

## **AUDIT AND GOVERNANCE COMMITTEE**

Wednesday 29 September 2021

### **Present:-**

Councillor Tony Wardle (Chair)  
Councillors Jobson, Mitchell, M, Martin, A, Moore, D, Sparkes and Warwick

### **Apologies:-**

Councillors Atkinson, Begley, Hannaford, Pearce and Quance

### **Also Present:-**

Director Finance, Audit Manager (HP) Corporate Manager (Executive Support) and Democratic Services Officer (SLS)

Julie Masci, Key Audit Partner , Grant Thornton

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### **MINUTES**

The minutes of the meeting held on 28 July 2021 were taken as read, approved and signed by the Chair as correct.

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### **DECLARATION OF INTERESTS**

No declarations of disclosable pecuniary interests were made.

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### **EXTERNAL AUDIT PROGRESS REPORT**

The Key Audit Partner, Grant Thornton presented the progress report and provided Members with detail of their work as the Council's External Auditor as at September 2021, which included an update in relation to the audit in respect of the Council's 2020/21 financial statement, which was anticipated would be completed in two weeks. The continued remote working, new reporting standards and additional procedures in relation to value for money had all impacted on the delay.

The Key Audit Partner made the following responses to Members' questions:-

- there were specific regulators in respect of local government public sector auditing who effectively, audited the auditor, including the Financial Reporting Council (FRC) for local authorities.
- not every audit was subject to a separate independent check as the auditing regulators would not have that volume of staff available, but specific audits based on certain risk factors or high levels of concern would be prioritised with recurring spot checks for other audits of less concern. The public could be assured that the regulators issued an annual report on the quality of the reviews of the individual contractors.
- the general occurrence of fraud in the public sector was not high, but the context for determining the approach taken for management override controls testing was very much linked to specific circumstances in any public body and

driven on a risk based approach on certain factors. This was not a specific risk identified for Exeter.

- a revaluation of investment properties was made at the end of each accounting period, whereas other property as part of the Council's normal operations to deliver services was valued on a rolling evaluation basis. Market intelligence had helped form a view on the judgements and the assumptions made by the Council's valuer in conducting reviews of the Council's commercial properties this year. The Director Finance also commented on the Exeter context and the valuation of investment properties based on the rental income received or receivable. The Council had an interest in hospitality and retail which had been effected by Covid, whilst the valuation of the Council's industrial property had increased. Overall, there was a slight reduction from the previous year in the value of the total commercial portfolio, but this did not negatively impact on the Council's financial position due to a statutory override which protected the Council's General Fund Balance against fluctuations in market value of property.
- the accounts of other companies the Council was involved with, may not be consolidated specifically into the accounts because of materiality or the nature of control. Factors included the level of influence in terms of representation on those company boards, the decision making and direction of the company. Any company consolidated into the Council's group accounts would be subject to audit in accordance with the Companies Act. The Director Finance stated that the Council's accounts identified which companies were local authority controlled and their level of influence.

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

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### **INTERNAL AUDIT PROGRESS REPORT**

The Audit Manager (HP) presented the Internal Audit progress report for the first quarter, which conformed to the Public Sector Internal Audit Standards. She drew Members' attention to the key points and advised that there were no instances where remedial action was not agreed by management during that quarter. Progress against the annual plan was on target and the work programme had returned to normal following some adjustments made during the pandemic.

A summary of the audit reports undertaken throughout the year was attached as Appendix A to the report, and the detail of significant governance issues as Appendix B.

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

- copies of the full Internal Audit reports on Sundry Debtors and Commercialisation would be circulated as requested.
- the Internal Audit used a scoring method, with 10 different criteria as part of a risk based analysis to identify the higher risk areas. Every effort was made to coordinate audit work with the priorities of the relevant service team to keep disruption to a minimum. Following a request, the detail of the criteria would be circulated to Members for information.
- the audit on car parks was nearly completed and would cover the significant areas at risk to audit during that time.
- an audit of the Leisure Service would be carried out, once the service was fully operational.

- a draft report on partnerships was issued in March 2020 just prior to the Covid pandemic, and an initial meeting held with the officer responsible for partnerships. The report had been put on hold but had now been reviewed. The scope of the audit included selecting a sample of existing partnerships from the Central Register of Partnerships to check for compliance with the Council's approved partnership guidance. A meeting had been arranged with the relevant service lead to discuss future progress with time allocated in this year's audit plan.

The Audit and Governance Committee noted the Internal Audit Progress report.

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### **INTERNAL AUDIT CHARTER**

The Audit Manager (HP) presented the Internal Audit Charter which defined the scope of the internal audit, its purpose and responsibility. The Charter was required to be reviewed and updated every two years or following a change in the service. There had been few changes since the Audit Charter was last approved by Members.

In response to a Member's question, the Audit Manager explained that there was no requirement to visit an individual staff member's home in the normal course of events. Specific arrangements would be made following any request for a staff member to use the Whistleblowing Policy. The Director Finance added that it would not be normal practice to visit an individual staff member's home, unless such as individual had made a request and in such cases, two members of the Internal Audit team would attend. The Member suggested consideration might be given to updating the Whistleblowing Policy to reflect that, in exceptional circumstances, so that staff understand they have other opportunities to pursue that. The Audit Manager agreed to look into that consideration.

The Director Finance referred to a Member's enquiry on the scope of Internal Audit's work in relation to scrutiny of the Council's progress on meeting the Council's commitment to be carbon neutral by 2030. He advised that Internal Audit were independent of management and their role was not as part of the monitoring and management of the Council's priorities, but rather to assess the system of internal control and ensure the Council was operating effectively. The Member stated she would welcome the opportunity for further discussion on an internal audit approach to understand the risk on this matter as every activity will have an implication for achieving Net Zero 2030.

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

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### **LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW OF COMPLAINTS 2020-21**

The Corporate Manager (Executive Support) presented the report, which explained the role of the Local Government Ombudsman (LGO) in investigating and resolving complaints about councils. There was a legal duty to communicate the LGO's annual review and details of complaints to Members. The report presented to the meeting included details of the complaints received by Exeter City Council and the decisions made by the LGO for the year ending 31 March 2021. Details of the complaints received by the LGO about Exeter City Council, and the decisions made by the LGO on those complaints, were set out in Annex A of the report presented to the Committee. Members noted that complaints were upheld in two cases. A copy of the LGO's final reports on each complaint relating to Environmental Health and Planning were attached at Annex B to the report.

The Corporate Manager (Executive Support) responded to Members' questions and confirmed he would in future also include previous year's statistics, in his report to enable Members to see the areas of service, any trends and comparisons with other similar councils in terms of the numbers of complaints.

The Audit and Governance Committee noted the report for the Local Government Ombudsman's Annual Review of Complaints 2020/21.

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

The Audit Manager (HP) presented the report and referred to the coordinating role in drawing the updated Corporate Risk Register together, to advise the Audit and Governance Committee of the Council's risk management process. Following the quarterly review by the Strategic Management Board, (SMB) a proposed update on each risk was included in the appendix to the report.

The Director Finance advised that following the quarterly review of the Risk Register by the SMB, any action was reported at the subsequent Audit and Governance Committee. He offered further context to the following proposed changes which included:-

- *Lack of leadership capacity to effectively deliver additional Council objectives and priorities (Risk ref 3)* - for the risk to be removed, following a number of interventions, including early engagement with the challenges of the Medium Term Financial Plan resulting in the risk mitigation set to low.
- *Inability to deliver carbon neutral operations for Exeter City Council by 2022 (Risk ref 8)* for the risk to be removed, as this was unachievable. It was noted that it had been established that there was no Council resolution to this specific commitment in relation to operations ahead of the 2030 Net Zero date. Should the Council pass any further resolution to set a target for the Council's own operations, then SMB would reassess the risk.
- *Increased cost of all capital building projects (Risk ref 9)* the risk to be expanded to cover all Council building projects. The global market for materials, and particularly in construction was challenging with prices having increased significantly. Although the impact on St Sidwell's Point was now less, the £37 million budget for the Condition Survey Capital Programme presented a financial risk for the Council. This would continue to be monitored.

A Member referred to *(Risk ref 8)* which was also a goal set out in a previous Corporate Plan, and statement from a report by Exeter City Futures relating to a Carbon Plan 2017 to 2022. She suggested a further discussion on this matter would be appropriate as the resolution by the Council in July 2020, which approved the Net Zero 2030 plan, needed to inform all of the work of the Council. She was concerned about the level of consistent information published on the carbon baseline for the city, and the lack of assessment of the ability for that target to be achieved. She would welcome the opportunity for an additional Risk Register specifically on the Council's ability to meet the Net Zero Target for 2030. The Director Finance gave an assurance that if a resolution on the 2022 date was found, that risk would be reinstated on the Risk Register, but it should be noted that SMB would have to highlight the extraordinary challenges of meeting that target in the next 3 to 15 months.

Councillor Mitchell proposed a separate Risk Register be introduced to monitor the Council's ability to meet the 2030 target for the delivery of a Net Zero Council. This was seconded by Councillor Jobson, put to the vote and carried.

The Director Finance requested that the Exeter City Futures Delivery Group team be in place to enable the additional Risk Register to be presented to Committee. He anticipated the team would be in place by the March 2022 meeting of the Audit and Governance Committee. He also advised that an update from the Net Zero team on their progress plans for delivery of a Net Zero Council would also be requested to be made to the most appropriate Committee, at the most appropriate time.

A Member referred to (*Risk ref 3*) concerns in relation to the governance oversight of the Exeter Liveable Programme, how its associated funds are managed, and the lack of published minutes for the decisions made by the Exeter Liveable Place Board. The Director of Finance stated that the Board did not pose a risk as it had no decision making powers and was predominantly funded by grants from the Ministry of Housing, Communities and Local Government (MCLG) as part of the Garden City programme. He did not provide any financial information to the Board, and monitoring of all of the financial expenditure relating to the Exeter Liveable Programme was through the Executive and Council.

The Member considered it was appropriate to ask if the Exeter Liveable Place Board received financial expenditure reports against the programme. There should be some clarity over the lack of transparency and governance and the level of resources in servicing the Board to establish whether value for money was being achieved in delivering against Council objectives. The Director Finance advised that the management of the Exeter Liveable Programme was overseen on a day to day basis by an officer of the Council, and the programme managed and reported as part of the overall budget to Members. Any specific issue relating to the financial position was reported to Members. He would ensure the comments were passed back to SMB colleagues to make them aware of the Member's concerns.

The Director Finance also responded to the following questions relating to (*Risk ref 9*):-

- financial risk due to delays as well as the possibility of labour shortages and consideration of this was included in determining the risk. Quarterly capital programme monitoring reports detail the risk to individual projects and any remedial action taken was reported to Members.
- robust contractual arrangements were in place for St Sidwell's Point. There were a small number of specific risks around the specialist beams for the roof and the associated exchange rate risk, but the opportunity was taken to lock into the procurement arrangement at an agreed price. Covid had presented exceptional circumstances and had resulted in further negotiations with the contractor, as it was not appropriate for them to carry all of the additional costs incurred. The Council's legal team were continuing to negotiate on this matter. He was not able to confirm the timescale for the completion of negotiations.
- prioritisation of the capital programme would be made for those matters where there was a risk for both the general public and staff, with any budgetary adjustments made accordingly. Officers had the ability in conjunction with the relevant Portfolio Holders to vire sums up to £50k between Council projects, although it was likely any virements would be required in excess of that sum. The Corporate Property team continued to assess all Council buildings regularly to ensure that they meet all health and safety standards.

**RESOLVED** that:-

- (1) the Audit and Governance Committee reviewed and noted the Corporate Risk Register; and
- (2) a separate Risk Register be introduced as soon as the Net Zero team were in place to monitor the Council's ability to meet the 2030 target for the delivery of a Net Zero Council.

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

Chair

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