

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 24 July 2019

Present:-

Councillor Tony Wardle (Chair)

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

Also Present

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

Also Present

Geraldine Daly – Engagement Lead, Grant Thornton

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APOLOGIES

Apologies were received from Councillors and Lamb and Warwick

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MINUTES

The minutes of the meeting held 13 March 2019 were taken as read, approved and signed by the Chair as correct.

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DECLARATION OF INTERESTS

No declarations of disclosable pecuniary interests were made.

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EXTERNAL AUDIT REPORT - VERBAL

The Chief Finance Officer and Geraldine Daly, Associate Audit Director from Grant Thornton presented a verbal update on the status of the External Audit report.

The Chief Finance Officer explained that Grant Thornton had won the bid to deliver audits for the whole of the South West from the Public Sector Audit Appointments Ltd (PSAA) who were responsible for appointing auditors to principal local government. Delivering audits was a challenge and for the reasons of resource and recruitment issues at Grant Thornton, the external audit could not be delivered by 31 July 2019.

This was the first instance for an external audit not being delivered on time at Exeter and there were very limited time constraints for Grant Thornton to undertake the final audit for Exeter. The Section 151 Officer considered Grant Thornton's decision to not complete the audit, to be the correct choice, rather than rushing and producing an unsuitable audit. However, given the constraints imposed there was a potential risk that the same issue could happen again next year, and that it was important for the Council, that an external auditor deliver a quality outcome. The Chief Finance Officer stated that Exeter City Council had delivered their accounts on time and were not at fault.

Geraldine Daly expressed her apologies to the Members for being unable to deliver the external audit on time. Grant Thornton aimed to deliver work to the deadlines for

all their clients and confirmed that this delay would not impact on Exeter City Council's reputation. Grant Thornton took full responsibility and a statement explaining the reasons why would be published on the Council website.

She explained that there were resource issues and they had sought to recruit staff. The quality requirements had risen for commercial sector audits, which Grant Thornton took seriously, but with resource issues it was difficult to maintain a high quality level. Members were advised that the accounts were more complicated and Grant Thornton needed the right numbers on their team to provide assurances to the Council and would strive to complete the work by 18 September 2019.

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

- The PSAA option wasn't deemed as a risk when the audit was tendered, but was too late to back out once the risk factors had been recognised by the Section 151 Officer. However the fees for the auditors had been reduced from those of previous years;
- The issue of external auditors not delivering on time would not impact the operational function of the Council and therefore had not been placed on the risk register;
- Exeter City Council had advertised for three accountants and had successfully recruited one person from the private sector. The remainder posts would be filled, and would look at a Market Supplement, if required, to recruit the positions;
- Grant Thornton would ensure that they would complete the work and meet the new external audit deadline, following the revised timetable for resource allocation;
- There was no liability to Exeter City Council and Grant Thornton's contract was with the PSAA who would reimburse Exeter City Council if appropriate;
- There had been 10 other Local Authorities delayed because of the resource issues at Grant Thornton;
- The Wealth Advisory team was made redundant last year but they were a different area of the business and it hadn't impacted the Audit area, which had grown larger but still faced a recruitment shortfall;
- Grant Thornton were not asking for more information from Exeter City Council and were following the Audit Plan, which identified the areas being focussed on, which included the valuation of land and building and pensions.

The Audit and Governance Committee noted the verbal update.

The Chief Finance Officer presented the report, which sought Members' approval on the Council's final Statement of Accounts for 2018-19, subject to audit and publication of the notice to Council Website to explain the reasons for the delay in completing the audit. The publication of a Statement of Accounts was a statutory requirement, in accordance with the Local Audit and Accountability Act 2014, supported by the Accounts and Audit Regulations 2015.

Members were advised that local authorities in England and Wales were required to prepare unaudited Statements of Accounts by 31 May 2019, which would allow time for public inspection. The audited Statement of Accounts would then require approval and publishing by 31 July. Although, Exeter City Council had achieved the statutory deadline for the unaudited Statement of Accounts by the 29 May, the final audit would not be completed on time. Following the legislation set out in the Accounts and Audit Regulations 2015, Exeter City Council must publish a notice on the external website, explaining that it had been unable to publish its audited Statement of Accounts and the reasons for this.

Members were referred to the key changes to the accounts for 2018-19, which highlighted the establishment of the Exeter City Group Ltd (holding company) and Exeter City Living Ltd (housing development Company), which required group accounts.

The Chief Finance Officer discussed the new accounting standard - IFRS 9 Financial Instruments, stating that it was a new approach to the classification of financial assets and a new model for calculating bad debt provisions, which were now classified as loss allowances. He commented on the Retrospective Restatement, noting that Wessex Resolutions had provided money for home improvements and had been re-classified in the accounts. He drew Members attention to the notice that would be published which explained, that the Audit of Exeter City Council's Statement of Accounts for 2018/19 had not been concluded.

In response to Member questions, the Chief Finance Officer and Geraldine Daly, Associate Audit Director from Grant Thornton responded:-

- The wording on the notice was acceptable. Any errors picked up during the audit, may cause a delay, however the intention was to complete the audit by 18 September 2019;
- The valuation of the housing stock was undertaken using a different model, prescribed by statute, rather than fair value;
- The arrears figure of £16.32 million for short term debtors was based on the impact of debt but was the strongest it had been in a long time and a prudent approach would be to take a potential recession into account. The figure was considered reasonable, but the external auditors would determine this;
- Modelling for leaving the European Union (EU) was an unknown factor but Exeter was not an area dependent on EU grants. However the uncertainty was a potential economic risk and would be monitored;
- The impact on borrowing rates was based on Central Government's borrowing rate, which was currently low, however could be subject to potential change;
- The last audit from Grant Thornton was three years ago and if there had been errors identified, then an opinion would not of been given to Exeter City Council, at that time. Grant Thornton self-scrutinised how they worked to ensure accounts were true and fair. They could not comment on other clients for confidentiality, but results on auditors were available in the public domain;
- Grant Thornton had been robust in its recruitment for new staff, and had over the past two years recruited school leavers, University graduates and operated an apprenticeship scheme. They further recruited CIPFA trainees but it was a challenge to recruit supervisor level staff. They would be asking for secondments and always looked positively at recruitment options. They also

introduced the 'Vibrant Economy' into the South West which provided an ethical and moral stance on recruitment for all people and the Chief Executive and Growth Director at the Council had been a face of the scheme.

RESOLVED that the Audit and Governance Committee approve:

- (1) The Statement of Accounts for 2018-19, subject to audit; and
- (2) The notice to be placed on the Council's website to explain the reasons for the delay in completing the audit.

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ANNUAL INTERNAL AUDIT PROGRESS REPORT

The Audit Manager (HK) presented the Internal Audit Annual Report for the year ending 31 March 2019. The report conformed to the Public Sector Internal Audit Standards and was timed to inform the Council's Annual Governance Statement. She drew Members attention to key points with the report and advised on the overall opinion and assurance statement which showed key systems were operating satisfactorily and that there were no fundamental breakdowns of control resulting in material discrepancy. The report illustrated that as a comparison with the previous year there had been an increase in the overall percentage of excellent or good assurance ratings. The Chief Finance Officer highlighted to Members that Internal Audit work was not limited to systems with a high financial risk, but looked at the whole control environment within the Council.

The Audit Manager (HK) referred to the key issues identified in the report, which would be fed into the Annual Governance Statement. She highlighted the reduction in staff resources and that the next phase of the procurement cycle was to fully embed contract management effectively and consistently across the Council. She discussed delivery and outcomes of the 2018-19 Audit plan and stated that any feedback from Members would be welcomed.

She discussed the summary of investigations and highlighted that 42 reports of fraud had been reported, but most were submitted anonymously. She concluded by updating Members on the Quality Assurance and Improvement programmed which included the results of the performance indicators and customer satisfaction survey. The Audit Manager had also undertaken the required self-assessment for conformance with the Public Sector Internal Audit Standards and would be arranging for an external appraiser to undertake an external assessment which needs to be carried out every five years. It was hoped that the results will be presented to Members at next year's Audit and Governance Committee meeting.

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

- Housing Benefit Fraud was investigated by the Department for Work and Pensions (DWP), rather than Exeter City Council. The DWP subsidised Housing Benefit claims and therefore monitored the fraud themselves and they do not show on the Council books. Often errors could be from residents who had not provided updates and had consequently been overpaid. These amounts would show in the debt arrears;
- The report showed a summary of risks and only provided details for the high risks and covered the whole year. At the request of members the next quarterly report in September would provide greater detail of any high risks identified and what remedial action has been agreed with management;

- The audit report on Section 106 agreements was currently being followed up and the outcome of this work would be presented to Members at the next meeting in September;
- The Audit Plan was presented to the Audit and Governance Committee at the March meeting of each year;

Whilst there were instances of repeated fraudulent allegations, all allegations are investigated as it is not always possible to identify whether they are malicious or not.

- The two instances of Corporate Credit Card fraud referred to in the report, had been identified by the card holder and referred to the bank for further investigation.

The Audit and Governance Committee noted the Annual Audit Report for the year ended 31 March 2019.

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ANNUAL GOVERNANCE STATEMENT

The Chief Finance Officer presented the report that set out the Annual Governance Statement that would accompany the Council's Statement of Accounts for 2018/19. The Council was required to prepare and publish the Annual Governance Statement by Regulation 4 of the Accounts and Audit (England) Regulations 2011. The Governance Statement reported on the Council's performance against the Code of Corporate Governance and was last approved by the Audit and Governance Committee on 13 March 2019.

He referred to the two reported key issues on organisational structure changes and that the introduction of a fully functioning procurement team. The next step was ensure that contract management be the essential focus of the procurement cycle. These were the lowest number of issues reported since the Annual Governance Statement was introduced and he hoped that the Council was in a better position to get a more positive value for money conclusion from the external auditor in respect of procurement.

In response to a question from a Member, the Chief Finance Officer explained that he was not aware of any issues with the register of Social Housing and he would confirm it would be included. He confirmed with Members to proceed with signing the statement, subject to confirmation about the housing register.

Councillor Hannaford proposed to add an additional recommendation to highlight the positive impact of the Procurement Team. Councillor Sheldon seconded the proposal and following a unanimous vote, it was agreed.

RESOLVED that the Audit and Governance Committee approve the Annual Governance Statement of Accounts for 2018/19 and be signed by the Chief Finance Officer and the Chair of the Audit and Governance Committee and

- (1) To be included within the Council's Annual Statement of Accounts for 2018/19;
- (2) Council to note and approve the Annual Governance Statement included within the Council's Annual Statement of Accounts for 2018/19; and
- (3) To note the positive impact of the Procurement Team.

VERBAL UPDATE OF THE CORPORATE GOVERNANCE RISK REGISTER

The Chief Finance Officer presented a verbal update on the Corporate Governance Risk Register. He explained that at a previous Audit and Governance Committee meeting, that the register had been requested for amendment to become a Part 1 item. The Strategic Management Board (SMB) had hired Zurich Municipal to review the register and to help identify what were the key risks were.

Each risk would have an identified owner who would then be liaising with Zurich Municipal to finalise the new list, which would then be reported to the Audit and Governance Committee in September. It was intended that the register would be a Part 1 item showing only the key strategic risks.

The Audit and Governance Committee and noted the verbal update.

(The meeting commenced at 5.30 pm and closed at 7.00 pm)

Chair