

## Corporate Governance and Audit Committee

Monday, 23rd November, 2020

**PRESENT:** Councillor A Scopes in the Chair  
Councillors P Harrand, J Illingworth,  
P Grahame, M Harrison, J Taylor,  
P Truswell and B Garner

### 41 Appeals Against Refusal of Inspection of Documents

There were no appeals against the refusal of inspection of documents.

### 42 Exempt Information - Possible Exclusion of the Press and Public

There were no items identified where it was considered necessary to exclude the press or public from the meeting due to the confidential nature of the business to be considered.

### 43 Late Items

There were no late items of business identified.

### 44 Declaration of Disclosable Pecuniary and Other Interests'

There were no declarations of disclosable pecuniary interest made at the meeting.

### 45 Apologies for Absence

There were no apologies for absence.

### 46 Minutes of the Previous Meeting

**RESOLVED** – That the minutes of the previous meeting held on 21<sup>st</sup> September 2020 were accepted as a true and correct record.

### 47 Matters Arising from the Minutes

Annual Assurance Report on Planning Decision Making and Enforcement Arrangements (Minute No.35 referred) – In providing an update; it was reported that the Chair had since written to the Chief Planning Officer inviting him to draft a protocol for enforcement of breaches of planning control on Council land. It was anticipated that the draft protocol would be prepared in draft by end December 2020. It was also reported that a review of the Protocol on Public Speaking at Plans Panel was ongoing and would be considered by the Plans Panel Chairs. The Head of Audit confirmed that a

formal review of the planning decision making processes together with the enforcement arrangements was currently ongoing.

Annual Assurance Report on Employment Policies and Procedures and Employee Conduct (Minute No.36 referred) – In respect of the request for further information in respect of pulse staff surveys, it was reported that the Scrutiny Board (Strategy and Resources) would be considering detailed feedback at the November meeting of that Board and that this information had been circulated to Members on 16<sup>th</sup> November 2020. In providing an update on gifts and hospitality and register of interest returns, it was reported that only two returns remained outstanding: in one case the officer was currently on maternity leave and in the other case the officer was currently on sickness absence.

Applications Portfolio Programme - Update on Access Project (Minute No.37 referred) – It was reported that the requested correspondence from the Cabinet Office confirming the agreed arrangements had been circulated to Members on 28<sup>th</sup> September 2020.

#### **48 Internal Audit Annual Report and Opinion 2019/20**

The Chief Officer Financial Services submitted a report which presented the Annual Internal Audit Opinion and review of the adequacy of the internal control environment for 2019/20

The report provided a summary the work undertaken by Internal Audit during the year and delivered an overall conclusion; that on the basis of the audit work undertaken during the 2019/20 financial year, the internal control environment (including the key financial systems, risk and governance) was well established and operating effectively in practice. A satisfactory overall opinion was provided for 2019/20, based on the audit work detailed within the submitted report.

The audit work undertaken to support this opinion had been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.

The Head of Audit confirmed that the Internal Audit team had recently undergone inspection against ISO 9001 and that no non-conformance had been identified. Established working practice ensures that the team remains 'inspection ready' at all times.

Referring to the issue of Procurement and Commercial Services, Members noted the number of waivers processed across the authority had fallen over each of the last 3 years, with 79 waivers processed in 2019/20 as opposed to 153 in the previous year. Members queried the reasons for waiver of contracts and asked for a breakdown of the number of waivers both by proportion and value.

The Head of Audit noted that review work had been undertaken to look at the use of waivers and noted that there were a number of reasons for the waivers processed; audit reviews look to ensure that there is a satisfactory reason for the waiver, In some instances there is genuinely no competition, but it is noted that occasionally there was insufficient time to complete the procurement exercise. The Head of Audit undertook to provide further information in relation to themes for use of waivers to all Committee members after the meeting.

Members sought further details about assurance checks on grants paid to businesses as part of the Covid-19 measures and queried if there was any evidence of fraud.

The Head of Audit informed Members that assurance checks were undertaken on risk basis, using data analytics and matching exercises. There was a need to ensure payments were made to businesses in an equitable and controlled way. Checking revealed that occasionally there were mistakes in the information presented, but this was not characterised as fraud.

On the issue of fraud and corruption, Members sought further details on the prevention of three right to buy sales.

The Head of Audit said in such cases there were often questions about the eligibility of the people living in the property, an assurance was provided that specific details about the case(s) would be obtained and circulated to Members.

Referring to the Completed Audit Reviews, Members noted there were 5 reviews with limited assurance and requested if further narrative could be supplied.

The Head of Audit said the requested information had been included in the relevant update reports following conclusion of those audits and agreed that a summary would be circulated to all Members of the Committee.

Members noted the increasing use of data analytics within the authority and asked whether this was assisting.

The Head of Audit confirmed that extended use of dashboards and presentation of financial and other information to underpin quality decision making. It was noted that this would be a medium term project, with the aspiration to achieve greater transparency of decision making.

The Chair thanked the Head of Audit and her Team for the work undertaken in this past year.

**RESOLVED –**

- (i) To receive the Annual Internal Audit Report and Opinion for 2019/20 and note the opinion given. In particular:
- that on the basis of the audit work undertaken during the 2019/20 audit year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice
  - a satisfactory overall opinion is provided for 2019/20, based on the audit work detailed within this report
  - that the work undertaken to support the opinion has been conducted in accordance with an established methodology that promotes quality and conformance with the International Standards for the Professional Practice of Internal Auditing.
- (ii) To note that there have been no limitations in scope and nothing has arisen to compromise the independence of Internal Audit during the reporting period.
- (iii) That further information be circulated to Members in respect of the following:
- Anti-fraud and corruption - The prevention of three right to buy sales
  - Completed audit reviews with limited assurance (Further narrative)

#### **49 Approval of Annual Governance Statement**

The Chief Officer Financial Services submitted a report which presented the Annual Governance Statement (AGS) prepared in accordance with the Accounts and Audit Regulations 2015.

Members noted the document had been prepared in accordance with proper practices specified by the Accounts and Audit Regulations 2015. Following a review of the arrangements which together comprise our system of internal control, the AGS supports the opinion that, overall, key systems are operating soundly, and that there are no fundamental control weaknesses.

It was reported that the interim AGS was published in draft on 6<sup>th</sup> July 2020 to accompany the Statement of Accounts when put on deposit. The AGS had since been updated and is returned to this Committee for approval prior to publication.

In offering comment Members made reference to the delivery of the climate emergency suggesting that key performance indicators (KPI) required establishing to measure progress in achieving the Council's climate change ambitions.

In responding the Chair suggested that engagement was required with the Chief Officer Sustainable Energy & Air Quality, with a view to the

establishment of a Climate Change Plan up to 2030, which could be monitored by this Committee in future.

Commenting on the section “Our Workforce” reference was made to staff wellbeing, with one Member suggesting that in recent months a significant number of employees had left the employ of the City Council, was there sufficient business continuity via HR processes in place to support the changes.

Members were informed that the Annual Business Continuity report would be considered by this Committee at its next meeting on 14<sup>th</sup> December 2020, where Members would have the opportunity to raise such issues with the Chief Officer Human Resources.

Referring to Covid-19 Pandemic, Members queried if assurance could be provided that the necessary internal systems had been adapted to respond to the pandemic

The Principle Audit Manager (Corporate Governance) said that all assurance reports coming to this Committee would address Covid-19 implications for that service, which would also feed into the Annual Governance Statement for 2021.

Referring to the customer contact and satisfaction experience and the actions identified to deliver improvements, a number of Members expressed disappointment at the Service’s response. Members were of the view that first contact with a customer via telephone, face to face or online need to be exemplar and the necessary processes; training, ownership and management need to be in place to achieve this.

Members asked that the key action set out in the Annual Governance Statement be amended to provide that “We will continue to set and monitor robust targets for customer contact and satisfaction and will make improvements where necessary to deliver a consistent experience for our customers.”

The Chair suggested the annual customer contact and satisfaction report was due to come to Committee in February 2021 and asked that the Chief Officer Customer Access and Welfare be asked to identify what ‘good’ arrangements look like, and provide an action plan to achieve this.

**RESOLVED** – That, subject to the amendment to key action 4 in relation to customer contact and satisfaction, the Annual Governance Statement be approved.

## **50 Approval of the Audited Statement of Accounts and Grant Thornton Draft Audit Report**

The Chief Officer Financial Services submitted a report which presented progress towards approval of the Council’s final audited Statement of

Accounts following consideration of any material amendments identified by the Council or recommended by the auditors.

Members were informed that the External Auditors (Grant Thornton) were nearing completion, and their findings to date were contained within the submitted draft of their ISA260 report. A further report covering the findings of their IT audit was also attached as an appendix.

The main points arising from the audit were that:

- Grant Thornton anticipate being able to issue an unqualified opinion on the 2019/20 Statement of Accounts, with an Emphasis of Matter paragraph relating to the material uncertainty surrounding property asset valuations at 31st March 2020, arising from the impact of the Covid 19 pandemic on property markets;
- There are expected to be no unadjusted audit differences affecting the financial statements;
- The review of the Annual Governance Statement had concluded that it was not misleading or inconsistent with information they are aware of from their audit of the financial statements, and that it complied with CIPFA/SOLACE guidance;
- Subject to completion of their audit work, Grant Thornton anticipate issuing an 'except for' opinion in relation to the use of resources - that the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources except for a weakness in the level of its General Fund Reserves to deal with significant unforeseen circumstances.

An updated copy of the accounts as at 13th November was included with this report.

Members were informed that the audit work had not sufficiently progressed in order for the Committee to approve the accounts. A final ISA260 report would be presented by Grant Thornton to the Committee at its meeting on 14<sup>th</sup> December 2020.

The accounts would be certified by the Chief Finance Officer as a true and fair view of the Council's financial position as at 31st March 2020 prior to the Committee being asked to approve them.

It was reported that during the 2019/20 public inspection period, no objections were received from local electors.

The Chief Officer Financial Services reported that the Council had identified a number of amendments since the draft accounts were published, and these were outlined to Members. The most significant was an amendment to the accounting treatment of a capital distribution which the Council had received from its investment in the Merrion House LLP. The capital distribution arose from the Council's prepayment of rent for the remainder of its lease of Merrion House from the LLP. The Council were proposing that the balance of £25.65m

shown as deferred income in its draft accounts would be recognised as revenue income and transferred to an earmarked reserve, to be applied during the remaining life of the Council's lease. It was noted that Grant Thornton wished to consider whether this should be an adjustment to 2018/19 figures.

Addressing the External Auditors report, Gareth Mills (Grant Thornton) spoke on the main issues which included:

Covid-19 – Members were informed the outbreak of the coronavirus pandemic had had a significant impact on the normal operations of the Council from March 2020 resulting in significant financial challenges as the Council responded to the pandemic.

Mr Mills explained that Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, deadlines for preparation of the financial statements had been extended up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

It was reported by Grant Thornton that the following adjustments to the financial statements had been identified:

- Pension Fund Liability - an increase in the Council's pension fund liabilities of £9.73m resulting from the impact of the Goodwin judgement
- Classification - £60m of Short Term Investments to correctly be classified as Cash Equivalents
- Grants Receipts in Advance – currently included in Creditors but should properly be disclosed separately as Grant Receipts in Advance
- Merrion House – a Prior Period Adjustment (PPA) is currently being considered for the proposed change in treatment of the receipt of 50% of the advance rental prepayment as a distribution, and the accounting treatment for reducing the fair value of the Council's holding in the LLP in the 2019-20 accounts.

Members were informed that the work was substantially complete, there were no matters of which required modification of the audit opinion (Appendix E of the submitted report) or material changes to the financial statements, subject to the outstanding matters listed on page 142 of the report.

Referring to the value for money arrangements, Mr Mills said the VFM risk assessment had been updated to document the auditors understanding of the authority's arrangements to ensure critical business continuity in the current environment. The VFM risks identified at the planning stage of the audit were the Council's Financial Standing and preparations for Brexit. No new VFM risks in relation to Covid-19 had been identified.

Grant Thornton reported on the weaknesses in the level of the Council's General Fund reserves to deal with significant unforeseen circumstances

such as the COVID-19 pandemic. Except for this Members noted Grant Thornton are anticipating issuing an “except for” value for money conclusion that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Members noted that the auditors had not exercised any additional statutory powers or duties.

Commenting on the implications of covid-19, Members queried if there was sufficient monitoring of the Council’s finances given that costs continued to increase, but there was very little or no income.

The Chief Officer Financial Services said the monitoring of the Council’s finances was a high priority with reports being presented to the Executive Board on a monthly basis.

Members made reference to the asset/ valuation for Merrion House and the ongoing lease, and queried how the prepayment of rent had been funded.

The Chief Officer Financial Services said that the prepayment had been funded from the strength of the Council’s balance sheet as it was not a capital transaction. A financial evaluation had been carried out to confirm that the savings from the reduced total rent were expected to outweigh the interest costs the Council incurred as a result of its reduced level of balances. .

Reference was made to Heritage assets with Members querying if such assets could be disposed of.

Members were informed that there had been no recent disposal of heritage assets, there may also be restrictions preventing the disposal of assets which had been bequeathed/ given to the city.

Members noted both Grant Thornton’s comments about working papers and the Council’s response that the Finance team would liaise with Grant Thornton to ensure that the nature and scope of working papers requested could be confirmed in good time in advance of future audits.

Members noted that Grant Thornton intended to propose additional audit fee variations. Whilst acknowledging that this was a matter for the Chief Finance Officer to agree with Grant Thornton, Members expressed their concerns, and in particular that taxpayers should not bear additional costs as a result of the general difficulties of carrying out audit work during the pandemic.

The Chair thanked officers and the representatives from Grant Thornton for their attendance and contributions.

**RESOLVED –**



- (i) To receive the draft report of the Council's external auditors on the 2019/20 accounts noting that there are expected to be no unadjusted audit differences to the accounts.
- (ii) To defer approval of the final audited accounts until the December meeting of the Committee.
- (iii) To note Grant Thornton's anticipated conclusion on the use of resources, and their associated recommendations in relation to the Council's ability to deliver a balanced outturn position for 2020/21 and a realistic budget for 2021/22.

## **51 Work Programme**

The City Solicitor submitted a report which set out the ongoing Work Programme for 2020/21.

**RESOLVED** – To note the draft work programme and approve the suggested meeting dates as set out in Appendix 1 of the submitted report

## **52 Date and Time of Next Meeting**

**RESOLVED** - That the next meeting be rescheduled to take place on Monday, 14th December 2020 at 10.00am (Remote Meeting)