

AUDIT AND GOVERNANCE COMMITTEE

Wednesday 27 July 2022

Present:-

Councillor Tony Wardle (Chair)
Councillors Moore, D, Allcock, Ellis-Jones, Leadbetter, Mitchell, M, Packham and Sutton

Also Present

Director Finance, Audit Manager (HK) , Service Lead - Net Zero and Business, Net Zero Project Manager, Housing Needs Strategy and Partnership Lead and Democratic Services Officer (SLS)

Julie Masci – Engagement Lead, External Auditors (Grant Thornton)

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MINUTES

The minutes of the meeting held on 9 March 2022 were taken as read, approved and signed by the Chair as correct.

9

DECLARATION OF INTERESTS

No declarations of disclosable pecuniary interests were made.

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EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE

The Engagement Lead, Grant Thornton presented the Audit progress and sector update, which detailed the programme of external auditor's work that had been undertaken as at 31 March 2022. They had undertaken an audit of the Council's financial statements with the additional responsibility specifically around the Value for Money work (VfM), of the Council's arrangements for the best use of resources, and provided a general sector update to understand issues relating to the local government community, as well as any national issues of relevance.

The final Audit findings report for 2020/21 was now complete, with the Audit opinion signed as planned. They were now planning for the 2021/22 audit, which included identifying the risk assessments in readiness for the final audit of the financial statements, with the draft accounts now submitted for audit. Some initial planning had been carried out for the VfM audit, but work on the 2020/21 VfM audit was ongoing, with the risk assessment not finalised until that work had been completed. The 2020/21 VfM work was concluded on 27 July, and the final report would be issued to the Council for comments from management shortly. It was noted the required three month timescale had not been met, to give due consideration to additional correspondence received from local electors within the area. A formal report on this would be presented to the next meeting of the Audit and Governance Committee.

In responding to a Member's question, the Engagement Lead, confirmed there were financial implications in dealing with such questions and the nature of the issues were already included under the VfM work being undertaken as part of a specific duty of the Code of Audit Practice. The final audit fee was determined by the Public Sector Audit Appointments (PSAA).

The Audit and Governance Committee noted the Progress Report and Sector Update.

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EXTERNAL AUDIT PLAN 2021/22

The Engagement Lead, Grant Thornton presented the proposed External Audit Plan from Grant Thornton for the year ending 31 March 2022, which detailed an overview of the planned level and scope of the statutory audit, and highlighted a number of areas of work which included:-

- the preparation of the City Council and the group accounts;
- the more detailed review of accounting estimates, which was introduced as a revision to the audit standards last year within the International Auditing Standards (ISA540);
- the commissioning of external valuers to carry out work in relation to the Council's land and buildings used to run the Council's services ;
- pension's liability; and
- the principle of materiality, which offered a true and fair view and overall position of the accounts. The materiality level for the Council was set at £2.4 million of consolidated accounts to the Group, and £2.1million in terms of the Council's accounts. An update on the Value for Money (VfM) arrangements would be included in subsequent progress reports.

In response to a Member's question the Engagement Lead stated the following:—

- the Audit Code requirement covered three key areas as part of the Value for Money work for the Council's operations which included financial sustainability (setting the budget and longer term medium term financial planning) and governance (day to day monitoring and budget outturn reporting to the Executive);
- ensuring economy, efficiency and effectiveness;
- External Audit would follow an appropriate line of enquiry if specific concerns were raised over any project that had not adhered to proper governance or procurement procedures, rather than meeting its Capital Programme requirements; and
- a due process would have been undertaken following any asset disposal or transfer to an outside organisation. Audit testing would be undertaken with the expectation that the value would be included within the accounts, but how the Council utilised their assets was a decision ultimately for the Council.

The Audit and Governance Committee noted the External Audit Plan for the year ending 31 March 2022.

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INFORMING THE AUDIT RISK ASSESSMENT

The Director Finance presented the completed questionnaire for Grant Thornton, which set out responses from the City Council to help inform the risk assessment of Exeter City Council as part of the planned audit process. He thanked colleagues from the finance teams, the internal audit team and legal services for their collective contributions covering a number of service areas to fulfil such an important part of the Audit process. They had compiled responses to over 50 questions to offer an understanding of the Council's management processes and oversight in the following areas:-

- General Enquiries of Management,

- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

The Director Finance responded to Members' questions:-

- this was the third year of reporting in this format and the Auditor's comments were not normally included, however the External Auditor would use this focus of resources on any area and complete their External Audit Findings Report.
- Exeter City Futures were noted as a Related Party in the Group's consolidated accounts. The total balance sheet and turnover of Exeter City Futures was not deemed to be material and so were not included within the focus on the Council's group accounts, but they would be included in the accompanying notes, because the Council has a significant interest within the company. He acknowledged the comments made by the Member in respect of significant officer time and funding received through the Council. He clarified that the funding which had come from the City Council to Exeter City Futures was disregarded in the group accounts as an inter-group transfer.

The Engagement Lead, Grant Thornton referred to audit materiality as a percentage of expenditure, which can vary from year to year and not a defined benchmark. If further scrutiny was required, then the benchmark could be lowered, which would result in further testing.

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

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ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR TO 31 MARCH 2022

The Audit Manager (HK) presented the Annual Internal Audit report for the year ending 31 March 2022, which conformed to the Public Sector Internal Audit Standards and was timed to inform the Council's Annual Governance Statement. All Audit assurances that have been issued throughout the year had all been satisfactory or above and she was pleased to report that management responses to all internal Audits findings had been positive.

The Audit Manager drew Members' attention to key points within the report:-

- Section 2 - offered the overall opinion of the circulated report, with confirmation that key systems were operating satisfactorily with no fundamental breakdown of control resulting in material discrepancy.
- Section 3 - highlighted three key issues to be included in the Annual Governance Statement (AGS), these being the Council's financial position, Net Zero 2030 and Change management as part of the AGS. These areas will be subject to quarterly monitoring by the Audit and Governance Committee with an update on any actions identified.
- Section 4 - included a summary on the delivery of the Annual Audit Plan 2021/22 and included an outcome of all the audits undertaken in the year. A copy of any of the completed audit reports could be provided to Members upon request.
- Section 5 - offered a summary of investigations that have been undertaken throughout the year. It included confirmation that there were no instances of the Whistleblowing Policy being used.

- Section 6 - included confirmation of the results of their Quality Assurance and Improvement Programme. This included a summary of the returned responses of a stakeholder's survey which was attached as a conclusion to the report.

In response to Members' questions, the Audit Manager explained:-

- two Audit opinions were issued in respect of the People Management audit, one was issued to the Payroll Manager for areas identified within his control and one opinion was issued in respect of areas outside his control i.e. the responsibility of management. All responses received on both reports were satisfactory.
- the scoring mechanism and the categories of assurance used to provide an overall audit opinion. Internal Audit's role was to provide assurance to management that the control environment was sound. They had never issued a report categorised as no assurance.
- the Whistleblowing Policy was included on the agenda for review which hopefully may encourage staff to report any concerns if they have any. Details of the protection available under the policy were regularly communicated to staff, although to date was rarely used. This may be because staff had no concerns or it may be that they did not feel confident in reporting those concerns under the policy.

In response to a Member's question, the Director Finance explained that it was not a role for Internal Audit to look at the viability of a service, and they were involved with the system of internal control. The example quoted of leisure facilities was a Council decision to determine viability and levels of income. If during the budget monitoring process the income was found to be significantly lower than anticipated income targets, it would be reported to Members for the appropriate action.

The Audit and Governance Committee noted the Annual Audit Report for the year ended 31 March 2022.

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REVIEW AND UPDATE OF WHISTLEBLOWING POLICY

The Audit Manager (HK) presented the report which proposed a review and update of the Council's Whistleblowing Policy which needed to be considered every two years to ensure that it remained up to date and fit for purpose. The Policy included two minor amendments as detailed in the report which included a change to the wording to make every effort to encourage reporting from staff and the name of the Independent Charity Public Concern at Work had been changed to Protect. The updated Whistleblowing Policy was attached as an appendix dated April 2022.

The Audit Manager responded to a Member's comment and advised that a report on the use of the Whistleblowing policy was included as part of the annual report within Section 5, but confirmed that there had been no cases reported.

RECOMMENDED that Council be requested to approve the revised Whistleblowing Policy, dated April 2022, which was attached to the circulated report, and the Constitution amended accordingly.

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ANNUAL GOVERNANCE STATEMENT 2021/22

The Director Finance presented the report accompanying the Annual Governance Statement and set out key issues, the responses and a summary of action. The Annual Governance Statement would accompany the Council's Statement of Accounts for 2021/22. The Governance Statement was a statutory requirement and

reported on the Council's performance against the Code of Corporate Governance which was last approved on 9 March 2022. The Council's Code of Governance was subject to a review part way through the year as part of an updated Code of Corporate Governance for 2022/23.

In response to a Member's questions, the Director Finance noted that a reference in the Annual Governance Statement to the Net Zero 2030 target related to the Council and set out the summary of any action to be taken in response to that. He also responded to a proposal for the inclusion of the Consultation Charter which was approved last year in the document.

The proposal was seconded and carried that the Consultation Charter be included in the Annual Governance Statement and listed in the column marked Corporate under the Corporate Governance Section of the Statement.

RESOLVED that the Audit and Governance Committee approve the Annual Governance Statement of Accounts for 2021/22, and be signed (at the earliest possible convenience) by the Director Finance & Section 151 Officer and the Chair of the Audit and Governance Committee and included within the Council's Annual Statement of Accounts for 2021/22; and

RECOMMENDED to Council to note and approve the Annual Governance Statement with the reference to the Consultation Charter, included within the Council's Annual Statement of Accounts for 2021/22.

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HOMES ENGLAND COMPLIANCE AUDIT

The Housing Needs Strategy and Partnership Lead, presented a report which provided positive feedback from a recent Compliance Audit carried out by Homes England. The Compliance Audit was a requirement of funding awarded to the Council from the Department of Levelling Up, Housing and Communities to purchase properties to create accommodation for rough sleepers under the Next Steps Accommodation Programme. The funding was used to purchase five, one bedroom former council properties which were brought back into Council ownership and a six bedroom house which is currently leased out to a Homelessness Provider

The Compliance Audit was undertaken by an Independent Auditor, Thomas Westcott Chartered Accountants, in September 2021 and their findings and recommendations were presented to Homes England. The circulated report is an acknowledgement, from Homes England, of that Independent Audit.

The Audit and Governance Committee acknowledged and noted the content of the report.

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REVIEW OF CORPORATE GOVERNANCE RISK REGISTER

The Audit Manager (HK) presented the report which advised the Audit and Governance Committee of the Council's risk management process and provided an update of the Corporate Risk Register to enable the Committee to monitor and review the Council's risks.

Changes to the following risks were proposed with updates provided from the Strategic Management Board (SMB):-

- Risk 1 - Failure to deliver anticipated benefits of major projects

As St Sidwell's Point had now been delivered, it had been agreed by SMB to remove this risk.

Risk 2 - Insufficient business continuity arrangements to recover critical services effectively - SMB had agreed that this item has been mitigated to low risk and be removed but continue to be managed as part of the Executive Support Operational Risk Register.

- Risk 3 - Inability to deliver Carbon Net Zero aspirations for Exeter by 2030 (External)

This risk related to Exeter City (as a whole) becoming Net Zero by 2030 and was a separate target and risk devolved to Exeter City Futures (ECF). It is intended that ECF will produce and manage a Risk Register against this target for the City which can be appended to the Council's Corporate Risk Register as a separate register.

A new Risk was added at:-

- Risk 9 - Inability to deliver Carbon Net Zero aspirations for Exeter City Council operations by 2030 (Internal) This risk is now the subject of a separate Risk Register which is being presented to this meeting of the Audit and Governance Committee. Further updates will be made half yearly.

The Director Finance responded to Members' questions on the following risks:-

- Risk 1 - Failure to deliver anticipated benefits of major projects
St Sidwell's Point (SPP) has been a major project in terms of size and importance to the Council. A major project is defined as a significant capital project and being of key importance to the Council. Such projects also tended to have a Governance structure around it, as there were reputational as well as associated financial risks to the Council, which is why it was specifically included on the Risk Register. There could be other projects that come forward and will be included on the Risk Register in the future.
- Risk 3 - Inability to deliver Carbon Net Zero aspirations for Exeter by 2030 (External)
The Director Finance would obtain a formal response to an enquiry directed to the Risk Owner for the External Carbon Neutral Risk Register, which will be appended to the Council's Corporate Risk Register, as to the accountability to this Committee for its contents.
- Risk 4 - Failure to meet Exeter's Housing supply needs as a planning authority and meet strategic 5 year ambitions
the Audit Manager would seek a meeting with the Risk Owner of Risk 4 to discuss the information included, in the light of the Redhills Appeal determination published in February 2022.

A Member raised a number of points in relation to Risk 3, set out for information, and a response would be requested from the Risk Owner:-

- in referencing the Greenhouse Gas Inventory report recently presented at Committee, despite the actions of the Council's mitigation activities, there was little evidence that had been sufficiently articulated.
- the adoption of Net Zero 2030 as a Council policy belonged to the Council as well as any other organisation that might wish to adopt it. However, there was a lack of clarity of ownership and accountability in respect of the Council focus on the operations of the city wide Net Zero Plan. The Audit Manager in response to a further comment was able to confirm that the detail of this risk would continue to be included, and it would not be appropriate to remove that until the separate Risk Register document was in place.

The Director Finance also responded to the following Member's comments:-

- Risk 8 - Failure to deliver the Liveable Exeter Programme the Exeter Development Fund does not currently pose a risk to the Council because the proposal was still at the concept stage. Although the matter was being discussed at a number of meetings of the Combined Scrutiny Committees, Members would need to consider any formal proposition through the Executive and Full Council. There would have to be a thorough review and decision to include on the Risk Register depending on what was being asked of the Council.

The Audit Manager referred to a discussion by Members that individual Risk Owners be invited to the Audit and Governance Committee to make a short presentation on their Risk area and provide an opportunity to discuss the risk in more detail. It was suggested that the Director Corporate Services or their representative, as Risk owner for *Risk 5 - Failure to adapt Council workforce to ensure appropriate skills and experience* be invited to the next meeting to offer the opportunity to provide more information to Members.

The Audit and Governance Committee reviewed and noted the updated Corporate Risk Register and agreed that the identified owner of the individual Risks on the Corporate Risk Register be invited to future meetings to provide an opportunity to discuss in more depth, the nature of that risk.

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CITY COUNCIL NET ZERO RISK REGISTER

The Net Zero Project Manager presented the report, which advised the Audit and Governance Committee of the City Council's Net Zero Risk Register, which was attached as an appendix to the report. The Register identified five risks, as set out below, which offered an initial high level assessment of the risks associated with delivering Net Zero within the City Council by 2030.

- Risk 1 - Too ambitious target to reduce City Council carbon emission to 'net zero' by 2030.
- Risk 2 - Unable to reduce City Council Scope 1 direct emissions from owned sources (fuel consumption and company vehicles).
- Risk 3 - Unable to reduce City Council Scope 2 indirect emissions from generation of purchased energy.
- Risk 4 - Unable to reduce City Council Scope 3 other indirect emissions (supply chain, assets, investment, waste disposal, employee commuting).
- Risk 5 - Afforestation - land use changes to offset carbon emissions.

The Net Zero Risk Register sets out the risks involved associated with measures required to reduce carbon emissions within the City Council, including its services, operations and buildings. The register will be updated on a six monthly basis in line with the Council's Net Zero Carbon Reduction Plan. The report also set out the detail of a carbon baseline report for the City Council which will set out a number of actions for the delivery of Net Zero, which would be presented to the Strategic Scrutiny in September 2022.

The Net Zero Project Manager responded to the following Member's comments:-

- Exeter City Council's outputs, and overall carbon emissions were less than other large organisations in the City, however the Council had an important role to play in influencing and supporting the city in its delivery of Net Zero by 2030.

- further work would be undertaken to ensure the Risk Register contained climate change adaptation measures, as well as mitigation as set out in the National Audit Office Climate Change Risk Good Practice Guide.
- work had been taking place with the Local Government Association (LGA) to share ideas on reporting and how to tackle Scope 3 Emissions, to record in a more meaningful way and bring down embodied emissions through procurement.
- work was being undertaken to ensure that a consistent and uniformed approach was being taken on Greenhouse Gas reporting. Exeter City Council was already working collaboratively with other District Councils in Devon as part of the Devon Districts CO2 Baseline Commission.
- the Net Zero team were engaging with Services to ensure policies reflected climate change and supported the Net Zero actions set out in the Net Zero Carbon Reduction Plan.

In response to a Member's comment, the Service Lead - Net Zero and Business also confirmed that two members of the team had received carbon literacy training and were now qualified to deliver the necessary training internally without any further cost. They had devised a training programme to support Committee report authors to complete the *impact of carbon reduction* section in reports to ensure a meaningful and consistent approach.

The Audit and Governance Committee reviewed and noted the Net Zero Risk Register, which would also be reported to Strategic Scrutiny Committee on a regular basis.

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

Chair