

## GOVERNANCE AND AUDIT COMMITTEE

01 August 2023

*Present:-* Councillor Chris Pearson (Chair)  
Councillor Dave Harris, Councillor Paul Smith,  
Councillor William Sunnucks

*Substitutions:* Councillor Paul Dundas for Councillor Sara Naylor

*Also Present:-* Councillor David King

### **373. Minutes of Previous Meeting**

*RESOLVED* that: the minutes of the meetings held on 28 March 2023 (including the minutes published in Part B of the agenda) and 20 June 2023 be confirmed as an accurate record.

### **374. External Audit Update (from BDO LLP)**

Rachel Britain, Director Public Sector Assurance Team, BDO

Roopal Bakarania, Audit Manager, BDO

The Committee received an update from the Council's appointed auditors, BDO LLP, which included information on the status of the audit for the period ended 31 March 2021, and an indicative timetable for the external audits of the remaining two years under the current audit contract, 2021/22 and 2022/23.

Rachel Britain, Director Public Sector Audit Assurance Team, BDO, attended the meeting and addressed the Committee to provide an update on the status of the Council's 2020/2021 audit. This audit was well progressed in a number of areas, and the final sections of the audit which needed to be completed were set out in the report before the Committee. By the Start of September 2023, the Council had agreed to provide information needed to conclude the audit, and once this information had been received, the audit work would be progressed throughout September. Arrangements would then be made for the final review and sign-off of the audit, hopefully in early October.

At the request of the Committee, further clarification was provided in respect of the individual issues which awaited resolution:

- Infrastructure assets audit procedures were an issue which was common to all Councils, and had resulted in a Statutory Instrument being issued in December 2022 which provided a solution. The Council needed to provide information to allow accounting procedures to be performed on balances within the financial statements. The most important part of this consideration was the useful economic life of Council assets which was an area of estimates which could impact on the depreciation figure used, which could potentially be a material figure in the financial statements. The assessment of the useful economic life of Council assets also had the potential to affect the Minimum Revenue Provision (MRP) of these assets.
- An updated set of financial statements was required before these could be audited, to take account of changes which had occurred since the last set of figures had been provided, together with updated consolidation workings.
- Responses to queries to the Council's Value for Money assessment were also outstanding. The auditors needed to be content that there were arrangements in place, and consider whether there were any significant weaknesses in these arrangements which would need to be included in the audit opinion.

The Committee heard that if simple queries arose from the information which the Council would provide to the auditors, then enough time was available to deal with these, however, more complicated questions which arose could have the effect of impacting the proposed timescale.

In considering any changes which had occurred in the Council's financial position since April 2021, procedures would be followed to determine whether or not any large changes would have an adjusting or un-adjusting impact in the financial statements. This depended on a number of factors.

Andrew Small, S151 Officer, attended the meeting and addressed the Committee. The Committee heard that the issues with local authority audits were well known, and in some cases dated back to accounts from 2015/2016. The government had now recognised that some form of intervention was required to try and resolve the situation. A paper had been published recently setting out proposals to address the position, and it was intended that a set of statutory deadlines would be issued for each set of accounts to be completed by. If the auditors were unable to gain sufficient assurance before these deadlines, then they would have to certify accounts as qualified accounts, outlining the issues which gave rise to the qualification. Although there were some concerns with this approach, the resolution of the backlog of accounts allowing the Council to move forward would be welcomed, with processes implemented to ensure that this situation did not arise again in the future. The proposed solution would not bring an instant resolution to the outstanding accounts as the deadline dates ran through 2024, however, it did represent a step in the right direction.

Following questioning from the Committee, Rachel Britain confirmed that BDO's timetable for dealing with the Councils outstanding statement of accounts was:

- For the 2020/2021 accounts, the Council would provide the information that was needed to conclude the audit by the start of September 2023 and the audit would then be finalised in October 2023.
- For the 2021/2022 and 2022/2023 accounts, it was proposed that a timeline for their completion would be provided by the end of August 2023 which would be in line with the new government proposals.

In response to an enquiry from a Committee member, Rachel Britain confirmed that following issues which had arisen over the preceding couple of years, any Council which had a material infrastructure balance would have had its accounts put on hold whilst an intervention was being decided. This had resulted in a Statutory Instrument coming into force on 25 December 2022, and although additional information had been requested from the Council prior to this date in relation to the useful life of its assets, no further action could have been taken on this information prior to the date of the Statutory Instrument.

A Committee member voiced concern that there had been an apparent delay in providing BDO with the information which had been requested, and noted that any change in the assessment of the useful life of the Council's assets would have a knock-on effect on the MRP of those assets, and therefore the Council's Revenue Budget. Rachel Britain confirmed that in this scenario, the level of materiality would be of importance as the useful economic life of an asset was an estimate used by the Council based on their experts and information. An amendment of the budget would require any change in this valuation to have become a material issue, however, provided the auditors were comfortable with the Council's estimates this was not anticipated to pose a problem.

A Committee member noted that the Council's accounts were incredibly complex, with a significant difference between the statutory and management accounts which were reported to this Committee, had consideration been given to leases at the Northern Gateway development? BDO were unable to provide a detailed response to questions from the Committee at this meeting, however, it was confirmed that various sections of the audit were currently under review and outstanding information was awaited before the necessary resources were committed to complete the audit.

The S151 Officer offered assurance to the Committee that in terms of reserve movements, there were a number of quirks of local authority accounting with certain transactions having to go through the accounts which weren't cash transactions, and which would not show in the revenue account. Some of these transactions were around pensions and the valuation methodology which was used for pension accounting and which could lead to very significant shifts each year in terms of pension valuations.

The Committee requested that a brief update be provided to it via email by the second week of September to confirm whether the audit was on the course which had been suggested.

*RESOLVED* that:

- The contents of the verbal update be noted.
- The Committee to receive an update on the progress of the audit of the Council's 2020/2021 statement of accounts as soon as this was available.

### **375. Verbal update from the Council's S151 Officer with regard to the Council's statement of accounts.**

The Committee received a verbal update from the Council's S151 Officer with regard to the Council's statement of accounts.

Pam Donnelly, Chief Executive of Colchester City Council, attended the meeting and addressed the Committee. When considering the position with the Council's outstanding audits, it was evident that the Council was dealing with an extremely serious matter of a complex and unprecedented nature. Assurance was offered to the committee that this issue was being taken extremely seriously by the S151 Officer and his Deputy, together with Cabinet. There had been delays in the provision of information to the Auditors from the Council and there were a number of reasons for this. It was now the time to look to the future, and it was considered that the Council now had the right resources, skills and leadership in the S151 Officer and his Deputy, who had been diligent in their work. There was now greater clarity about the outstanding information and timeframe, and a clearer framework for the completion of outstanding audits which had been provided by central government. Although there were likely to be further delays with the completion of the outstanding audits, it was essential that the information which was provided was as up to date and transparent as possible, providing the Council with the ability to make quality decisions in the future.

Andrew Small, S151 Officer, attended the meeting and addressed the Committee. There was currently a lot of expectation in relation to clarifying the overall financial position of the Council. Although the introduction of the new S151 Officer and Deputy S151 Officer had introduced a further element of delay into providing this understanding, progress was being made, and the national position could not be understated in terms of the complexity, delay and issues which needed to be resolved. The priority was to reach a point where the Council could be offered reassurance about its financial position at the earliest possible point, but there were no immediate concerns about the Council's financial health. The Council's previous S151 Officer had been very cautious and very prudent. The Committee heard that the 2020/2021 accounts had already been published, but not yet audited, and outstanding information was awaited from the Council before this audit could be finalised, and it was hoped that this work would be concluded in October 2023.

With regard to the statement of accounts for 2021/2022, the Committee was aware that a partial statement of accounts had been published, and work was ongoing to publish a complete set of accounts at the earliest opportunity. This work was somewhat hampered by recent sickness in the Finance Team of key individuals, which would inevitably cause delays. However, technical staff from Epping Forest District Council had been brought in to assist, and an additional experienced new

member of staff had been appointed who was to start immediately. Although it was understood that there was a general desire to receive the published accounts, it was of crucial importance that they were correct and would withstand the challenge that the Committee would provide. It was hoped that completed draft accounts may be available in September 2023.

With regard to the 2022/2023 accounts, a provisional outturn position had been stuck, which appeared to be a balanced position. This added to the assurance that there did not seem to be any fundamental issues with the Council's accounts, however, the completion of the 2021/2022 accounts could potentially have an impact on this position as valuation of assets MRP could be a consideration. Completed draft accounts were likely to be available in October 2023.

The Committee was reassured by the comments made by the S115 Officer, and particularly noted the difficult economic circumstances of the preceding year.

The Committee heard that the Chief Executive fully supported the S151 Officer's determination to proceed with extreme caution. The focused work which the council was undertaking would bring delay, but would allow for greater clarity to be achieved, to support better quality decision making in the future.

In response to questioning from the Committee, the S151 Officer explained that there had been a national issue with the valuation of infrastructure assets of local authorities, which had delayed the production of most Council's statements of accounts. Additionally, there had been a delay in the Council providing information to its auditors, BDO, caused by the handover period after the appointment of the current S151 Officer and Deputy S151 Officer. The Deputy S151 Officer explained to the Committee that the availability of Council and audit resources were rarely perfectly aligned, and this, together with staff sickness in the Council's Finance Team, had also contributed to the delay. There was confidence that the outstanding information would be provided to the auditors in time to allow the processing of this information within the timescale which had been proposed. A dialogue would be maintained with BDO to agree timetables for the completion of the outstanding work, which would allow the efficient management of the necessary resources. There was a renewed desire to progress this work from all parties.

Committee member enquired whether the estimate of the Council's asset values had a material impact on the Council's ability to deliver key services, or whether these estimates were predominantly necessary as part of accounting practice. It was noted that other Council's which had experienced severe financial difficulties in recent months, had encountered problems with their capital budgets and MRP impacting on revenue budgets to the extent that services were unable to be provided. The Council had a relatively high capital to revenue budget ratio, and it was considered that the MRP of capital projects could be considered in more detail in the future with a breakdown of how the figure was derived.

The Chair of the Committee noted the need to raise awareness of local authority finances, not just within the Committee but across the whole council. Discussions had taken place on this subject with the Council's Chief Executive and S151 Officer,

and suitable training would be arranged which would answer the types of queries which the Committee was raising.

The Chief Executive confirmed to the Committee that the valuation of the Council's assets was of critical importance, and had been part of the action plan recommended by a recent Peer Review the Council had undertaken. Progress in this regard had been described as 'impressive' by the Peer Review Team when they had re-visited the Council recently. The Chartered Institute of Public Finance and Accountancy (CIPFA) had been engaged by the Council to conduct a wholesale review of Council assets, and a briefing for all Councillors was to be provided shortly. This work would form the basis of an extremely detailed evaluation of the Council's assets and the associated appraisals which needed to take place. Cabinet would then be able to take decisions about the future size of the Capital Programme, and the affordability of any projects.

The Deputy S151 Officer assured the Committee that the transparency of the MRP of Council assets was something which was currently being considered carefully, and he looked forward to presenting on this topic to the Committee in the future.

Councillor King reminded the Committee that the national challenge, and the challenge posed by the Council's particular auditor, was the largest part of the issues which were currently being faced in terms of obtaining audited statements of account. He assured the Committee that Cabinet was completely committed to the detailed investigative approach which had been outlined by both the Chief Executive and the S151 Officer during the meeting. This approach was necessary to obtain the absolute assurance that was needed, and he was pleased to hear that nothing in the accounts which had been seen by the S151 Officer had given any cause for concern. It was recognised that the Council needed to ensure that there was greater understanding of its financial procedures and position by all Councillors and the public around key financial issues, whether or not they had an accountancy background.

The Committee heard that the Chief Executive was fully supported by the Leader and Cabinet in undertaking the painstaking work which was required to resolve the financial challenge which the Council faced. A recruitment freeze was in place to ensure that there was momentum around the drive to deliver the £500,000 of staff savings which were required in the current financial year, and the Chief Executive was required to personally approve the filling of any vacancy.

Although it was recognised that an increasing number of Councillor briefings were being scheduled by Officers, a Committee member noted that an upcoming CIPFA briefing clashed with a Colchester Borough Homes (CBH) Board meeting, and requested that more be done to avoid such clashes in the future. The work programme of the Committee was considered, and it was suggested that more meetings were needed to ensure that all items which the Committee was required to consider could be accommodated.

In response to an enquiry from a member of the Committee, the S151 Officer confirmed that the wellbeing of the Council's Finance Team was being carefully

considered, and it was important that staff felt supported and had the capacity to carry out the required work. The staff sickness which had previously been mentioned was not related to any work issues, and the shared service arrangement which the Council had entered into provided greater resilience and capacity. The Committee was assured that the Chief Executive was very concerned about the wellbeing of all staff, and considered that the Council's utilisation of shared services would help to provide the needed support and resilience.

In discussion, the Committee noted the positive work with regard to understanding the Council's financial position which had been undertaken by the Chief Executive and the S151 Officer, however, it was clear that there had been a serious breakdown in the audit process in the past. A Committee member considered that it was now necessary to ask probing questions and for the Committee to consider the Council's accounts in significant detail to ensure that the Council's reserve position in particular was fully understood and transparent. He believed that the Council should stop blaming its audit issues on national problems and now take action to resolve any outstanding work. The ongoing work to understand the Council's financial position should be thorough and take the time necessary to achieve a complete understanding of the position, together with dealing with any problems which were discovered. The Deputy S151 Officer advised the Committee that the Code of Practice on Local Authority Accounting was highly prescriptive on the activity that could be taken in respect of the Council's reserves, however, it was considered that there were some limited opportunities available to simplify the way in which the Council's reserves were dealt with.

*RESOLVED* that: the contents of the update be noted.

### **376. 2022/2023 Year End Review of Risk Management**

The Committee considered a report providing members with an overview of the Council's risk management activity undertaken during the financial year from 01 April 2022 to 31 March 2023.

Hayley McGrath, Corporate Governance Manager, attended the meeting to introduce the report and assist the Committee with its enquiries. During the course of the municipal year, the Committee received 2 reports relating to risk management, a mid-year report and an end of year report. The report which was before it was the end of year report, which focussed on 3 key areas:

1. The Council's Risk Management Strategy
2. Work which had been undertaken during the financial year 2022/2023
3. The Council's current Strategic Risk Register

The Committee heard that it was good practice that it was presented with the Council's Risk Management Strategy once a year, to ensure that the Strategy provided the assurance that the Council's risks were managed appropriately. No significant changes had been made to the Strategy for 2023/2024, save for minor

changes to update job titles of staff. The Strategy was approved by the Council's internal auditors each year and had received a 'reasonable' assurance level.

There had been a couple of significant areas of work in the preceding financial year, due to the results of the Council's Peer Review Challenge, and the subsequent review of the Council's wholly owned companies. Work had been undertaken to examine the governance arrangements and risk processes of the Council's companies, Colchester Borough Homes (CBH) and Colchester Commercial (Holdings) Ltd (CCHL).

The presence of an interim Health and Safety Manager during the year had afforded the opportunity to implement a system of managing health and safety risks to provide assurance to managers across the organisation. The programme was comprehensive and was being implemented across all the Council's services. The Committee would receive a more detailed report on this work later on in the municipal year.

Additionally, the Corporate Governance Manager had been working with the Council's joint committees, the North Essex Parking Partnership (NEPP) and the Colchester and Ipswich Museum Service (CIMS), to provide their Committees and Boards support with managing their own internal risk management processes and governance arrangements.

The Strategic Risk Register which was presented to the Committee had a revised format, and a lot of work had taken place with the Council's Senior Leadership Board (SLB) to carry out a detailed, honest and robust review of the risks which the organisation faced. As a result of this review, the contents of the Register had been amended, and the risks related to the 6 outcomes of the Council's Strategic Plan to provide assurance from a corporate governance point of view across the organisation that the Council's objectives would continue to be met. Fewer risks were contained in the Register than before, as the decision had been taken to focus on the risks which it was considered would present the greatest challenge to the authority. SLB had been very honest about the risks that the Council faced, and a key risk had been identified as organisational resilience.

The Committee was asked to agree the proposed Risk Management Strategy in order that it could be presented to Cabinet for approval before being presented to Full Council for inclusion in the Council's Policy Framework.

The Committee noted the number of high priority risks which had been identified, and considered that this demonstrated a high level of transparency, and was to be applauded.

The Committee discussed the critical importance of the Council's staff, and wondered how best to ensure that staff were able to provide honest feedback about the stresses that they faced. It was noted that surveys and morale monitoring had taken place, and particular praise was reserved for the Council's Employment and Financial Inclusion team who were carrying out excellent work in difficult circumstances. Pam Donnelly, Chief Executive of the Council, addressed the Committee and confirmed that in her opinion the levels of honesty which staff felt



empowered to express had risen. There had recently been a significant level of staff engagement from the whole SLB, including webinars and regular monthly sessions with the Chief Executive based on the principles of 'listen, learn, lead'. Any member of staff was afforded the opportunity to raise any concerns with the Chief Executive in a totally confidential environment, and these sessions had been very well attended. The wellbeing and resilience of Council staff was of key importance at all levels of the Council.

It was noted by a member of the Committee that the Budget Strategy Risk contained a referenced to a S.114 notice, and considered that this could cause concern among the public that the Council may be in danger of having to serve this Notice, when in reality there was no danger of this at the present time. It was suggested that as soon as the revenue outturn reports for quarter 1 were available, then these should be shared with the Committee, which had a duty of oversight to ensure that the Council was delivering on its ambitious savings plans. Chris Hartgrove, Deputy S151 Officer, confirmed to the Committee that the quarter 1 figures would be presented to it at its' meeting in September. It was noted that Risk 'J' in the Register related to delays in the Council's Capital Programme, which was listed as a medium risk. Given that delays had already occurred, should this risk not be at a more elevated level? The Corporate Governance Manager was happy to discuss the points which had been raised with the Council's SLBHM to take this back to SLB, and explained that the Risk Register was currently being reviewed on a monthly basis to allow the very fluid economic situation to be kept under constant review. It was the purpose of the Register to list the worst possible outcomes from a given risk, and this was the only reason that a S114 Notice had been included in it.

In response to a comment from a Committee member who noted that the Strategy made reference to the Council taking more risks, the Corporate Governance Manager said that an example of this was the current Turnstone Development, and the fact that the Council was an innovative authority which gave rise to potentially greater risk exposure. Although there was no mention of the Council's risk appetite in the Strategy, this appetite had been assessed and could be added to the Strategy in the future if this was appropriate.

In discussion, it was noted that the Committee had considered the Council's financial statements, together with their production and the potential for qualified statements, and these issues were not mentioned in the Risk Register. Had they been considered and had their omission been a conscious decision? The Council's S151 Officer considered that the risk around the Council's financial statements was adequately covered within the Council's Risk Register under the Budget Strategy in section B of the Register.

A Committee member wondered what the large, unforeseen, catastrophic events were which could have a significant impact on the Council? The Corporate Governance Manager confirmed that such events would be considered by Cabinet, SLB and the Leader to consider, and there were a range of issues which could cause unexpected problems for the Council. Consideration would be given to mentioning such events in the Register in the future. Big issues which could disrupt

the council's services were considered and included in the Council's Business Continuity Plans which were approved by this Committee annually.

The Chief Executive considered that in general terms the Council was facing more risks at the current time than it had in the past. These risks included the level of savings which the Council was required to make, the new approach which was being taken to the leadership of Council staff, and the resizing of the workforce which was taking place. A Committee member pointed out that staffing levels were currently at their highest number over the last 5 years, however, noted that the full time equivalent (FTE) in staffing was considerably lower, which was a deliberate choice of the organisation. It was suggested that the Council should take note of this when thinking about or discussing recruitment. The Chief Executive confirmed that the organisation had made a choice to offer more flexible working for staff, and it was considered that there were three key benefits to this choice:

1. Allowing groups into the workforce who may previously have been excluded such as working parents.
2. If the Council were to adopt a more fixed employment model this would not recognise the significant improvements which had been made in retention and productivity.
3. The Council's approach encouraged a wider recruitment market, both geographically and in terms of the skillsets which the Council was able to attract.

Ultimately, the outcome of the Council's policy was a richer, more diverse workforce which better mirrored the community that the Council served.

Councillor King, The Leader of the Council and Portfolio Holder for Strategy, attended the meeting and offered the Committee his assurance that the approach being taken by the Council with regard to risk management was one which was balanced and given weight which was appropriate to the fluctuating circumstances the Council found itself in. He considered that it was important to understand the FTE number of staffing, and suggested that the flexibility which the Council was able to offer to its employees was part of a desirable employment package which supported recruiting and retaining the staff who could best deliver the Council's aims and objectives, while continuing to support the savings which had to be made.

In discussion, the Committee noted the high levels of interrelationship between elements of the Risk Register, considering that the impact of continued economic hardship could have a knock-on effect on the provision of social housing, for example. Could this be reflected in the Register in some way? It was considered that when setting the budget in the future years, it was essential that the Council didn't try to deliver the same level of service with fewer staff, as this would not lead to a healthy organisation. A Committee member praised the layout and content of the Register, but wondered whether the Council's Project Risk Register should also be considered by the Committee, as some of the Council's projects were large in scope and had the potential seriously impact the Register. The Corporate Governance Manager would discuss this suggestion with the Council's SLB to determine how best to reflect the project risks within the Strategic Risk Register.

The Committee considered whether or not it was appropriate for the risks which were posed to the Council by its wholly owned companies CBC and CCHL to be included on the Strategic Risk Register. The Corporate Governance Manager explained that each of the companies would bring their own Risk Registers to the Committee for scrutiny at the appropriate time. Although the failure of the companies did pose a risk to the Council, in strategic terms, such a failure would potentially have broader consequences on the Council's service delivery. The Chief Executive did consider that when considering risks which were contingent risks, there was now a strong case that these be included in the Council's Strategic Risk Register as the interdependence of the Council and its' companies was highlighted more strongly than ever before.

*RESOLVED* that: The submission of the Corporate Governance Manger's report to Cabinet to approve the Risk Management Strategy for 2023/2024 be endorsed.

### **377. Work Programme**

The Committee considered its work programme for 2023-24.

The Committee had requested that additional meetings be scheduled in December, and work was underway to organise this. The Committee had suggested that the suite of Ethical Governance Policies which were due to be considered at its meeting in November could be moved into December, but this would have the effect that Full Council would be requested to endorse them in February, which was the budget meeting. Work was ongoing to find the best way to bring these reports to the Committee, together with scheduling a further additional meeting in February 2024.

In response to a question from a member of the Committee, Pam Donnelly, Chief Executive, confirmed that it was very unlikely that a full review of the Council's Capital Programme would be ready to present to the Committee in September 2023, and consideration would be given to presenting the Committee with a specific illustrative example of the project review work which was being undertaken.

The Chair of the Committee would speak with the S151 Officer to discuss a suitable time to bring the statement of accounts to the Committee for consideration. A member of the Committee believed that consideration of the draft accounts was important, even if such consideration took place by way of an exempt from publication item.

In discussion, the Committee wondered whether it was necessary for reports on Colchester Commercial (Holdings) Ltd to be presented to the Committee in both November and January.

*RESOLVED* that:

- the contents of the report be noted.
- Consideration be given to how best to allow the Committee to scrutinise the Council's statement of accounts.