

GOVERNANCE AND AUDIT COMMITTEE

20 June 2023

Present:- Councillor Chris Pearson (Chair)
Councillor Dave Harris, Councillor Alison Jay, Councillor Sara Naylor, Councillor Paul Smith,
Councillor William Sunnucks

Substitutions: Councillor Paul Dundas for Councillor Rhys Smithson

Also Present:- Councillor David King

369. Minutes of Previous Meeting

RESOLVED that: the minutes of the meetings held on 7 March 2023, 13 March 2023, 30 March 2023 and 24 May 2023 be confirmed as an accurate record.

370. Head of Internal Audit Annual Report 2022/2023

The Committee considered a report summarising the findings of the Internal Audit function for the financial year 2022/2023.

Hayley McGrath, Corporate Governance Manager, attended the meeting to introduce the report and assist the Committee with its enquiries. Internal Audit was reported to the Committee twice a year, and the Head of Internal Audit Report was put together for the Council by its internal auditors, TIAA.

The Report demonstrated that the Council had an effective internal audit service during the financial year 2022/2023, with 18 audits having been completed during this time. Of these audits, 6 had received a 'substantial' assurance rating, compared to 12 in the previous year. no 'limited assurance' rating had been received, compared to 2 in the previous year, and 1 urgent recommendation had been made, compared to 3 the previous year. The reduction in the number of 'substantial' assurance ratings which had been received was not a cause for concern as it simply meant that some areas for improvement had been identified as the result of thorough audits. Audit days which had been unused had been carried forward to the current financial year, and a programme of audits in relation to the Council's Information and Communication Technology (ICT) function had been agreed. Audit days were also available for use by Colchester Commercial (Holdings) Ltd (CCHL) to use on their own audits, and these audits were reported to the CCHL Board first, providing an

opportunity to address any issues which had been raised before raising these with the Council. An audit programme had been put together for the current financial year to assess the systems and processes which were in place. The results of these audits would be reported initially to the CCHL Board, but would then also be presented to this Committee.

The Committee noted the positive tone of the Report, with no 'limited assurance' or 'no assurance' ratings having been received. An area of concern which was raised, however, was the performance of the Council's Capital Expenditure Budget, and a Committee member enquired whether there had been any in-depth analysis of the controls and performance which related to this. The Corporate Governance Manager confirmed that internal audits were carried out in accordance with a rolling 5 year programme, and that the Council's Capital Projects were included within this. The Committee heard that it was recognised that during the 5 year programme, the structure of the Council may change, and an update of the internal audit plan for the forthcoming financial year was presented to the Committee each year. The Committee heard that the Council's Capital Programme was currently the subject of a full internal review, and it would be appropriate to carry out an audit after this review had been completed to ensure that any issues which had been identified in the review were addressed. It was possible to schedule additional audits throughout the year if any areas of concern had been identified by Councillors, and such input from Councillors was always welcomed and acted upon.

Councillor King, Leader of the Council, attended the meeting and, with the permission of the Chair, addressed the Committee. The Leader recognised the importance of robust review of both capital and revenue expenditure during the year. Work on the current review of the Council's Capital Programme had almost been completed, but the final results were not yet known and these would be shared with both Cabinet and the Committee as soon as possible.

In response to a question from a member of the Committee, the Corporate Governance Manager confirmed that a new ICT Manger had been appointed who would now be ensuring that relevant audits were conducted. Fiona Roe of TIAA advised the Committee that ICT audits were in the process of being scheduled, and an update would be provided to the Committee on this work in the future.

In discussion, the Committee wondered what work the carbon reduction audit had involved, and what the scope of this audit had been? Fiona Roe of TIAA confirmed that a carbon maturity assessment had been carried out and consideration had been given to whether or not the Council had a Carbon Reduction Plan setting out the arrangements around this, including risk and governance. It had been recommended that a further audit should take place within the next couple of years to monitor progress against the Council's stated aims. The terms of the audit had been to review implemented processes and plans in place to achieving carbon neutrality by 2023, and improving on the 40% reduction in its carbon footprint that the Council had made since 2008.

A Committee member noted that the absence of a manager for some service areas of the Council had delayed carrying out of some internal audits, but considered that

these periods represented the highest risk periods for a service. With regard to the collection of S.106 monies from developers, was the Council applying policies equally to all developers, or was there a potential that full advantage was not being taken of this funding? The Corporate Governance Manager confirmed that a detailed review of S.106 money could be scheduled for future audits, and explained that the audit which had been carried out in the preceding year had been related to spend in a particular ward. The next audit for Planning and Development was due to be carried out in 2025/2026, and this would include consideration of S106 money. The Committee heard that risks which were contained in the Council's Risk Register, together with the Annual Governance Statement, were considered when putting together the audit programme for any given financial year, and particular concerns were used to inform the use of internal audit days and the Audit Plan. The Committee was invite to make suggestions and comments in relation to this on an annual basis.

RESOLVED that:

- The Head of Internal Audit Annual Report 2022/23 had been reviewed and commented on.

371. Review of the Governance Framework and Draft Annual Governance Statement

The Committee considered a report setting out the Council's duty to produce an Annual Governance Statement (AGS), that reviewed the effectiveness of the Council's internal control systems for the 2022/2023 financial year, which was required for the 2022/2023 Statement of Accounts.

Hayley McGrath, Corporate Governance Manager, attended the meeting to introduce the report and assist the Committee with its enquiries. The report was set out in a format determined by the Chartered Institute of Public Finance and Accountancy (CIPFA), and as part of the review process, the Council's most senior staff were interviewed and the policies and procedures which were in place as part of the Council's Policy Framework were scrutinised. The Council's joint services were also considered, including the North Essex Parking Partnership and the Colchester and Ipswich Museum Service, as well as the Council's wholly owned subsidiary companies, Colchester Commercial (Holdings) Ltd, and Colchester Borough Homes. The North Essex Parking Partnership (NEPP) and the Colchester and Ipswich Museum Service (CIMS) were not included as part of the report presented to the Committee, as these bodies had their own Committees which received their own governance reports. If areas of concern had been identified, however, then these would be included in the report which was presented to the Governance and Audit Committee. The reports which would be presented to the Boards of NEPP and CIMS could be presented to the Governance and Audit Committee for their information in the future.

Part of the process of putting together the AGS was to produce an Action Plan detailing areas of control which it was felt could be improved, and the steps which would be taken to make necessary improvements, and to monitor the progress of these. In the 2021/2022 AGS, 3 items for improvement had been identified which had been monitored during the year 2022/2023 and these were procurement, external audit implications, and the governance of the Council's wholly owned subsidiary companies. If the Committee was satisfied that the issues which had been identified in the Statement accurately identified those issues which were facing the Council, the Statement would be signed by the Leader the Council and the Chief Executive to confirm that they were committed to managing these issues.

The draft AGS had identified 4 areas of potential concern, and unusually 2 of these areas had been carried forward from the preceding year due to the seriousness of the issues:

1. Implementation of the Colchester Borough Homes Independent Review Recommendations
2. The CIPFA Financial Management Code
3. External Audit Implications – Carried forward from 2021/22
4. Company Governance – Carried forward from 2021/22

Updates on the progress of the actions identified in the AGS would be presented to the Committee throughout the course of the forthcoming municipal year to provide the Committee with assurance that the issues which had been identified were being continually monitored.

With regard to the delays in the external audit, the Chair of the Committee noted that such delays were being experienced by Councils nationwide, and that delays in the production of the Council's audited statements of account had been noted in the years preceding 2021/2022.

A Committee member noted that 8 key recommendations had been made as a result of the independent Peer Review which had been undertaken recently, and that 2 of these recommendations in relation to CBH and CCHL had been carried through into the Action Plan, and it was suggested that other recommendations which had been made warranted further scrutiny. How was it proposed to measure the benefit to Colchester which had been generated by the granting of city status? Although the judgement of any benefit which had been granted was potentially a subjective one, residents were nonetheless keen to know what material advantages had been conferred by the new status. Additionally, it was considered that the current review of the Council's Capital Programme could merit inclusion in the final conclusion, as it was of equal merit to the reviews of the Council's wholly owned subsidiary companies. As hybrid working had only been in effect for a relatively short period of time, was it also appropriate for the effectiveness of this new way of working to be subject to greater analysis?

The Corporate Governance Manager advised the Committee that the issues of city status and hybrid working were still new areas for the Council to understand, and as such were more appropriate to be considered as part of the Internal Audit

Programme in the future once there had been an opportunity to collect relevant data for analysis. In respect of the suggestion that the Council's Capital Programme be included, Councillor King, Leader of the Council, confirmed that he would have no issue with this being included in the final conclusion, subject to the agreement of the Chief Executive, the Committee accordingly considered that the inclusion of the Capital Programme as an issue for future monitoring was appropriate.

A Committee member requested that, if possible, a copy of the CIPFA Financial Management Code be circulated to the Committee, and additionally sought clarification on the role of the S.151 Officer and the responsibilities of Officers within the Finance Team. The Corporate Governance Manager explained that the S.151 Officer and the Strategic Finance Manager were the same person, and from the current financial year the Council's Director of Finance and S.151 Officer was a role that was shared with Epping Forest District Council, and this role replaced that of the Strategic Finance Manager.

A Committee member noted the blame for the delays in providing audited statements of account had been placed with the Council's external auditors, and although blame for the delays should certainly be apportioned to them, it was considered that the Council must now do more than simply voice its displeasure at the situation. It was suggested that one way forward could be to employ a different firm to carry out the necessary audit work, and then re-charge the Council's current external auditors, BDO, for this work. It was noted that one of the key responsibilities of the Governance and Audit Committee was to scrutinise the Council's accounts, and this work had not even been included on the work programme of the Committee. It was imperative that the Council now took responsibility for its position and initiated action to resolve the situation and publish properly audited accounts, without which the Governance and Audit Committee could not do its job properly. The Council's accounts were extremely complicated, and while this would make it more difficult for an auditor to sign them off, it also emphasised the high importance of the audit process being completed.

The Corporate Governance manager acknowledged the issues which the delay in publication of audited accounts was causing the Council, and would refer the comments of the Committee to the Council's S.151 Officer to request their input and update on the issues. The Leader of the Council endorsed this approach, and acknowledged the depth of experience that the Council's S.151 Officer and Deputy S.151 Officer would bring to their roles. It was essential that the Council obtained a fundamental assurance about the robustness of its finances, against the risks and commitments which it had, and the S.151 Officer would provide this opinion as soon as possible. The Committee was assured that while other local authorities had experienced well-publicised and catastrophic financial difficulties, nothing whatsoever indicated that the Council was in that kind of position.

A Committee member considered that the issues which had been experienced nationally with local authority audits were evidence that the public sector audit system itself was fundamentally flawed, and thought that the replacement of the Audit Commission with private companies was a contributor to this.

Summarising the discussion, the Chair confirmed the desire of the Committee to receive an update from the Council's S.151 Officer in respect of the 2021/2022 accounts. It was requested that the results of the NEPP and CIMS audits should be presented to the Committee in the future, and that the Council's Capital Programme be included in the Conclusion and Significant Governance issues identified in the AGS.

RESOLVED that:

- The Annual Governance Statement for 2022/2023 be approved subject to the addition of Colchester City Council's Capital Programme to the Conclusion and Significant Governance issues in the Statement.
- The results of the North Essex Parking Partnership and the Colchester and Ipswich Museums Service internal audits be presented to the Committee at a future meeting.
- The review of the Council's compliance with the seven principles of good governance (CIPFA International Framework: Good Governance in the Public Sector 2016) including the review of effectiveness of the internal control arrangements, had been considered and noted.

372. Work Programme

The Committee considered its work programme for 2023-24.

The Committee noted that both Colchester Commercial (Holdings) Ltd (CCHL) and Colchester Borough Homes (CBH) were currently being reviewed, with the review of CBH being at a more advanced stage. It was suggested that as soon as the review of CBH had been completed, that this should be presented to the Committee, and that CCHL should be the subject of quarterly scrutiny by this Committee. The frequency of these reviews could be considered at the end of the current municipal year.

The Committee requested that the Council's S.151 Officer be requested to attend at the meeting scheduled for July 2023 to enable the Committee to consider 2021/2022 unaudited accounts which had been published.

The Chair of the Committee noted that he was away at the end of July, and had accordingly requested that consideration was given to moving the meeting scheduled for 25 July 2023 into the first week of August 2023.

The Committee noted the volume of reports which were expected to be presented to its November 2023 meeting, and Officers were requested to give consideration to scheduling an extra meeting to enable these reports to be divided across 2 meetings.

RESOLVED that:

- the contents of the report be noted.

- Consideration be given to re-scheduling the meeting of the Governance and Audit Committee which had been scheduled for 25 July 2023.
- Consideration be given to scheduling an additional meeting of the Committee in December 2023 to allow items relating to the Council's Ethical Governance Policies which were due to be considered by the Committee in November 2023 to be considered.