

## Audit & Governance Committee

Meeting of held on Thursday, 20 July 2023 at 6.30 pm in 1.01 & 1.02, 1st Floor, Bernard Weatherill House

### MINUTES

**Present:** Dr Olu Olasode (independent Chair);  
Councillor Matt Griffiths (Vice-Chair);  
Councillor Claire Bonham, Simon Brew, Enid Mollyneaux,  
Nikhil Sherine Thampi and Sean Fitzsimons

**Also Present:** Councillor Mark Johnson

**Apologies:** Councillor Endri Llabuti

### PART A

1/22 **Disclosure of Interests**

There were no disclosures of interest.

2/22 **Minutes of the Previous Meeting**

The Committee approved the minutes of the meeting on 20 April 2023 as an accurate record.

3/22 **Audit and Governance Committee Action Log 2022-23**

The Committee requested completed items to be removed from the Action log and noted RAG reporting would be included in the revised Annual Governance Statement reporting to Committee in Autumn.

4/22 **Urgent Business (if any)**

There were no items of urgent business.

5/22 **Update from the Chair of the Scrutiny & Overview Committee**

Cllr Rowenna Davis, Chair of the Scrutiny and Overview Committee thanked the Chair of the Audit and Governance Committee for their support and described the distinct and complementary roles of the Scrutiny and Audit and Governance Committees. Scrutiny's priorities were public money, public services and public voice. Scrutiny received the Council's monthly budget monitoring report as a standing agenda item

and the planned deep dive on contract procurement was suggested as an area on which the two committees could work together. The Scrutiny Sub-Committees (Homes, Children & Young People, Streets & Environment) had individual agendas but overall alignment to priorities. Due to the £36 million in savings required by the Council, the Sub-Committees would focus on how the cuts were conducted safely, whilst meeting the Council's statutory obligations to the most vulnerable and conduct deep dives into transformation projects in their areas of focus.

The Centre for Governance and Scrutiny (CfGS) guidance on best working practice for the two committees included the importance of ensuring no duplication of work and recognising opportunities for cross-committee referral. Cllr Davis advised of Scrutiny's interest in the Committee's upcoming financial outturn reports and the update on cultural transformation programme. The risk deep dives could also help inform Scrutiny's work. The ongoing working relationship between the Chair's along with engagement between all committee members would be important to ensure the recovery and improvements required for Croydon.

The Committee advised of its ongoing interest in cultural improvements and suggested this could be an area where both the assurance and reasons behind it could be considered by both Committees. Cllr Davis welcomed this use of the different perspectives, noting the challenge of measuring improvements in this area. There was an opportunity for sharing from the cultural transformation report and the updated people strategy which would be received by Scrutiny.

In response to questions Cllr Davis agreed that Value for Money would be important to ensure, particularly due to the latest increase in Council tax.

In response to questions Cllr Davis advised Scrutiny had support from two Democratic Services officers but was not as well-resourced as elsewhere. There had been discussion about an additional Scrutiny officer, but this had not been forthcoming yet. Communications support had also been requested; this was progressing slowly. Community engagement resource was needed, and the Council had no officer dedicated to this at present. Officers agreed to take these issues to the CMT, and the Committee would receive updates on the resourcing of the Scrutiny function via the Chairs' regular catch-up.

The CfGS and CIPFA guidance stated audit committees should not take on other responsibilities such as governance. Whether Croydon should move to follow this recommended practice was queried by the Committee. The Independent Chair advised in Croydon's situation and following the restructure of the Committee, governance had been identified as a gap and was therefore included in its remit. Grant Thornton advised Audit Committees worked in many ways and they would be most uncomfortable if an Audit Committee was becoming a Finance Committee.

The Committee queried whether Scrutiny had any best practice for sharing information effectively. Councillor Davis advised that learning had been conducted around this, which resulted in arranging a Chairs and Vice Chairs Away Day and having WhatsApp groups for member communication. Champions for focus areas within each committee e.g. resident voice, were being implemented and it was important to hold pre-meetings.

The Committee noted it was encouraged by the positive comments regarding risk management work in the ministerial statement and queried how the Committee could be assured Scrutiny would be supporting the housing improvements. Cllr Davis would be attending Scrutiny Homes Sub-Committees in her capacity as the chair of the Scrutiny and Overview Committee and had worked closely with the Chair of the Scrutiny Homes Sub-Committee and received all the relevant briefings.

The Committee thanked Councillor Davis for her time and presentation.

The Committee RESOLVED to:

1. Note the update provided by the Chair of the Scrutiny and Overview Committee.
2. Note the guidance from the Centre for Governance & Scrutiny – Audit Committees and Scrutiny Committees: Working Together

6/22

## **Financial Accounts 2019-20**

Jane West, Section 151 Officer and Ian Geary, Head of Finance, Corporate and Treasury Management introduced the 2019-20 unaudited accounts and accompanying report to the Committee. The accounts were an updated version of those published on the council website and a there had been a significant step forward in tackling Croydon's accounts backlog. These had been signed off by the S151 Officer and the final audited accounts were expected at the October Committee meeting. Due to the contention of the accounts, this version had been brought to the Committee for an initial review to help ensure Committee members understood the complexities and the opportunity to work through any issues. Officers offered support via workshops or one-to-one meetings.

Officers explained the most significant change was in the accounting of Croydon Affordable Homes (CAH) and Croydon Affordable Tenures (CAT). The Council had reviewed its judgement of the leases which were no longer being considered finance leases, meaning the Council owned the properties. Under the previous approach the properties were written out of the accounts and disposed of, generating a £75 million capital receipt. £73 million of this had been allocated to transformation expenditure within the general fund account. With this capital receipt no longer existed, so there was a £73 million shortfall which had been closed using a capitalisation direction from central government.

The amended accounts were now more aligned to the External Auditor's position. Sarah Ironmonger, from Grant Thornton, the council's external auditor, noted the complexity of resolving the issues, the progress which had now been made and the intention to begin auditing. Councillor Jason Cummings, Cabinet Member for Finance commented on the significance of these accounts being brought to the Committee and expected this set would be the most difficult to complete retrospectively. He thanked finance colleagues and the external auditors for their work to reach this position of agreement. The need for thorough and early understanding of how financial decisions would be accounted for in the future had been the biggest lesson learned. The Committee also noted the importance of the Finance team now having the requisite capabilities and resourcing.

The Committee noted the planned introduction of the International Financial Reporting Standards 16 (IFRS 16) lease accounting standard and the need to prepare for this. Implementation had been delayed for Local Government and there had been issues and delays to accounts during NHS implementation, which generally had more straightforward lease arrangements. Once the timeline for implementation was known, this would need to be an area of focus for the Committee.

The Committee asked if engagement with the external auditors could happen earlier in projects with financial risk implications and if accounting treatment errors arose, if engagement could happen more quickly. Grant Thornton noted the difficulty in understanding the rationale for decisions when errors were uncovered retrospectively, and officers had not been involved in the scheme setup. If the Council was evaluating whether to take an action, particularly if innovative or usual, it was paramount to have financial accounting advice in place at the early stages.

In response to questions officers advised the decisions made and subsequent issues regarding CAH / CAT had stemmed from the Council taking advice from those selling the product, without seeking independent advice. The importance of having independent legal and financial advice when making such decisions to ensure the model would work in practice was noted. Officers assured the Committee this approach was now being applied and independent advice could be seen in commercial decisions presented to Cabinet.

The Committee queried the council's risk reporting practices to Members and Cabinet and lessons learned, particularly around the identification and treatment of high impact risks. Grant Thornton noted the importance of Scrutiny in examining decisions and asking officers to explain proposals.

The Committee congratulated officers on the quality of the narrative provided within the report. In response to questions officers advised the external auditor's intervention focussed the council's attention on the

issues. Grant Thornton advised there had been plans to extend the scheme and the intervention had prevented this. The Committee would focus on the auditor's findings when the accounts were brought to Committee in the Autumn.

The Committee queried whether the Finance team was now adequately resourced. Officers advised the approach was to ensure enough resource was available to conduct the work required, to ensure officers asked for additional support as required and for this to be included in project costs.

The Committee RESOLVED to:

Note the updated 2019-20 unaudited Statement of Accounts attached as Appendix 1.

7/22

### **2018/19 Energy Recharges Recommendation Progress Report**

Allister Bannin, Deputy S151 Officer provided an overview of the report to the Committee.

The Committee noted the benefit of a strong internal audit function initially raising these issues. Councillor Jason Cummings commented that this was indication of the improvements being made within finance and the need for specific resourcing to support historic pieces of work. There had been conversations about the long-term structure of the finance team, and this would be reflected in the budget setting and Medium Term Financial Strategy (MTFS) going forward.

The Committee queried when it would receive assurance around the long-term resourcing and strength of the Finance team. Officers advised the restructure work was underway and interim staff would continue to support during this process. The final team was likely to be in place early in 2024, following internal recruitment which would leave gaps due to current vacancies, and then external recruitment. The quality of the current team was noted; however the intention was to move to having permanent staff and to develop trainees which would take time. Due to the improvement requirements, a higher level of resourcing would be requested in the coming years with the understanding this may be reviewed to lower base level in the future.

The Committee raised concerns about the absence of financial details in the Financial Implications section of the report and queried the amount of outstanding billing. Officers advised the work was ongoing and therefore an exact figure could not be given, the Council had received more than £250,000 so far. Officers agreed to include the monetary values in future reporting this financial year.

The Committee RESOLVED to:

Note the actions taken to date to address the recommendations of the 2018/19 Energy Recharges Internal Audit Report carried out by Mazars in June 2019.

8/22

### **External Audit Fees Update 2019-20**

Jane West, S151 Officer introduced the report for the Committee. It was a requirement of the Public Sector Audit Appointments (PSAA) process and an opportunity for the Committee to have sight of the scale of the fees. The Council had earmarked reserves which would fund this one-off rise.

In response to questions the representative from Grant Thornton confirmed they expected the future costs would return to circa £200,000, whilst noting that each year would have particular risks and these would be brought to the Committee in an audit plan. PSAA conducted a review process of external audits to ensure the work was completed. Officers reminded the Committee that the new PSAA contract was starting for 2023-24 and this would be more expensive, driven by the Financial Reporting Council (FRC) placing increased demands on the auditors. This had been reflected in the last tender exercise and the Council's fees had doubled. The Committee had previously received reporting and had approved this.

In response to questions the representative from Grant Thornton advised the accounts had to be audited chronologically and the timeline for this was regularly discussed with officers. Backlogs were an issue across the sector.

Officers advised they were anxious about National Audit Office proposals for local authorities to take shortcuts and the S151 Officer and Grant Thornton were having discussions to ensure this was avoided. The Committee supported the need for the audits to be completed in full.

The Committee RESOLVED to:

Note the proposed increased audit costs of £220,750 in relation to 2019-20, which would take Council audit fees to £597,352 for the year.

9/22

### **Independent Member Recruitment**

Dave Philips, Head of Internal Audit introduced the report to the Committee. The Committee had agreed the appointment panel to conduct interviews and approved the recruitment advert. There had been good candidates and the panel unanimously appointed David Clarke to the position. The Independent Chair advised the process had been thorough; however the panel decided to recommend the applicant based on a rolling 1 year appointment, despite the advert stating 4 years. This was not

stated in the report and the Independent Chair was not minded to go against the panel's recommendation unless it met to review the recommendation. It was requested for the paper to go back to panel to confirm and be brought back to the next Committee.

The Committee requested further information on the candidate to be circulated but noted the decision had been delegated to the appointment panel.

The Committee queried whether the candidate had been made aware of the proposal to alter the appointment term to that which had been advertised.

The Committee queried whether the report should have been exempt from the public.

The Committee RESOLVED to:

Agree the appointment panel would reconvene to discuss the recommendation of a 4 year appointment.

10/22

### **Audit and Governance Committee Draft Annual Report 2022-23**

The Independent Chair introduced the draft Committee report for comment ahead of its presentation to Council.

The Committee agreed to add narrative on roles of and relationship between the Committee and Scrutiny and the impact of the recent ministerial statement regarding government intervention.

The Committee RESOLVED to:

Review and approve for this report to be presented to Full Council.

11/22

### **Audit and Governance Committee Work Programme 2023-24**

The Committee queried how the government intervention and statutory footing of the Independent Assurance Panel aligned with the Committee's work programme.

Officers advised of the work being done with the Improvement and Assurance Panel to develop a two-year exit strategy. This document could be brought to the Committee to identify areas of focus.

In response to questions officers advised the Council Tax increase VFM would be included in the work programme, with initial framework reporting in November 2023 and the Grant Thornton recommendation report in June 2024.

In response to questions officers agreed to provide updates regarding the ongoing Fairfield Halls investigation with the Committee as they became available.

The Committee RESOLVED to:

Note, consider and comment on the work programme as detailed in this report.

The meeting ended at 8.08 pm