the Executive's work plan and may consider as appropriate. The Executive provides strategic leadership to the authority and is held to account by the Council's Scrutiny Committees.

Code of Corporate Governance

Role of Scrutiny

Scrutiny

- Not a decision-making body but seek to influence policies and decisions prior to them being made
- Have the ability to challenge/review decisions by calling them in
- Can investigate issues of public importance

The role that Scrutiny can play in holding an authority's decision-makers to account makes it fundamentally important to the successful functioning of local democracy. Effective scrutiny helps secure the efficient delivery of public services and drives improvements within the authority itself.

Role of Audit and Governance Committee

Audit & Governance

- To provide independent assurance to the Council on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment
- Approves the Annual Governance Statement and the Statement of Accounts
- To promote high standards of member conduct

The Committee meets with the external and internal auditor to discuss findings in the Annual Audit Management Letter and Reports and the Committee is responsible for ensuring that the Council's system for internal control is sound by reviewing control mechanisms, and guidelines (both internal and external) as well as adherence to these, ensuring continued probity and good governance of the Council's operations.

Code of Corporate Governance

Role of Management

The Authority has two layers of management and its management teams each play an important role in maintaining the governance framework.

Strategic Management Board (SMB)

- Implements policy and budgetary framework set by Council and provides advice to Committees of the Council on the development of future policy, procedure and budgetary issues
- Oversees the delivery of the Council's Corporate Strategy and implementation of Council Policy
- Oversees the implementation of audit recommendations to improve weaknesses in controls in a timely manner

Operational Management Board (OMB)

- Responsible for developing, maintaining and implementing the Council's governance risk and control framework
- Contribute to the effective corporate management and governance of the Council
- Responsible for ensuring audit recommendations to improve weaknesses in controls are actioned in a timely manner

The Strategic management Board ("SMB") comprising the Chief Executive, Directors and the Monitoring Officer meet weekly and focus on strategic issues, projects and programs and the health of the organisation.

The Operational Management Board ("OMB") comprises all service managers and they meet monthly to consider operational service issues and ensure compliance with corporate matters, such as performance, risk registers, compliance.

The Extended Leadership Team ("ELT") comprising SMB and OMB meet regularly and focus on both the Council's strategic direction, leadership and organisational development.

All Directors meet with the Service Leads in their respective Directorates to consider specific service matters regularly.

Code of Corporate Governance

Role of Statutory Officers

Head of Paid Service

- Overall Corporate management and operational responsibility for the Council, including overall management responsibility for all employees
- The Head of Paid Service will determine how the Council's functions are discharged, the Council's structure, the number and grade of officers required to discharge those functions
- The provision of professional advice to all parties in the decision making process and responsibility for a system of record keeping for all the council's decisions
- Proper Officer for Access to Information

Chief Finance Officer (s.151)

- Accountable for developing and maintaining the Council's governance, risks and control framework
- Ensuring lawfulness and financing prudence of decision making and the administration of financial affairs
- Providing advice to all Councilors' on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues
- Support and advise Councilors in their respective roles
- Contributes to the effective corporate management and governance of the Council

Monitoring Officer (MO)

- Monitoring, reviewing and maintaining the Constitution
- Ensuring lawfulness and fairness of decision making
- Supporting the Audit & Governance Committee by conducting investigations and/or undertaking other action in respect of matters referred by the Committee
- Advising whether decisions are in accordance with the Constitution
- Providing advice to all Councilors on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues
- Support and advise Councilors in their respective roles
- Contribute to the effective corporate management and governance of the Council

Code of Corporate Governance

The three statutory officers; the Head of Paid Service (the Chief Executive), the Monitoring Officer (Service lead- legal) and Section 151 Officer (Director of finance) fulfil the statutory duties associated with their roles as detailed above.

The Council's financial management arrangements conform to the governance requirements as set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016).

The Council formally reviews its Financial Procedure Rules on a regular basis. On-going updates are implemented as part of the regular reviews of the Constitution.

Role of Southwest Audit Partnership

Internal Audit (South West Audit Partnership)

- Provides independent assurance and opinion on the adequacy and effectiveness of the Council's risk management and control framework
- Delivers an annual program of risk-based audit activity, including counter fraud and investigation activity and makes recommendations for the improvement in the management of risk and control

The Southwest Audit partnership is responsible for monitoring the quality and effectiveness of systems of internal control. The Council has delegated its Internal Audit function to Southwest Audit partnership. Internal Audit undertakes its work in accordance with the CIPFA Code of Practice for Internal Audit in the United Kingdom and the Public Sector Internal Audit Standards.

A risk model is used to formulate an annual audit work plan, progress against which is reviewed each quarter by Senior Leadership Team and the Audit & Governance Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Director and Service Lead as well as the Section 151 Officer.

The reports include an independent opinion on the adequacy of the applicable internal controls, audit findings and recommendations for improvements with an agreed timescale for implementation.

Progress against recommendations is followed up by Internal Audit and reported to Audit and Governance Committee at each meeting throughout the year.

Code of Corporate Governance

The Internal Audit Annual Report 2022/23 was considered by the Audit and Standards Committee in July 2023. Internal Audit's opinion overall, based on all Internal Audit work during the year is that Satisfactory Assurance can be given over the adequacy and effectiveness of the Council's control environment for 2022/23.

Role of External Audit

The current external auditors are Grant Thornton. External Auditors audit the financial statements and provide an audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended.

External auditors also consider whether the Council has put in place proper arrangements to secure economy, efficiency, effectiveness on its use of resources.

This Annual Governance Statement for 2023/24 is the latest accountability statement for governance.

Role of Risk Management

A robust risk management framework is an integral part of operational service delivery and the decision-making process. The Council has a Performance and Risk Management Framework in place which provides visibility and assurance that there is a robust approach to managing performance and risk. An up to date and regularly reviewed Risk Management Policy and Strategy is maintained. This requires that both Directorate and Strategic Risk Registers are maintained with appropriate action plans to mitigate and manage identified risks. The strategic risk registers are reviewed and updated at the SMB Team as appropriate.

Responsibility for assessing the adequacy of the risk management process sits with the Audit and Governance Committee. Review of the risks and the implementation of mitigating controls included in the Corporate Risk Register (CRR) is undertaken by the Executive as owners of the CRR, this is done on a quarterly basis. The Council's Strategic Management Board (SMB) are responsible for constantly reviewing the risks being posed to the Council

Service Leads monitor risks at operational level and feedback any issues to their Director. Any significant risks, at operational level, that could impact the Council corporately are escalated to the CRR. The administrative support for the CRR process is provided by Lorraine Betts, the Chief Executives support Officer.

To ensure that risk is considered when decisions are made, all reports presented to Members must include a risk assessment of the actions or implications within the report. This assessment also covers legal and financial considerations. Risk assessments are also put in place as part of the Council's Project Management process.

Code of Corporate Governance

The Strategic Risk Register is reported to the Executive to ensure those agreeing and implementing policy decisions, do so in knowledge of the context of the risks being faced by the Council.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

- ✓ The work of the Strategic Management Board who have responsibility for the development and maintenance of the governance environment.
- ✓ The work of Executive who are responsible for considering overall financial and performance management and receive comprehensive reports throughout the year.
- ✓ The work of Customer Focus and Strategic Scrutiny Committees who monitor the overall financial performance of the Council.
- ✓ The work of the Audit & Governance Committee who monitor the standards of conduct of Members, effectiveness of risk management, the work of Internal Audit and the system of internal control.
- ✓ The Section 151 Officer who is responsible for delivering and overseeing the financial management of the Council.
- ✓ The Monitoring Officer who provides assurance that the Council has complied with its statutory and regulatory obligations.
- ✓ Annual reviews of the Council's key financial and non-financial systems by Internal Audit against known and evolving risks which are reported on a quarterly basis to the Audit & Governance Committee.
- ✓ Annual reviews of the Council's financial accounts and records by the External Auditors leading to their opinion as published in the year-end statements.
- ✓ Ongoing reviews of strategic and operational risks in each service area and the conduct of risk analysis and management in respect of major projects undertaken by the Council.
- ✓ Reviews and, where appropriate, updates of the Council's Constitution including Financial Regulations and Standing Orders
- ✓ Comments made by other review agencies and inspectorates.

Financial Management Arrangements

The Council's financial management arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2010) as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The Section 151 Officer is a member of the Council's Strategic Management Board.

Code of Corporate Governance

Internal Audit

The Internal Audit Service has been managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2013. It is a requirement of the standards that an independent external review of Internal Audit's compliance with PSIAS is undertaken every five years. This external review was completed in January 2020 when the external assessor concluded that:

"It is our overall opinion that the Exeter City Council Internal Audit Team generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Code of Ethics and the Standards." Generally Conforms is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

Based on the assurance work undertaken by Internal Audit, the Audit Manager has provided an opinion on the adequacy of the control environment as part of the Annual Internal Audit Report which concluded that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy.

External Audit

The Council's external auditor (Grant Thornton) has not yet issued a certificate of completion in respect of 2020/21, although all necessary audit work has been completed. With regards to 2021/22, again Grant Thornton has not yet issued a certificate of completion, but all work has been completed. For 2022/23 the audit of the Council's financial statements remains ongoing but is virtually complete. Unfortunately, the audit commenced later than planned.

Corporate Complaints

During 2023-24, 23 corporate complaints were received compared to 14 in 2022-23. Of the 23 complaints received, 17 were dealt with at Stage 1, 6 were dealt with at stage 2 and there are no complaints waiting to be resolved. There were multiple complaints in the year relating to the same issues, which contributed to the increase.

Performance Management

Performance management of individual services, for example building control, planning and waste management has been developed in our Power BI dashboards. The scope of these dashboards continues to expand and the reports enable accessible, visible data and analytics to support managers in monitoring performance. A review of the priorities and objectives in the corporate plan will be undertaken shortly following the appointment of the new Chief Executive. When completed a performance framework will be introduced to enable reporting and monitoring of performance across key areas of the council.

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REPORT TO AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting: **24 JULY 2024**

Report of: **Head of Internal Audit, Assistant Director SWAP**

Title: **ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2024**

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

The annual Internal Audit Report conforming to the Public Sector Internal Audit Standards and timed to inform the Council's Annual Governance Statement, including the quarterly update on the progress of Internal Audit work.

2. Recommendations:

2.1 Members are recommended to note the contents of the Annual Internal Audit Report.

3. Reasons for the recommendation:

3.1 To comply with the Public Sector Internal Audit Standards and Corporate Governance best practice.

4. What are the resource implications including non financial resources

4.1 None

5. Section 151 Officer comments:

5.1 It is positive to note the opinion in respect of the Council's internal controls framework. The conclusion provides a sound basis for developing and improving this framework in the future.

6. What are the legal aspects?

6.1 The purpose of the internal audit function is to comply with the Public Sector Internal Audit Standards. This came into effect in April 2013. The latest update was issued in March 2017.

7. Monitoring Officer's comments:

7.1 Members will recall that, since 1st April 2024, Exeter City Council's internal audit function has been performed by South West Audit Partnership Limited.

7.2 Members will note that the Internal Audit Annual Opinion for 2023/24 states that 'There is generally a sound system of governance, risk management and control in place'. The report goes on to state that 'Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives'. These issues are set out in the report for Members' consideration.

8. Report details:

8.1 The Public Sector Internal Audit Standards (PSAIS), which came into effect in April 2013, require that:

- The Audit Manager must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

- The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement Programme

8.2 The Annual Audit report is attached as Appendix A.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

N/A

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority

from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4.1 The report is for information only

12. Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

N/A

Lisa Fryer, Assistant Director SWAP

Author: Helen Putt, Principal Auditor SWAP

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 4.36
01392 265275

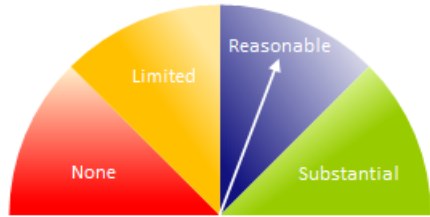
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Exeter City Council

Internal Audit Annual Opinion Report 2023/24

Internal Audit Annual Opinion – 2023/24: ‘At a Glance’

Annual Opinion



There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.

The Headlines

	No Significant Risk identified in year after testing the controls in place.
	24 reports issued with a Substantial or Satisfactory assurance rating. Medium risk rated weaknesses identified in individual audit engagements. Isolated high risk related weaknesses identified for isolated issues. No critical risk rated weaknesses identified.
	The 2023/24 Internal Audit Plan is substantially complete. Includes assurance, advisory, grant certification and follow up reviews.
	Implementation of agreed actions from follow up work. Agreed actions have been implemented within a reasonable time. A new, actions tracking dashboard facility, will be available from SWAP which will assist with action tracking going forward.

*Final reports only

Internal Audit Assurance Opinions

	22/23	23/24*
Substantial	9	9
Satisfactory	13	15
Limited	4	4
No Assurance		
Advisory	1	4
Certified	1	2
Follow Up	5	5
Total	28	39



Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
 - the effectiveness of risk management processes; and
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

Executive Summary Cont'd

Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management, compliance.
- the third line – functions that provide independent assurance.

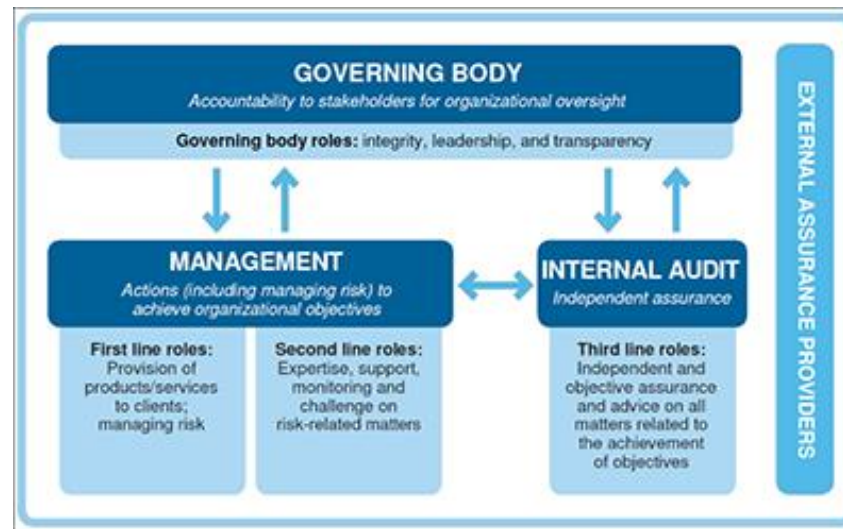


Background

The Internal Audit service for Exeter City Council has been provided in-house up until the end of the 2023/24 year. Since 1st April 2024, Exeter joined SWAP Internal Audit Services and now provide the Internal Audit service for Exeter. The team's work has been completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team has been guided by the Exeter's Internal Audit Charter which was last approved in July 2023.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2023/24 year.

The position of Internal Audit within an organisation's governance framework is best summarised in the Three Lines model shown below.



The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

On the balance of the work of the Exeter Internal Audit team for 2023/24, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

Internal Audit has not reviewed all risks and assurances relating to Exeter City Council during 2023/24 and cannot provide absolute assurance on the internal control environment. Senior management and members are ultimately responsible for ensuring an effective system of internal control. A summary of audit work carried out against the Council's strategic risk areas is provided in the next section on page 5. Audit coverage is considered adequate to provide an overall opinion.

The Annual Opinion is based on information obtained from multiple engagements and sources, the results of which, when viewed together, provide an understanding of the organisation's governance arrangements, risk management processes and internal control environment and facilitate an assessment of overall adequacy and effectiveness. Opinions are a balanced reflection across the year and not a snapshot in time. In forming this opinion, the following sources of information have been used:

- Completed audits which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Grant certification work.
- Assurances from other providers, including third parties, regulator reports etc.

Over the year, the Internal Audit Team have found senior management of Exeter City Council to be supportive of Internal Audit with a good relationship with management whereby they approach Internal Audit when they perceive potential problems for advice and guidance. There were no instances where remedial action was not agreed by management. Senior Management were supportive and engaged in the annual audit planning process.

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion Continued

During the 2023/24 year Internal Audit have assisted with the implementation and roll out of the Metacompliance system. This policy management software system allows the Council to publicise and share Corporate policies with employees. The system requires employees to sign up to mandatory policies and will be a significant improvement for the Council in the application of its Corporate policies.

Key Themes and Issues - Internal Control Framework

Financial position - Significant inflation fuelled by high energy prices, a higher than anticipated national pay settlement and income streams still struggling to reach the budget set meant that the Council had to take action to address significant issues during the previous year. The unprecedented cost pressures also meant that significant reductions and additional income were required to deliver a balanced budget for 2023/24.

The Council's medium term financial plan anticipates reserves being reduced to the minimum required by 2024/25 and further budget reductions of £5.4m, of which proposals of only £1.5m have been identified.

Staffing restructure - The Council is undergoing a senior management and staffing restructure with a review of roles and responsibilities at service level. This can create some uncertainty in the operation of the control framework both during the period of change and afterwards as new staff settle into their new roles. It is important that this is recognised and managed. These key issues are reported within the Annual Governance Statement, along with a summary of the action to be taken. Progress will be subject to regular monitoring by this Committee.

In terms of breadth of coverage, audit work has been performed across the Council's key services and in relation to its strategic and operational risks where possible. A summary of audit work carried out against the Council's risks are summarised in table 1 below. It must be noted that it is not possible to cover all key risks in any one year but to provide coverage over the medium term. The scope of our work does not extend to covering ICT services under Strata and therefore ICT services and risks are outside the scope of our opinion. Exeter's Internal Audit obtains general assurance from Strata's Internal Auditor's (DAP) by reviewing their annual report, however, to date we have not been provided with a copy of their 2022/23 annual report and are unable to gain any assurance from their work.

Summary of Audit Outcomes

Internal audit coverage should be aligned to key corporate priorities and key corporate risks.



Audit Coverage by Strategic Risk

The Exeter City Council Corporate Risk Register is a live document and subject to change throughout the year as the risk environment that ECC operates in changes. Therefore, this table reflects a summary of coverage against shifting priorities throughout the year in terms of corporate and operational risks.

Table 1: Audit Coverage by Strategic Risk

Table Key	Reasonable internal audit coverage 2023-24	Partial internal audit coverage 2023-24	No internal audit coverage 2023-24
Strategic Risk	Coverage 2023-24	Planned 2024-25	
<i>Priority - Net Zero Carbon City</i> Delivering against the key challenges in the Net Zero Carbon City section of the Corporate Plan		Y	
<i>Priority - Healthy and Active City</i> Making progress towards Healthy and Active City	2022-23		
<i>Priority - Leading a Well-run Council</i> Adapting the council workforce to ensure appropriate skills and experience (Developing a future proof workforce)		Y	
<i>Priority - Leading a Well-run Council</i> Maintaining the financial stability of the Council		Y	
<i>Priority - Leading a Well-run Council</i> Maintaining the Council's Property and Infrastructure Assets		Y	
<i>Priority - Housing and Building Great Neighbourhoods</i> Delivering Housing and Building Great Neighbourhoods and communities		Y	
<i>Priority - Thriving Culture and Heritage</i> Maintaining a thriving Culture and Heritage Sector		Y	
<i>Priority - Prosperous Local Economy</i> Delivering against the key challenges in the 'Prosperous Local Economy' section of the Corporate Plan			
<i>Priority - Leading a Well-run Council</i> Progressing the design and delivery of the corporate Customer and Digital Strategy			

Summary of Audit Outcomes

Page 98

At the conclusion of an audit assignment each review is awarded an Audit Assurance Opinion:

- **Substantial** - There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met
- **Satisfactory** - Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk
- **Limited** - Weaknesses in the system of internal controls are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
- **None** - Control is generally weak leaving the system open to error or abuse or significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.



Summary of Audit Opinion

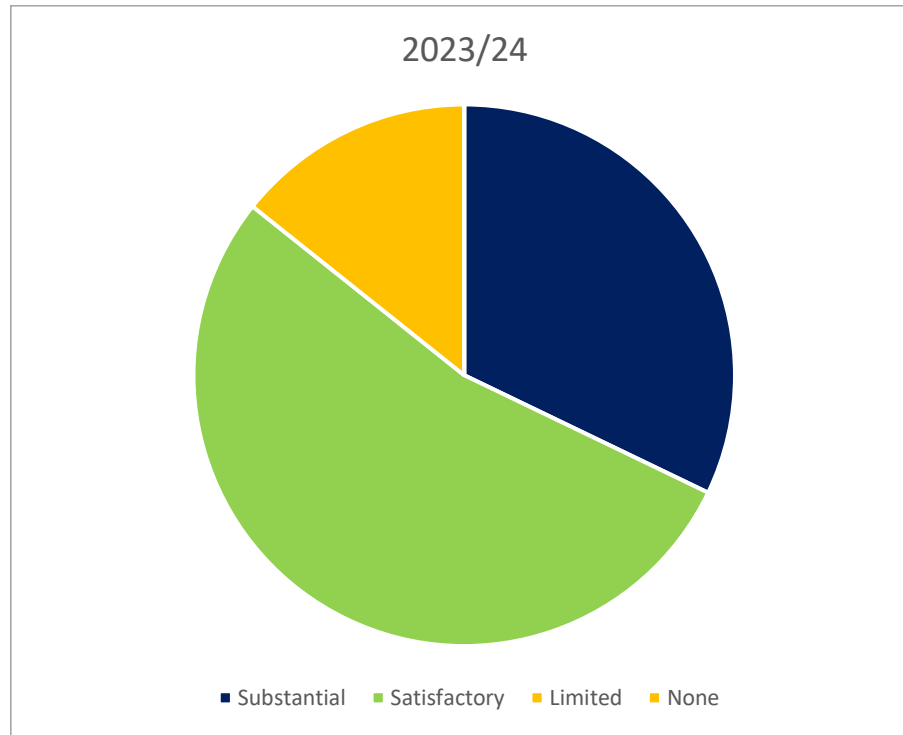


Figure 1 provides a breakdown of the audit work by opinions across the year.



Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



ECC Performance

Exeter City Council’s Internal Audit performance is subject to regular monitoring and review by the Audit and Governance Committee. The respective outturn performance results for the ECC Audit team conducting audits for the 2023/24 year are as follows:

Performance Target – as set for ECC 23/24	Performance
Percentage of Audit plan completed	95%
Draft report produced within 10 days of completion of field work	88%
Final reports produced within 10 days of discussion with manager	94%
Number of Internal Audit process improvements during the year: New report Executive Summary format Use of Kanban for audit monitoring Carbon Literacy Training leading to audit feedback to Net Zero Team	3

Exeter City Council’s Internal Audit work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. Exeter City Council’s In-house Internal Audit Service was assessed in January 2020 and confirmed in conformance to PSIAS.

Summary of Internal Audit Work 2023/24

SWAP Quality Assurance

SWAP Quality Assurance

As Exeter has now joined SWAP our quality assurance processes will be followed.

SWAP was assessed in February 2020 and this confirmed that we are in conformance to PSIAS. We are preparing for an external assessment in 2024.

From 2025 new updated global internal audit standards will be introduced that we will need to comply with. We have already started work on preparing for this change and are aiming to be one of the first organisations in the UK to achieve compliance with the new standards.

Summary of Internal Audit Work 2023/24

Please note that only the executive summary of each report is attached as an appendix to this report, as to include all actions agreed from each audit report in detail would result in a lengthy document. Members may request a full copy of any report once finalised or alternatively meet with the Principal Auditor to discuss specific audits further.

Audit Review	Report Status	Overall Opinion	No. of Findings	Executive Summary of final report issued during this quarter
Health and Safety - Training	Draft			
Corporate Governance	Draft			
Risk Management	Support throughout the year	N/A		Assistance with setting up Service risk registers. Support with Zurich Training.
Information Governance	Deferred	N/A		Red Quadrant commissioned to carry out review of Council information Governance – duplication of work.
Counter Fraud	Final	Satisfactory	2 Medium 7 Low	See Appendix B
Partnerships	Final	Satisfactory	5 Medium 1 Low	See Appendix C
Contract Management	Final	Satisfactory	1 Medium 3 Low	See Appendix D
Community Grants Awarded	Final	Satisfactory	5 Medium 7 Low	Reported September 2023
External Funding / Grants Received	Completed			Review and sign off of RAMM external funding

Summary of Internal Audit Work 2023/24

Audit Review	Report Status	Overall Opinion	No. of Findings	Executive Summary of final report issued during this quarter
ICT - Cyber Security	Report opinion provided by Strata Auditors - DAP	Reasonable		
Main Accounting	Final	Substantial	2 Medium 1 Low	See Appendix E
Income Management	Final	Administration = Satisfactory Data checks = Limited	7 Medium 7 Low	See Appendix F
Creditors				
<ul style="list-style-type: none"> Creditors – Corporate credit card 	Final	Limited	5 Medium	Reported December 2023
<ul style="list-style-type: none"> Amendments to supplier bank details 	Final	Satisfactory	1 Medium 2 Low	See Appendix G
Treasury Management	Final	Substantial	2 Low	Reported December 2023
VAT	Final	Finance = satisfactory Service areas = Limited	2 Medium	See Appendix H
Payments and collection	Final	Satisfactory	3 Medium 2 Low	Reported December 2023
Sundry Debtors	In progress			
NDR	Final	Substantial	2 Medium 2 Low	Reported December 2023
People Management (including Payroll)	Final	Substantial Satisfactory	14 Medium 3 Low	Reported March 2024

Summary of Internal Audit Work 2023/24

Audit Review	Report Status	Overall Opinion	No. of Findings	Executive Summary of final report issued during this quarter
Licensing – Taxi Licencing	Final	Limited	1 High 3 Medium 9 Low	See Appendix I
Fleet Management	Final	Satisfactory	4 Medium 3 Low	See Appendix J
Car Parks – Stray dogs	Final	Satisfactory	3 Medium 6 Low	Reported September 2023
Net Zero/Carbon Reduction	Final	Satisfactory	4 Medium 10 Low	Reported March 2024
Housing – customers, assets, needs				
<ul style="list-style-type: none"> Housing – Laundry cash at Edwards Court 	Final	Substantial	2 Low	Reported September 2023
Planning	Final	Satisfactory	5 Medium 8 Low	Reported March 2024
Leisure Facilities - Spa	Final	Satisfactory	6 Medium 1 Low	Reported December 2023
Leisure Facilities – Food & Beverages	Final	Satisfactory	4 Medium 1 Low	Reported March 2024
Visit Exeter (audit 1)	Final	Substantial	2 Low	Reported March 2024
Visit Exeter (audit 2) Post implementation	Final	Substantial	1 Low	See Appendix K
Disabled Facilities Grant	Final	Substantial	1 Low	Reported December 2023
Business Continuity Management – 2022-23	Final	Satisfactory	10 Medium	Reported December 2023

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2. Counter Fraud Bribery and Corruption Self Assessment Audit Report Executive Summary

Audit Objective The objective of this review was to check that there are policies and procedures in place that support the prevention of fraud, bribery and corruption within the council.

Assurance Opinion		Number of actions	
Satisfactory	Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk	Priority	Number
		High	0
		Medium	2
		Low/Advisory	7
		Total	9

Audit Approach and Scope
 Using The Government Functional Standard GovS 013:Counter Fraud – Management of counter fraud, bribery and corruption activity issued August 2021, a series of questions were extracted to test the processes in place to 'plan, deliver and manage the measures needed to counter fraud, bribery and corruption'.

Key controls tested	Assessment	Actions Raised
Counter fraud, bribery & corruption Strategy		
Annual Action Plan		
Counter fraud, bribery & corruption Policy		Counter fraud training is not provided to all casual staff
Gifts, hospitality & conflicts of interest		
Fraud, bribery & corruption Response Plan		
Fraud, bribery & corruption Risk Assessment		
Pro-active detection activity		Lack of internal counter fraud resource
Reporting of losses to Central Government		

Summary and next steps

There is a comprehensive range of policies and procedures in place that together seek to create a zero-tolerance culture at the council.

Whilst there are controls in place to ensure they are communicated to Members and most staff on a regular basis, the council has recently introduced Metacompliance, a policy management software product. This requires all staff to (re)read the necessary policy(ies) otherwise they are 'locked out' of their computer until such times as they have read the policy(ies).

The Fraud, Bribery and Corruption policy is yet to be rolled-out via Metacompliance though an associated policy 'Anti-Money Laundering' was the first policy to be circulated by this method. It was proven to be a success and a series of other policies are scheduled to be communicated by this method over the next few months.

This is a final report of the audit findings and incorporates the remedial action agreed with the Director Finance. Remedial action has been agreed with management for all the findings identified.

2. Partnerships Audit Report Executive Summary

Audit Objective To ensure all new partnerships comply with the agreed partnerships protocol and to ensure a complete and up to date central register of partnerships
 This audit will also contribute to the corporate objective 'A well run council'

Assurance Opinion		Number of actions	
		Priority	Number
Satisfactory	Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk.	High	0
		Medium	5
		Low/Advisory	1
		Total	6

Audit Approach and Scope
 The scope of the audit was to re-visit draft report dated February 2020 and to test a sample of newer partnerships to establish if the same issues remain utilising the CIPFA Partnerships self-assessment template.

Key controls tested	Assessment	Actions Raised
Policies and procedures		Partnership guidance not reviewed and updated since 2017 Guidance not published on the intranet Lack of awareness of guidance within OMB No requirement to assess net zero impacts
Recording of partnerships		
Assessment of new partnerships		The two 'partnerships' reviewed do not meet the definition of a partnership contained within guidance
Governance		

Summary and next steps
 Since the last audit was undertaken in February 2020, the central register of partnerships has been reviewed and updated at the request of members of the Audit & Governance Committee. It is now the responsibility of Executive Support to update it annually ahead of the new members induction which takes place following annual elections. The process to update the register for 2024-25 is currently in progress.

The agreement of remedial action to the issues arising in this report and subsequent implementation of those actions will further improve the partnership process control environment.

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2. Contract Management Audit Report Executive Summary

Audit Objective

To review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to contract management.

Assurance Opinion

Satisfactory Assurance

Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk.

Number of actions

Priority	Number
High	0
Medium	1
Low/Advisory	3
Total	4

Audit Approach and Scope

A sample of 9 suppliers was selected by:

- comparing an analysis of supplier spend (extracted from EFins) for the period 1 April 2023 to 12 February 2024 with one for the previous year and identifying new suppliers with spend values over £100k
- reviewing Procurement's computerised records of individual procurements that they have carried out
- reviewing the Council's Contract Database

The scope of the audit included testing of key controls as shown below:

Key controls tested	Assessment	Actions Raised
Responsibility for the contract management		
Records and documentation		<ul style="list-style-type: none"> • Payments to 6 suppliers – lack of contracts and formal tendering process
Understanding and communicating the requirements of the contract		
Financial management and control		
Performance management		
Contract reviews (internal & external)		
Adapting to change		
Managing risk		
Contract close out		

Summary and next steps

For the three suppliers I reviewed where there were contracts in place, I found that contract management processes were being followed. However, I found that in 6 cases ECC were making payments totalling over £100k per annum/supplier, where there was no contract in place and no evidence of a formal tendering process (as required by ECC's Procurement and Contract Procedures).

Remedial action discussed and agreed by management to the items raised will be incorporated in the final report a copy of which will be sent to senior management in accordance with the audit reporting structure.

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2. Main Accounting - Capital Monitoring Audit Report Executive Summary

Audit Objective

The overall objective of this audit was to review the adequacy and effectiveness of the internal controls designed to manage and mitigate financial and non-financial risks relating to the Capital Monitoring function.

Assurance Opinion		Number of actions	
		Priority	Number
Substantial	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met	High	0
		Medium	2
		Low/Advisory	1
		Total	3

Audit Approach and Scope

The scope of this audit was to;

- assess the Council's capital budget monitoring procedures and controls to ensure they are working both efficiently and effectively
- review the reports issued to Members to ensure they are current, and the accompanying narratives are sufficiently detailed to enable Members to make clear and informed decisions.

To do so, a selection of Budget Holders and their respective Accountants were contacted for information and where appropriate, evidence the monitoring process. Additionally, the capital monitoring reports for Quarters 3 (2022/23) to Quarter 2 (2023/24) for both general fund and the housing revenue account were reviewed for content and accuracy.

Key controls tested	Assessment	Actions Raised
eFin system controls		Budget overspends could occur as the system rules restricting spending is switched off
Reports to Members of the Executive Committee		Data contained within the reports can be more than 3 months old The capital monitoring reports do not include a narrative for those projects without a delivery plan
		Three of the HRA budget figures for 23/24 show an incorrect brought forward figure from 22/23

Summary and next steps

From the information obtained and the evidence seen; Budget holders and their respective Accountant, in conjunction with their Director, work closely together to monitor capital expenditure and to produce quarterly financial reports which are submitted to Members of the Executive Committee.

It is noted, however, that for some quarters, the information being provided to Members is more than 3 months old. This issue had already been identified and discussions are taking place to overcome this issue.

Annual mandatory financial training sessions are held for Members to help them make informed financial decisions for the council.

The reports, whilst informative, could be expanded upon to include a narrative for those capital projects where the monies have been committed yet the time of the spend is uncertain.

This is a final report of the audit findings and incorporates the remedial action agreed with the Deputy Chief Finance Officer.

Remedial action has been agreed with management for most findings identified, however, remedial action was not agreed for the following:

Use of E-Fins to restrict expenditure – the reason for not agreeing is understood and accepted.

2. Income Management - review of Trade Waste Processes

Audit Report Executive Summary

Audit Objective

The overall objective of this audit was to review the adequacy and effectiveness of the internal controls designed to manage and mitigate financial and non-financial risks relating to the Trade Waste and Recycling Collection function.

Assurance Opinion

Administration – satisfactory

Satisfactory definition:
Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk

Data quality checks - limited

Limited definition:
Weaknesses in the system of internal controls are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk

Number of actions

Priority	Number
High	0
Medium	7
Low/Advisory	7
Total	14

Audit Approach and Scope

The scope of this audit was to review the trade waste and recycling income management process, in particular the following elements of the process;

- Customer experience
- Efficiency of the internal process
- Collection of debt
- Fee setting

Key controls tested

Key controls tested	Assessment	Actions Raised
Trade waste information is always available to customers		
Controls are in place to identify if there are mismatches between; <ul style="list-style-type: none"> • customer details in Collective and ASH • the waste collection fees and invoices raised 		There are none or infrequent checks that the system or customer data is accurate
Debt recovery is undertaken promptly		Undertaken on an ad hoc basis

Summary and next steps

The scope of this audit covered four areas. Based on the information provided and the evidence seen, the current processes appear to be working well. The recent automation of a number of the processes has vastly improved the service provided to customers, more information is readily available on-line to both prospective and current customers and any queries submitted via the trade waste portal goes direct to the Commercial Waste team.

Furthermore, the automation enables;

- 'real-time' invoices to be generated which reduces the number of incorrectly raised invoices.
- Collections to be put 'on hold' where;
 - there are two unpaid invoices thus reducing the level of potential bad debt.
 - a duty of care waste disposal note is not held (section 34 (7) of the Environmental Protection Act 1990 requires a current disposal note to be held)

all of which releases time for the officers to provide an improved service to prospective and current customers.

Whilst greater reliance is being placed on automation, there are times when systems do fail, and it is important that there are controls in place to identify and rectify such instances. Unfortunately, they are not in place or if they are, are conducted infrequently. Consideration should be given to introducing controls in the following areas;

- Updating the pricing parameters in Collective
- Setting up of new customer account
- Transfer of data between Collective and ASH and ASH and Collective
- Collective and ASH records to mirror one another

This is a final report of the audit findings and incorporates the remedial action agreed with the Service Lead Environmental Health & Community Safety and the Service Accountant.

Remedial action has been agreed with management for the findings identified.

2. Creditors - Supplier Bank Details

Audit Report Executive Summary

Audit Objective

The overall objective of this audit was to review the adequacy and effectiveness of the internal controls designed to manage and mitigate financial and non-financial risks relating to the amendment of supplier bank details.

Assurance Opinion

Administration – satisfactory

Satisfactory definition:

Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk

Number of actions

Priority	Number
High	0
Medium	1
Low/Advisory	2

Audit Approach and Scope

The National Anti-Fraud Network (NAFN), a public sector organisation, has highlighted that bank mandate fraud is a high-risk area for public sector organisations due to the number of transactions it processes. Bank Mandate fraud occurs when someone requests a change to the bank transfer mandate, by purporting to represent the organisation you are paying. This could include, for example, changes to the supplier bank details or setting up a fraudulent direct debit.

The scope of this audit included a check on a sample of changes to supplier bank details during the previous 12 months to check that the correct procedures had been followed.

Key controls tested

Process to amend supplier bank details

Assessment

Actions Raised

Summary and next steps

The procedures for amending supplier bank details appear to be working and no instances of fraud have been identified. There were a small number of errors identified and the Exchequer team should be reminded of the importance of accuracy and following the correct procedure. The Exchequer Manager was very proactive in her response when the issues were highlighted.

This is a final report of the audit findings and incorporates the remedial action agreed with the Service Lead Environmental Health & Community Safety and the Service Accountant.

Remedial action has been agreed with management for the findings identified.

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2. VAT Audit Report Executive Summary

Audit Objective The overall objective of this audit was to review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate the financial risks relating to the recording and reporting of output and input VAT.

Assurance Opinion		Number of actions	
There are elements of this audit that fall outside of the control of Finance; therefore the assurance opinion has been split to take this into account			
Substantial (Finance)	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met Within Finance, VAT returns and the administration of VAT is managed well.	High	0
Limited (Services)	Weaknesses in the system of internal controls are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk. There are a considerable number of errors being made within service areas related to the coding of VAT when processing credit card transactions.	Medium	2
		Low/Advisory	0
		Total	2

Audit Approach and Scope
 The scope of this audit included the review of VAT returns and the coding of VAT within service areas relating to Corporate credit card expenditure. Details are listed in the 'key controls tested' section below.

To check that the VAT suspense account is being used correctly and that any allocated transactions are being investigated and cleared promptly, I used a sample of corporate credit card statements from August to November 2023 and the 23/24 transactions to financial code X125.

I used November 2023 transactions to check the Guildhall VAT return.

Key controls tested	Assessment	Actions Raised
Accuracy of the Guildhall VAT return		
VAT transactions are being allocated to the suspense account when required and are promptly cleared		CCC holders are not using the VAT suspense account to record the VAT element of the transaction, pending receipt of the VAT invoice A failure by the CCC holders to deal with VAT correctly

Summary and next steps

Guildhall VAT return

The data is extracted from various reports produced by the property management company Cushman & Wakefield (C&W) and then entered into the councils VAT return. Due to C&W experiencing system issues, the reports do not always agree. This is proving to be quite a manual process though the Finance Manager – Corporate is working in conjunction with C&W to resolve these issues.

VAT Suspense Account

Outstanding items on this account are monitored monthly

Where CCC holders are awaiting receipt of the VAT invoice, not all of them allocate the VAT element of the invoice to the VAT suspense account.

Other VAT issues

There are also several other VAT related issues i.e. failing to save the VAT invoice (as evidence of the amount of VAT paid), using the incorrect VAT code (under or over claiming VAT from HMRC) and failing to identify that the service/goods attract VAT and thus obtain a VAT invoice (loss of income to the council). Finance are undertaking spot-checks of the monthly CCC reconciliations and reporting any errors back to the respective CCC holder.

Whilst VAT is a complicated matter, the cost to the council of 'getting it wrong' could be substantial in the form of penalties by HMRC.

Other issues identified as part of the audit fieldwork not related to VAT

The review of the CCC transactions highlighted several other issues i.e. failure to obtain the correct authorisation (which is non-compliance with financial regulations) not saving documents to support the payment and the possible by-passing of the eProcurement system by using the CCC to make purchases/obtain a service. These issues are being reported but not considered when deciding the assurance opinion.

This is a final report of the audit findings and incorporates the comments of the Deputy Chief Finance Officer.

Internal audit comment;

Finance have in place a number of controls, i.e. new holders are issued with guidance notes, furthermore, regular reminder notifications and offers of training are issued, the latest reminder email was issued on 17 August 2023 and the one prior to that on 15 July 2022. Additionally, they undertake monthly CCC reconciliation spot checks. It is therefore disappointing to have to report, yet again, issues with the CCC records. Such findings have been repeatedly reported in previous creditor/corporate credit card audits. As a matter of urgency, senior management should undertake a review of the current CCC process, in particular to consider;

- whether there is a need to have so many CCC holders (there are currently 70 CCC holders listed for 23/24)
- who the most appropriate person is to hold the card, in some instances the CCC holder is not the person using the card
- making VAT and 'Using the Corporate Credit Card' training mandatory for both the CCC Holder and their respective authorisers

2. Taxi Licensing Audit Report Executive Summary

Audit Objective

The main objective of this audit was to review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to Taxi Licensing.

Assurance Opinion		Number of actions	
Limited	Weaknesses in the system of internal controls are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.	Priority	Number
		High	1
		Medium	3
		Low/Advisory	9
		Total	13

Audit Approach and Scope

The scope of the audit included a review of the following:

- testing of key controls as shown below (note: The Service Lead – Environmental Health & Community Safety, specifically requested a review of areas covering the security of the public (e.g. DBS checks, safeguarding training etc), vehicle records and how allegations regarding drivers are dealt with and recorded.

Key controls tested	Assessment	Actions Raised
Policy & procedures		<ul style="list-style-type: none"> Lack of a comprehensive procedural manual for Licensing Officers to refer to
Governance of the Taxi Licensing Committee		
Issue of licences & checking of supporting documentation		<ul style="list-style-type: none"> Licences found where there was inadequate evidence of the DBS check undertaken DBS checks are not undertaken annually Licences found where supporting evidence for the original application in respect of: driving licence, DAVIS driving licence check, 'Right-to-work', medical assessment, safeguarding & disability awareness training, motor insurance cover, had not been scanned onto Uniform 'DIP'
Income management & reconciliation		<ul style="list-style-type: none"> Independent reconciliation of taxi licence income received against the number of licences issued is not regularly undertaken.
Security of the public (including DBS checks, safeguarding & equalities training)		
Records of vehicles & MOT checks		
Complaints, investigations & enforcement		
Notifiable occupations scheme		<ul style="list-style-type: none"> Lack of notifications from the Police under the notifiable occupations scheme
Environmental considerations		
Performance		

Summary and next steps

There have been changes in management and staff over the last few years, with the current Principal Licensing Officer only starting in his post from November 2022. As samples of current licences were tested they included applications received before November 2022. For some of the areas tested the majority of issues were found in pre-November 2022 cases (i.e. 6 out of 8 of the cases where there was insufficient evidence of the DBS check). The current Principal Officer was unable to comment on the processes/procedures in place prior to his appointment, however, since he has taken over responsibility, there have been obvious system improvements and he has started the process of enhancing controls (including reminding staff that appropriate evidence should be maintained).

This is a final report of the audit findings and incorporates the remedial action agreed with the Principal Licensing Officer and the Service Lead – Environmental Health & Community Safety.

2. Fleet Management Audit Report Executive Summary

Audit Objective The main objective of this audit was to review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to Fleet Management

Assurance Opinion Satisfactory Assurance	Whilst there is a basically sound system of internal control there are weaknesses which put some of the objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the objectives at risk.		Number of actions	
			Priority	Number
			High	0
			Medium	4
			Low/Advisory	3
		Total	7	

Audit Approach and Scope
 The scope of the audit included a review of the following:
 - testing of key controls as shown below.

Note: The Service Lead – Environmental Health & Community Safety, requested a review of the adequacy of maintenance carried out by SFS as there had been a number of recent MOT failures.

Key controls tested	Assessment	Actions Raised
Policy & strategy		
Induction practices & driver education		<ul style="list-style-type: none"> • Induction form does not prompt managers to remind relevant staff to complete a driver mandate form and contains out-of-date information regarding document checking. • Insufficient annual checks on drivers' MOT and motor insurance documents
Fleet procurement & disposal		<ul style="list-style-type: none"> • Replacement of old ECC vehicles is approximately 24 months behind schedule
Maintenance & inspections		<ul style="list-style-type: none"> • Inadequate maintenance carried out by SFS's nominated garage, Enterprise
Invoice payments		
Contract management		
Monitoring & performance		

Summary and next steps
 Despite a period of changes in management, overall the controls within Fleet Management appear to be operating well. The Fleet Team have a good knowledge of the contract and are proactive in following up any issues with SFS.

Commencing the procurement process for the new Fleet Management contract early would assist in addressing some of the issues with the current contract.

This is a final report of the audit findings and incorporates the remedial action agreed with the Service Lead – Environmental Health & Community Safety, the Fleet & Plant Manager and the Service Lead – Human Resources. Remedial action has been agreed by management for all the findings identified.

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2. Visit Exeter Audit Report Executive Summary

Audit Objective To check that the membership fee collection process, now undertaken by Ignyte, is efficient and works well for the Visit Exeter team

Assurance Opinion		Number of actions	
Substantial	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.	Priority	Number
		High	0
		Medium	0
		Low/Advisory	1
		Total	0

Audit Approach and Scope
 The scope of this audit are listed in the 'key controls tested' section below.

To check that all renewals due between October 2023 and January 2024 have been identified and that the renewal reconciliation supplied by Ignyte is accurate I used the Visit Exeter database maintained by the Visit Exeter team and the monthly reconciliations supplied by Ignyte.

I then used details supplied by Ignyte of those organisations who chose not to renew their membership to check that they have been removed from the Visit Exeter website.

Key controls tested	Assessment	Actions Raised
All membership renewals between October and January have been acted upon		
The renewal values provided by Ignyte are accurate		
Debtor invoices to Ignyte are raised promptly		
Organisations who choose not to renew their Visit Exeter membership are removed from the website		A supplementary check of the Visit Exeter website to ensure that only those organisations that have paid their membership is not currently undertaken.

Summary and next steps
 Based on the information and evidence provided, I consider the administration of 'Visit Exeter' is working well.

I only have one observation and that is that a check is not currently undertaken to ensure that only those with a current 'paid-up' membership advertise on the Visit Exeter website. This has been discussed with the Tourism Manager who considers this would be a good idea and will introduce an annual check.

This is a final report of the audit findings and incorporates the remedial action, as mentioned above, agreed with the Tourism Manager.

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REPORT TO AUDIT & GOVERNANCE COMMITTEE

DATE OF MEETING: 9 JULY 2024

Report of: Strategic Director of Corporate Resources

Title: Review of the Corporate Risk Register

Is this a Key Decision?

No

Is this an Executive or Council Function?

Risk management is a Council function.

Risk Management is an important element of the council's Code of Corporate Governance.

Regular monitoring of the council's corporate risks helps to ensure that the council's business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively.

1. What is the report about?

1.1 The report advises the committee of the council's risk management progress and presents the revised Corporate Risk Register (Appendix A), which has been linked to the Council's Strategic Priorities.

2. Recommendations:

2.1 That Audit & Governance notes the report.

3. Reasons for the recommendation:

3.1 To ensure that the risks management process is properly identifying the risks that the Council needs to address.

4. What are the resource implications including non financial resources

4.1 The Executive and, Directors and Senior Managers, as appropriate, are asked to review the Corporate Risk Register on a quarterly basis. The register is reviewed quarterly by the Strategic Management Board.

4.2 Any actions agreed to mitigate the risks identified in the Corporate Risk Register may result in some resource implication. These would be subject to a specific report and the resource implications would be considered in that report.

5. Section 151 Officer comments:

5.1 SMB and the Executive have produced an agreed new register based on the Council's Corporate Priorities. A new summary page has been added setting out the level of intervention required and the impact of failing to address the risk. The risk in relation to

finance has been updated to reflect the fact that a balanced budget has been set for 2024-25. This does not mitigate the longer term associated risks but carries the risk forward.

6. What are the legal aspects?

6.1 Risk Management is an essential management tool to manage, assess and prioritise risks. Members will note the content of this report and the updated Corporate Risk Register at Appendix A which identifies risks to the Council.

7. Monitoring Officer's comments:

7.1 There is no specific regulatory requirement to keep a risk register. However, it is a standard way to monitor and assess risk. The risk register identifies, for members attention, the overall risks to the Council in order that this can be understood and managed proactively, optimising success by identifying and addressing risks.

8. Report details:

8.1 In light of a review of the council's approach to risk management, the Corporate Risk Register (Appendix A) has been revised following a workshop facilitated by the Council's insurers, Zurich. The risks identified in the revised Corporate Risk Register link to the Council's Strategic Priorities. As part of the Council's Improvement Programme, the Strategic Management Board has reviewed the council's approach to risk and propose that the Corporate Risk Register should be presented to Executive to provide assurance that the appropriate mitigations are in place. The council's Audit & Governance Committee will continue to have a role in ensuring that the council has a robust process in place for identifying and mitigating risks.

8.2 Each risk is assessed against the following matrix, assessing the likelihood and impact before and after mitigation.

Likelihood ↑	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
		Impact →			

8.3 The Risk Register includes a summary page, which enables Members to see the scope of the corporate risks in one straightforward table.

8.4 Alongside each risk on the summary page, there is a table, which sets out an assessment of the resources required to manage the risks under the themes of Time, Financial, People and Assets. This will allow for an assessment of the resources required to mitigate each risk to an acceptable level allowing members to determine if the resources required are deliverable and achievable.

8.5 In addition, the summary page includes an assessment of how the risks will affect a range of drivers. The drivers are set out below and look at the impact of failing to deliver the corporate priorities and failure in each of the four pillars.

Political	Financial	Reputational	Regulatory	Legal	Compliance	Community
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8.6 The two tables above use Very high, High, Medium, Low and Very Low to assess the resources required and the risk drivers.

8.7 The Final Column will assess the Council's risk appetite, whether it is open to risk, more cautious or even risk averse.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 Good governance contributes to the Council's purpose of a "Well Run Council."

10. What risks are there and how can they be reduced?

10.1 N/A

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only.

12. Carbon Footprint (Environmental) Implications:

12.1 No direct carbon/environmental impacts arising from the recommendations.

12.2 Actions to mitigate the risks identified in the Corporate Risk Register may result in some future impact, however, any actions proposed would be subject to a specific report and the impacts would be considered in that report.

13. Are there any other options?

13.1 N/A

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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