

GOVERNANCE AND AUDIT COMMITTEE

23 March 2021

Present:- Councillor Nick Barlow, Councillor Paul Dundas, Councillor Sam McCarthy, Councillor Chris Pearson (Chairman), Councillor Dennis Willetts, Councillor Barbara Wood

Substitutions:

Also Present: -

250. Minutes of the previous meeting

RESOLVED That the minutes of the meeting held on 19 January 2021 be confirmed as a correct record.

251. Audit Plan year ended 31 March 2021

Mark Jarvis, Finance Manager, attended the meeting to present the report and Assist the Committee with their enquiries. The Committee were advised of relevant deadline dates for the closure of the Colchester Borough Council's (the Council) accounts, hearing that in previous years the Council had been required to produce draft accounts by 31 May, with a final signed version produced by 31 July. This year, however, the dates had changed and the Council was required to produce draft accounts by 31 July 2021, with a final signed version by 1 September 2021. The Council had been working with its external auditors, BDO, to meet these deadline dates and to find ways to simplify the accounts to increase their comprehensibility.

The Committee were addressed by Lisa Clampin of BDO, who advised that Aphrodite Lefevre was taking over as the responsible individual for the Council's audit, and she would be responsible for signing the statement of accounts and supervising the audit. Lisa advised the Committee that there had been no real change in materiality, and the movement in the number displayed was due to the use of estimated numbers ahead of the production of the draft financial statements. The risk profile of the Council was considered to be similar to the last two years in audit terms. The Committee heard that the risks that had been identified were similar to those identified in previous audit plans, which was considered to be a good thing as it demonstrated that the organisation was operating in a stable manner. The risk of management override of controls was highlighted to the Committee, and it was

explained that this was a standard significant risk associated with all audit programmes.

The Council's new housing system, Northgate, was introduced as a new risk for this year as the migration of data into the new system mid-way through the year needed to be complete as the system produced information that was material for the accounts.

The fees that were to be charged by BDO were discussed, and it was explained that there would be an increase in the fees payable by the Council as the result of a number of additional areas of that that had been undertaken, including the consolidation of the accounts of Colchester Commercial Holdings Limited, and it was noted that the Committee had been made aware of the increase by Paul Cook, Head of Finance, at its last meeting.

The Department of Housing, Communities and Local Government (DHCLG) had set the deadline for the publication of the statement of accounts by 30 September 2021, and the Committee were advised that the requirement in the legislation was for the publication of audited financial statements, or the publication of unaudited financial statements with an explanation as to why the audit had not been completed by that time. It was explained to the Committee that there was significant pressure on audit resources at that time, and one hundred and forty seven audits were still outstanding from the previous year, representing approximately 30% of Council audits uncompleted. BDO had responded to a consultation by DHCLG and indicated that they considered that 30 September was to challenging a deadline, given the amount of work that remained from previous years. It was, however, considered that Colchester Borough Council had good processes and a good, stable, audit profile, and it was hoped that the audit completion report could still be presented to the meeting of this Committee in September 2021, following close work between BDO and Officers. The Committee were, however, still advised that it was unlikely that all of the audits would be delivered by 30 September 2021.

The use of resources was highlighted to the Committee, and it was explained that a new Code of Audit Practice had been issued in 2020 by the National Audit Office (NAO) which contained significant changes in the methodology for delivering 'use of resources work' which would impact this, and future, years. Auditors were being asked to consider a much broader range of factors, including financial and risk management and governance arrangements, project management and procurement procedures, which would require more discussion with a wider range of Officers than had previously been necessary. Given the difficulties in the audit arena, the NAO was considering implementing the new methodology over an extended period, and also allowing use of resources work to be concluded after the deadline had passed for the publication of the audited statement of accounts. The Council would no longer receive a 'value for money' conclusion, and would instead receive a new Annual Report which would be much more narrative in its nature, and would seek to give more context to the work undertaken, together with recommendations to address any weaknesses identified. It was considered likely that the Annual Report would take the place of the annual audit letter which was usually presented to this Committee,

and BDO indicated that they would work more closely with Internal Audit at the Council to take advantage of areas of work that overlapped.

Councillor Willetts enquired whether the consolidation costs of the audit were reflected back into the accounts of the subsidiary companies. He further expressed his opinion that the timescales that had been proposed could be considered to be ambitious, and wondered whether, in reality, the Council would be able to meet them, particularly in the light of the number of unfinished audits that had already been brought to the Committee's attention. He sought assurance that it would be possible for the proposed timescales to be met, and for the financial statements to be presented as having been fully audited. A further query was raised in relation to the risk that had been identified in relation to the pension fund, and Councillor Willetts asked whether this risk could be considered to be a generic risk, or whether information was to hand that had given rise to specific concerns in his regard. Referring to the identified risk of management overriding control mechanisms, he wondered whether it was possible to suggest any measures which could be taken to reduce the possibility of management overriding control mechanisms without being so onerous as to make the financial reporting systems at the Council non-functioning.

In response to Councillor Willetts, Lisa Clampin confirmed that the pension fund related risk formed part of a theoretical risk identification process which was used to drive the audit strategy in an attempt to ensure that material risks could be avoided. Further explanation was offered that the pension fund liability was based on an estimate and therefore inherently risky from an audit point of view as it could be the subject of a judgement exercised by management or an actuary in the future. Even a small change to the assumptions that underly that judgement could generate a large difference in the monetary value associated with that liability. The Committee were advised that as part of their audit processes, BDO sought an assurance letter from the pension fund auditor, together with engaging an auditor specialist who carried out detailed work on all of the actuaries to give assurances that the actuarial firms who value pension liabilities for Local Government bodies had been sound in their assumptions. Following this work, BDO then assess the level of risk that is associated with the valuation being materially mis-stated, and although the risk is theoretical in nature, its assessment allows BDO to put in place processes which will give assurances that the statement of accounts would be materially accurate. With regard to the concern that had been raised about management overriding controls, the Committee were advised that in practice it was not possible to implement a control measure to prevent this that in turn could not be overridden. Steps were, however, taken to look in detail at transactions which displayed risk attributes and these were then investigated further. It was agreed that the timetable proposed for the approval of the financial statements was ambitious, and an exercise in resource management was being carried out by BDO. Praise was offered to the financial team at the Council for the quality of their work supporting BDO, and tentative hope was offered that it may be possible to meet the deadline.

Mark Jarvis addressed the issue of the cost of the audit work undertaken in relation to the Council's commercial companies, and confirmed that this was not passed on to the subsidiaries but was treated as a Colchester Borough Council cost.

Councillor King, Portfolio Holder for Business and Resources addressed the Committee and offered his thanks to Officers and BDO for the positive attitude that they had displayed, and he expressed his view that early analysis and learning was key to the work being undertaken.

Councillor Willetts raised a further query regarding the move away from providing a 'value for money statement', noting that the Council was a political organisation with Officers working for Cabinet. He noted the inherent difficulty associated with Officers stepping forward to express the view that a project had not been value for money, and therefore had always welcomed the view that was expressed by an outside organisation on this point. He wondered whether the loss of the 'value for money' element of the reporting process would lead to this work lacking efficacy in the future. Lisa Clampin explained that both the 'value for money' statement and the new methodology both sought to examine the arrangements that were in place, and neither sought to give a statement that said the Council had achieved value for money. Instead, it was the arrangements that were in place to ensure value for money had been obtained which were examined and the new report would deal with a wider array of arrangements allowing useful recommendations to be made on how continuous improvements could be achieved. Councillor Pearson clarified that it was the management of the finances that BDO would comment on, as opposed to how the resources had been spent, as different groups would have different opinions on what constituted value for money, a view that was supported by Councillor King who emphasised the need for robust processes across the Council.

Councillor Dundas noted the number of audits which were carried out across the country, and queried the frequency with which it was determined that value for money was not being delivered. Lisa Clampin explained that under the old methodology it was not unusual for an 'except for' value for money conclusion to be delivered, highlighting a particular set of arrangements which were not operating in an optimal manner, usually caused by financial pressures. It was, however, much rarer for an adverse opinion to be delivered, where the auditor could not offer assurances that arrangements would deliver value for money.

The Committee were advised that there was no statutory deadline for completing the audit, the only deadline was placed upon Councils to publish their financial statements, either audited or published unaudited with an explanatory note. The Committee were assured that BDO placed the quality of its work foremost, and opinions would not be given without proper assurances being in place to support them.

RESOLVED that the Audit Plan for the year ended 31 March 2021 be agreed, the risk assessment outlined with the audit plan be acknowledged, and the changes as part of the code in relation to best value be acknowledged.

252. Financial Monitoring Report – April to December 2020

Darren Brown, Finance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Committee were advised that the Council's core budgets had been impacted by Covid-19, however government funding and the use of reserves had mitigated this impact. A number of briefings on the Council's financial position had been carried out throughout the year to ensure that Councillors were kept up to date with the current financial position. The general fund was showing an adverse position of £3.9m against the profile service budgets, and income was below targets in a number of areas including sports and leisure, museums and parking services. The forecast outturn position for the general fund before government funding and use of reserves was an overspend deficit of just under £9.3m, however, following the use of reserves and government funding, the forecast outturn would be on budget. A number of accounting adjustments would be carried out at year end to ensure that expenditure and income was located in the right place, and the final position would be reported for scrutiny purposes in the new financial year.

The Housing Revenue Account (HRA) was showing a net underspend of £330,000 to date, primarily relating to profiling of budgets and timing of expenditure, with less income being received than was budgeted for due to the timing of right to buy sales and the Council's acquisitions programme. The forecast would be on budget at year end for this account, with any underspend or overspend being used to fund a greater or lesser portion of the housing capital programme.

Councillor Dundas noted that in respect of the HRA, there had been an underspend of £185,000 on water and utility costs and queried whether this was related to the lack of use of Council offices. He further enquired what resources £177,000 spent on recycling had provided, and sought clarification in relation to the likelihood of recovering £531,000 commercial investment income loss. Darren Brown explained that the HRA underspend was in fact related to the Council's housing stock, and was caused by the timing and profiling of expenditure, as the costs associated with this stock had not been affected by Covid-19 as all the stock was still in use. The recycling resources that had been procured consisted of bags and green boxes that had been distributed to residents. With regard to the commercial properties, it was confirmed that it was not intended to write off any income due from the Council's commercial portfolio, and some of the income loss could be attributed to extensions and holiday periods given in relation to the payment of this income.

Councillor Goacher enquired how the overspend deficit of approximately £9m was being met, and what proportion of this was being met by use of the Council's reserves. Darren conformed that approximately £8m was being received via government funding, and it was intended to use approximately £1.8m from reserve funds. The position was, however, changing on a monthly basis as it was possible to claim some of the Council's income losses back from the government and the position may improved in the future.

Councillor Willetts noted that in a normal year the overspend of approximately £9m would be cause for alarm, but given the transparency that accompanied the expenditure he was satisfied that even if not all the expenditure could be recouped from government, good value for money had been obtained. He questioned what assurances could be given in relation to the accuracy of the figures that were provided in the financial monitoring report, noting that the processes were the subject of internal and external audit. Councillor Pearson reminded the Committee that it was the responsibility of Councillors to ensure that the necessary systems were in place, and this was obtained both through the audit and consideration of figures provided throughout the year, in addition to Officers providing reports to this Committee, Scrutiny Panel, Cabinet and Full Council. Councillor King confirmed that the Council operated under very clear accounting codes and conventions, and offered the Committee his assurance that in his time as Portfolio Holder, he had not seen anything that gave him cause for concern about the accuracy of figures and he further cited the robust internal and external audit procedures in place, noting that substantial assurances were obtained from BDO.

Dan Gascoyne, Chief Operating Officer, addressed the Committee and offered his assurances that the key financial systems and processes were audited annually, in addition to a large amount of scrutiny, both formally and informally, at Officer and Member level.

RESOLVED that the forecast budget overspend of £9.283m on the General Fund before Government funding and the use of reserves be noted.

253. Internal Audit Plan 2021/2022

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The report presented to the Committee set out the Council's normal five year Internal Audit Plan, concentrating on the coming year 2021/2022. The Plan had been thoroughly reviewed by the Council's Senior Management Team, and the Committee were invited to consider the audit areas that would be covered during the course of the Plan, which would be subject to change over the course of the Plan as circumstances changed, together with the functions performed by the Council. It was for this reason that the Committee would be presented every year with the Audit Plan for the forthcoming financial year, so that the planned audit work could be examined in more detail to ensure that the requirements of the Committee were met in terms of giving assurance for the governance arrangements that were in place. The Committee were reminded that Internal Audit would look at areas of governance that would not be picked up by the external auditors. The Committee were advised that the Plan was slightly different to previous Plans that had been presented, and was structured more strategically, with some smaller items of very little financial benefit, such as cashing up at some smaller sites, removed altogether. This work would still be undertaken informally, but would no longer form part of the Audit Plan, as the 275

hours of auditing days per year needed to be focussed towards areas that were key to giving assurances that the organisation was being properly governed. It was intended to perform a management review of how the Covid-19 pandemic had been handled, to include decision making processes and the long term impact of Covid, in addition to the initial response review that had already been carried out. It was proposed to the Committee that light touch audits would be carried out every other year in respect of systems which had achieved a substantial assurance rating in the past and had not changed subsequently, and this was indicated by the notation 'LT' on the Plan. If there was any future change in the system, or if any issues were detected, then full audits would be carried out. Some of the proposed audits included Colchester Borough Homes, as although the company had its own audit programme, it also delivered services on behalf of the Council, and there would also be some joint audits with Colchester Commercial Holdings Ltd (CCHL). The audits carried out on CCHL would not be directly reported to this Committee, but would form part of the CCHL annual report which was presented to the Committee.

Councillor Dundas, welcomed the work that had been programmed in, in relation to information technology and cyber security, but wondered whether it would be more appropriate to look at these areas as a whole, rather than spread out over the coming five years. Hayley confirmed that discussions had taken place with the company that provided internal audit services, and the view was that separate reviews should be carried out in this area, however, when these reviews were carried out, they would also look at the wider environment. Areas like cyber security were mentioned in the Key Risk Register, and it was appropriate to review this individually as it was such an important area, particularly in the light of changing working practices such as working from home.

RESOLVED that the suggested Internal Audit plan for 2021/22, shown in appendix 1 to the report, be agreed.

254. Update on Remote (Digital) Council Meetings

Richard Clifford, Lead Democratic Services Officer attended the meeting to present the report and assist the Committee with its enquiries. The Committee heard that a review of remote meetings had been presented to its meeting in October 2020 which had led to a number of recommendations being made to Cabinet. Decision making meetings had continued to be held remotely, and the Committee's attention was drawn to data from the Council's YouTube channel which showed there had been considerable engagement with meetings, particularly related to some of the more high profile meetings. Following a recommendation from the Committee more flexible voting arrangements had been introduced, with named votes only being taken where necessary for significant decisions or when required to do so, for example at Full Council. Committee Chairs were offered the opportunity to Chair meetings while in a room with Officers physically present to support them, but this had only been taken up in respect of Full Council and a Licensing Sub-Committee hearing. The Leader of

the Council, together with the Group Leaders, had written to the Secretary of State to request that the remote hearing regulations be extended to allow remote working to continue. Notwithstanding this, the current position was that the regulations which allowed remote meetings would expire on 6 May 2021, after which all decision making meetings would need to be held physically. The Committee were advised that there had been significant lobbying of government to attempt to reach a solution, and a claim had been lodged in the High Court on behalf of the groups Lawyers in Local Government and the Association of Democratic Services Officers, and a hearing date was awaited. Officers were carefully considering the position in relation to holding physical meetings, particularly with regard to the upcoming Annual Meeting scheduled for 26 May 2021, and the report set out the position with each of the meeting rooms in the Town Hall. It was considered that the only meeting room that would be large enough to hold most meetings would be the Moot Hall, taking into account the necessary social distancing requirements on spacing and ventilation. However, with regard to the upcoming meeting of Full Council, Officers were of the opinion that even the Moot Hall was not large enough to safely accommodate fifty one Councillors, supporting Officers and members of the public safely with the required social distancing, and therefore alternative venues were being considered, including Charter Hall. The Committee heard that the Moot Hall did not have the necessary audio or visual functionality to enable live streaming of meetings to take place without hiring in additional microphone equipment, which would either mean that the current streaming function would be lost, or meetings would have to revert to being audio streamed only. Work had been carried out with the market leader in broadcasting Council meetings, and if the necessary equipment to enable live streaming was leased over a five year period, the cost to the Council would be approximately £15,000 per annum. Work was also being undertaken with the Council's own Information Technology team to explore the possibility of acquiring a suitable system to support live streaming from the Moot Hall.

Councillor Pearson praised the viewing figures that had been achieved, and expressed his opinion that the previous twelve months had demonstrated what was achievable in terms of making Council meetings more accessible to the residents of Colchester. He commended the Officers for their work in supporting the new ways of working, and expressed his concern that government may not be able to extend the regulations to allow the continuation of remote meetings. He noted that the Council had to be mindful of Members, Officers and members of the public who may have underlying health conditions, and he considered that although £15,000 per annum was not an insignificant sum of money, it may be a worthwhile price to pay to be able to continue providing meetings that were as accessible as possible.

Councillor Goacher suggested that it may be possible to continue to broadcast the meetings live via Zoom, with all Councillors present in the same room broadcasting from their own devices in a similar manner to how meetings were currently being run.

Councillor Dundas explained that he had encountered issues with two people using Zoom to connect to a meeting while in the same house, and he considered that microphone conflict and the resulting feedback issues may make Councillor Goacher's suggestion unworkable. He confirmed that he supported the decision

suggested in the report, and said that his stance on remote meetings had not changed and he would like to see the regulations that allowed remote meetings to take place extended, even if just for a short while. Even if the regulations were not extended, he requested a full review of how all Councils conducted their business in the future, to bring in what had been learned over the past year.

In response to a question from Councillor Dundas, Richard Clifford confirmed that the Annual General Meeting would be scheduled to start at 10.30am. with regard to the points raised around broadcasting a Zoom meeting with all Councillors in the same room, it was confirmed to the Committee that this would require all attendees to wear headphones, and adopt rigid microphone discipline to prevent feedback or unwanted comments being broadcast. It was explained that when such meetings had taken place in the past this had proved very difficult even with a small number of people participating, and to attempt to hold such a meeting with fifty one Councillors present would be extremely challenging.

RESOLVED that the update on remote (digital) meetings be noted, and that:

- (a) arrangements for the Annual Meeting on 26 May be agreed by the Mayor, in consultation with the Group Leaders.
- (b) arrangements for other formal decision-making meetings at the start of the 2021-22 municipal year be agreed by the Leader of the Council, in consultation with the Group Leaders.
- (c) an update report be provided to Full Council in July 2021.
- (d) briefing meetings for Committee Chairs and Group Spokespersons continue to be held remotely.

255. Work Programme

Councillor Pearson introduced the item and offered his heartfelt thanks to all the Officers for their hard work during what he considered would be the most difficult twelve months that the Council was likely to face. He commended the speed with which necessary changes had been made to Council systems to cope with the enforced changes, and he offered his hope that the residents of Colchester were aware of how well the Council had coped with the pandemic over the past twelve months, in a variety of different ways, to keep residents and staff as safe as was possible.