

Agenda

Audit Committee

Wednesday, 9 September 2020 at 7.00 pm

Remote meeting via video link



This meeting will be held **remotely**. Committee Members will be provided with the details of how to connect to the meeting one day before the meeting.



Members of the public may observe the proceedings live on the Council's [YouTube](#) channel.

Members:

J. S. Bray (Chair)

D. Allcard

H. Brown

G. Buttironi

K. Foreman

J. P. King

S. A. Kulka

C. M. Neame

S. J. G. Rickman

Substitutes:

Conservatives: M. S. Blacker, R. S. Turner and S. T. Walsh

Residents Group: R. J. Feeney, N. D. Harrison and C. T. H. Whinney

Green Party: J. C. S. Essex and S. Sinden

Liberal Democrats J. E. Philpott

Mari Roberts-Wood
Interim Head of Paid Service

For enquiries regarding this agenda;

Contact: 01737 276182

Email: democratic@reigate-banstead.gov.uk

Published 07 September 2020

1. Apologies for Absence and Substitutions

To receive any apologies for absence and notification of substitutes in accordance with the Constitution.

2. Minutes (Pages 5 - 8)

To confirm as a correct record the Minutes of the previous meeting on 16 July 2020.

3. Declarations of Interest

To receive any declarations of interest.

4. External Audit Plan 2020/21 (Pages 9 - 36)

To receive and note information from the Council's External Auditors on the audit plan for the 2020/21 External Audit.

5. Internal Audit 2020/21 - Q1 progress report (Pages 37 - 52)

To note the Internal Audit Progress Report Q1 2020/21 attached at annex 1;

To make any comments and/or observations on the report to the Council's Chief Financial Officer.

6. Risk management - Q1 2020/21 (Pages 53 - 64)

To note the Q1 2020/21 update on risk management provided by the report and in annex 1 and make any observations to the Executive.

To note the newly identified strategic risk detailed in the report and in annex 2 and make any observations to the Executive.

7. Any Other Urgent Business

To consider any item(s) which, in the opinion of the Chair, should be considered as a matter of urgency – Local Government Act 1972, Section 100b (4)(b).

Note: Urgent business must be submitted in writing but may be supplemented by an oral report.



Our meetings

As we would all appreciate, our meetings will be conducted in a spirit of mutual respect and trust, working together for the benefit of our Community and the Council, and in accordance with our Member Code of Conduct. Courtesy will be shown to all those taking part.



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Notice is given of the intention to hold any part of this meeting in private for consideration of any reports containing "exempt" information, which will be marked accordingly.

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BOROUGH OF REIGATE AND BANSTEAD

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held at the Remote - Virtual Meeting on 16 July 2020 at 7.00 pm.

Present: Councillors J. S. Bray, H. Brown, K. Foreman, S. A. Kulka, C. M. Neame and S. J. G. Rickman.

Also present: Councillors V. H. Lewanski and T. Schofield.

1. ELECTION OF CHAIR

RESOLVED that Councillor Jill Bray be appointed as Chair for the municipal year 2020/21.

2. ELECTION OF VICE-CHAIR

RESOLVED that Councillor Keith Foreman be appointed as Vice-Chair for the municipal year 2020/21.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were received from Councillor Allcard.

4. DECLARATIONS OF INTEREST

There were none.

5. APPROVAL OF 2020/21 INTERNAL AUDIT PLAN AND CHARTER

Natalie Jerams, representing internal auditors Southern Internal Audit Partnership, introduced the 2020/21 Internal Audit Plan and Charter. The plan was due for consideration at the Overview and Scrutiny Committee meeting in March. However, due to the Covid-19 pandemic, the plan had been revised. The auditors had worked with the Corporate Governance Group to consider the implications of Covid-19 and any emerging risks and to incorporate those within the plan.

Members discussed which areas of financial resilience would be reviewed. The internal auditors explained that the review would explore the assumptions that had been made in the Medium-Term Financial Plan and what implications Covid-19 might have had. The financial review had been scheduled for Quarter 3 when it would be appropriate to provide assurance. Pat Main, Interim Head of Finance, confirmed that a financial report would be provided in Quarter 3 when there was a clearer picture.

The auditors confirmed that they were working closely with senior management and had regular liaison with officers to ensure that ongoing risks were audited, and that they remained reactive to changes. The plan would continue to be flexible and members would receive updated progress reports quarterly.

Members discussed the mobile working review which was scheduled for 2021 and whether this should be brought forward, as many Council staff were already working

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from home. The auditors explained that an Information Security review was scheduled first which would include looking into the vulnerability of home working arrangements and any potential risks.

Members discussed the Core Financial review / Treasury Management review expected in Quarter 3. The audit would look at application of the treasury management strategy and ensure that any investments made by the Council were within the risk tolerances that had been set by the Council. Any new or emerging risks would be noted, and any significant borrowing checked against the appropriate regulations and guidance, including on Minimum Revenue Provision.

It was noted that Environmental Health and Licensing risks would be looked at in Quarter 3. The auditors would include any current major service changes in the reviews, not just historic ones. For example, in the Refuse, Recycling & Street Cleansing review, the auditors would consider the recent fleet management contract.

Progress reports would be brought to the September Audit Committee meeting. Some Quarter 2 audits would still be taking place in September and would be reported on in Quarter 3. Doula Pont, Head of Projects and Performance, advised the Committee that the plan could be subject to change, for example, if there were another change in Covid-19 circumstances.

The Chair of the Audit Committee thanked the internal auditors for their report.

RESOLVED

1. That the Audit Committee approve the internal audit plan for 2020/21-2022/23 as set out in annex 1; and,
2. That the Audit Committee approve the internal audit Charter for 2020/21 as set out in annex 2.

6. STRATEGIC RISKS FOR 2020/21

Councillor Lewanski, Executive Member for Corporate Direction and Governance, introduced the Strategic Risks for 2020-21 and invited the Committee to make any comments or observations to the Executive.

Strategic Risks

The Head of Projects and Performance explained that this report (Quarter 1) sets out the strategic risks for the year.

The strategic risks in the Quarter 1 report had been updated to reflect the change in the risk environment that the COVID-19 pandemic had brought. Although those had been approved by the Executive, it was still possible for the Audit Committee to comment as necessary.

An update on the strategic risks would be reported to the Audit Committee quarterly, before being considered by the Executive. The report would also include any newly identified strategic risks. The Committee would be able to ask for more

detail at prior to the next meeting of the Committee, either from key officers or through advance questions.

Operational Risks

The Committee would also receive an update on any *red rated* operational risks each quarter. Officers confirmed that there were no operational red risks this quarter.

The Financial Sustainability risk was discussed and Councillor Schofield, Portfolio Holder for Finance, was invited to comment. Councillor Schofield explained that the risk of lost revenue from Council Tax and Business Rates had been assessed and recovery was expected by the end of the financial year. Councillor Schofield was liaising with the interim Head of Finance and mitigating action would be taken as required.

Members queried whether Covid-19 had affected the Commercial Ventures programme and if that needed to be reflected in the risk descriptions. Caroline Waterworth, Commercial and Investment Director, clarified that although there had been some minor delays to progress, Covid-19 had not had a major impact and action would be taken to mitigate any time losses.

Members queried whether Horley Business Park should be included in the risk register for Gatwick Airport and the Head of Projects and Performance confirmed that this would be reviewed accordingly.

RESOLVED

1. That the Audit Committee note the strategic risks for 2020/21 as detailed in annex 1 of the report.
2. That the Committee note the risk management reporting arrangements for 2020/21.

7. ANNUAL GOVERNANCE STATEMENT - DRAFT

The Annual Governance Statement was presented by Pat Main, Interim Head of Finance. The purpose of the draft document was to set out the arrangements that were in place, report on the effectiveness of those arrangements, and to give assurance that any governance issues had been addressed.

The Statement would be reviewed by Overview and Scrutiny Committee in September 2020. The final Statement would then be presented to the Audit Committee with the audited Statement of Accounts in November 2020.

RESOLVED That the draft Annual Governance Statement for 2019/20 be approved for subsequent review by the Overview and Scrutiny Committee.

8. ANY OTHER URGENT BUSINESS

There was none.

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The Meeting closed at 7.48 pm



Reigate & Banstead Borough Council

Planning report to the Audit Committee for the year ending 31 March 2020

Issued on 4 September for the meeting on 9 September 2020

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01 Planning report

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Introduction

The key messages in this report:

We have pleasure in presenting our planning report to the Audit Committee (the Committee) for the 2020 audit of Reigate and Banstead Borough Council (the Council). We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Audit Plan

We have updated our understanding of the Council including discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the council.

Significant Audit Risks

Our initial risk assessment has identified the following significant audit risks, discussed further on pages 12-15

- Property valuations;
- Completeness of expenditure and accruals; and
- Management override of controls.

We will update our risk assessment as more information becomes available on the impact of COVID-19 upon the Council and its financial position as at 31 March 2020 (discussed further on pages 5-6).

Other Areas of Audit Focus

Other matters which we have not currently identified as significant audit risks for the 2019/20 audit, but which will be areas of audit focus (and whose risk we will reassess as more information becomes available), include:

- Pension Liability
- Value for money
- Financial sustainability disclosures
- Property asset re-categorisation

Details of these are presented on page 16 to 18.

Introduction - Continued

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Regulatory change

- Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.
- The implementation of IFRS 16, Leases, has been deferred to 2021/22, where adjustments will be recognised for the balance sheet arrangements currently treated as operating leases. For 2020/21, the Council will need to include disclosures on the expected impact on transition but no adjustments made. We will update Management and the Committee with sector and technical updates as they arise.

UK exit from the EU

The arrangements following the UK's exit from the EU are not yet clear. Despite formally leaving the European Union on the 31st January 2020, negotiations surrounding the future economic relationship with the EU are still ongoing, and will affect the on-going economic climate. There are many potential areas of impact one being the skills and staff shortages following Brexit, depending on any immigration implications. Our audit plan does not include any risks or procedures in respect of the impact upon the Council, whether on VfM arrangements, budgets, or more widely. We will update the Audit Committee if any risks are identified as the eventual circumstances of the UK's exit become clear.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience

Ben Sheriff
Engagement Lead

COVID-19 pandemic and its impact on our audit

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:

- A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the council's financial position, the going concern assumption, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

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| Impact on the Council | Impact on annual report and financial statements | Impact on our audit |
|---|---|--|
| <p>We will consider the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises. | <p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Events after the reporting period and relevant disclosures • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses | <p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel. |

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COVID-19 Impact on annual report and financial statements

Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. We would expect that this will impact the Council, will require specific disclosure in the financial statements, and will result in an Emphasis of Matter in our audit report.

The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that COVID-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2020.

Valuation of commercial or investment properties

Following the COVID-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. This will be difficult because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This will require additional consideration in our work on year-end valuations. We would also expect there to be a material valuation uncertainty in respect of investment properties.

Impact on pension fund investment measurement

As a result of the COVID-19 pandemic pension fund investments have been subject to volatility. It is important to engage early with custodians and fund managers to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation.

Expected credit losses

The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.

Events after the reporting period and relevant disclosures

Local authorities began to see the most substantial impacts of COVID-19 in March 2020 and therefore before the end of the reporting period. The Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The council will need to make significant judgements about these decisions and the nature of the COVID-19 pandemic will mean that they will need to continually review and update these assessments up to the date the accounts are authorised for issue.

Narrative and other reporting issues

The following areas will need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.

- Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, and resources.
- Reporting on the impact of financial pressures and financial sustainability in the narrative report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.
- Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.

Our audit explained

We tailor our audit to your Council and your strategy

Identify changes in your business and environment

We have spent time understanding the current year matters relevant to the council and prepared our risk assessment for the audit on that basis. We will continue to keep this under review throughout the audit process.

Current developments at the council include:

- Structural changes in the Council's trading companies (subsidiaries)
- Investments in landed property by Greensand Holdings worth £11m, to be funded with a loan from the Council.

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

We will not scope out any significant items or items that would have a material impact on the financial statements.

In our final report

In our final report to you we will conclude on the significant audit risks identified in this paper and report to you our other findings.



Determine materiality

We have determined a group materiality of £1.7m (2018/19:£2.2m) in planning our audit. This is based on 2% (2018/19:2%) of gross expenditure projected full year figures based on 9 months figures. We will report to you any misstatements above £85k. We will report to you misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

We will identify significant audit risks in relation to the Council and plan our audit response to meet these risks. More details is given on pages 12 onwards).

Quality and Independence

We confirm all Deloitte network firms are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

We have the following key areas of responsibility under the Audit Code of Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Council will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Whole of Government Accounts

The council is not expected to be in scope for audit work.

If the council is over the threshold when instructions from NAO are released then our work on the Whole of Government Accounts return is carried out in accordance with instructions and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Scope of work and approach

We have the following key areas of responsibility under the Audit Code of Practice - continued

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

We have identified that the Council has a number of developments within the Borough, in particular the development of Marketfield Way in Redhill and redevelopment of Horley town centre, investment to build affordable housing as well as investment in landed property by Greensand Holdings with a loan from the Council. Given the forecast budget deficit identified in the Medium Term Financial Plan (MTFP) 2019/2020 to 2023/24 and future Government funding cuts, we have identified these transformation projects as an area of audit interest in relation to the Council securing financial resilience and effectiveness in its use of resources. We will obtain an understanding of the status of projects and assess as part of our audit whether there are any risks to our value for money conclusion requiring additional procedures.

In accordance with the NAO's revised Auditor Guidance Note 3, Value for Money, we would expect the Council's response to COVID-19 related issues to primarily affect our 2020/21 Value for Money work, rather than that for 2019/20.

We will undertake a more detailed assessment of risk during our audit, where we will review the Council's MTFP and hold further discussions with management and we will then provide a conclusion on these arrangements as part of our final reporting to you.

No significant risk was identified in the prior year audit.

Scope of work and approach - continued

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA UK 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them where necessary to discuss their work. We will review the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit where necessary to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Obtain and refresh our understanding of the Trust and its environment including the identification of relevant controls

Identify risks and any controls that address those risks

Carry out 'design and implementation' work on relevant controls

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We have also designed and continually update International Financial Reporting Standards ("IFRS") disclosure checklists in conjunction with the requirements of the GAM to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Council to complete during drafting.

We would propose reviewing an early set of draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Group considerations

We have currently assessed the council as the only significant component of the group.

We will understand and assess the non-significant subsidiaries and ventures of the Council, including analytical review of statutory accounts and or managements accounts. Our work will cover the below subsidiaries:

- Greensand Holdings Limited;
- Horley Business Park Development LLP;
- RBBC Limited and
- Pathway for Care Limited

Our approach is designed to ensure we obtain the requisite level of assurance across the whole Group.

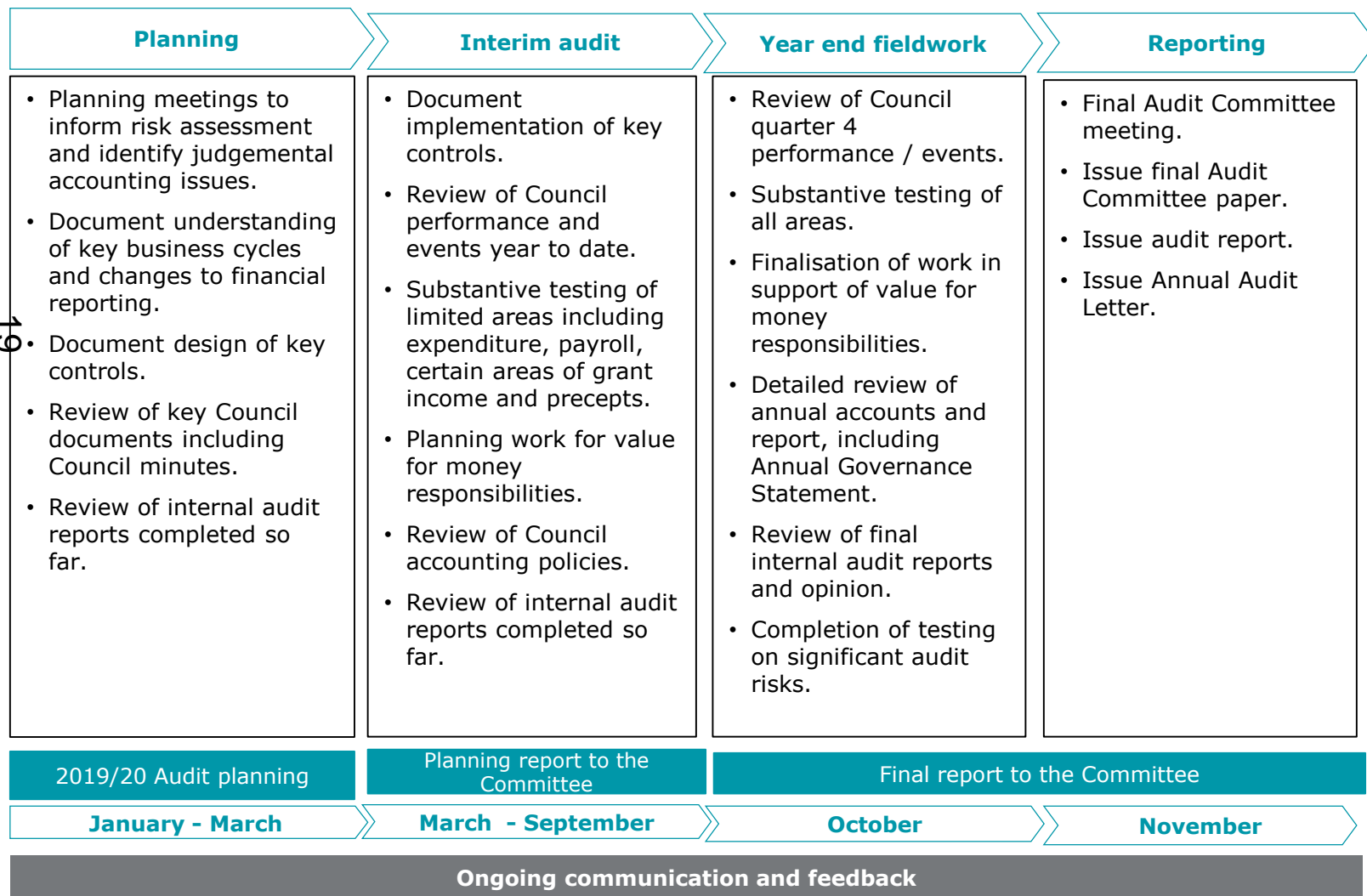
Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Agenda Item 4

Continuous communication and reporting

Planned timing of the audit

Delivery and timing of our audit is significantly influenced by the timely receipt of information prior to the commencement of each phase. In view of this, we would expect to receive the draft set of accounts in September 2020 in order to carry out our internal reviews before the substantive test begins in October 2020. This reflects the revised national timetable for local government audits this year, with a target date of 30 November (rather than 31 July) due to Covid-19.



Significant audit risks

Property valuation

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Risk identified

The Council held £109.2m of property assets (other lands and buildings) at 31 March 2018 which decreased to £107.3m as at 31 March 2019. This was largely due to a net downward valuation of £5.5m, including £0.2m revaluation gain and £3.6m additions. Investments properties also held by the Council increased from £66m at 31 March 2018 to £95m at 31 March 2019, due to a net revaluation loss of £5.2m and £34.1m of additions.

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council's land and buildings are revalued a minimum of every five years with a desktop revaluation carried out annually.

As a result of the valuation method, individual assets may not be revalued for up to four years and there is therefore a risk that the carrying value of those assets not included in the Council's revaluation process in the current year materially differ from the year end fair value.

In addition, given the material value of the assets there is a risk that the valuation assumptions which are judgemental in nature may be materially misstated.

Further there is a risk that the timing of the year end valuation, may not be appropriate to correspond with the 31 March year-end.

Our response

- Assess whether the valuation performed is consistent with accounting requirements and the Royal Institute of Chartered Surveyors "Red Book" valuation standards.
- We will test the design and implementation of key controls in place around the property valuation and we will understand how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation. In addition, we will assess what valuation assumptions may have been made if there is a time lag between the valuation and the year-end.
- We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.
- We will test the inputs used in the valuation provided to the valuer, including testing a sample of inputs to check the accuracy of data.

Significant audit risks

Property valuation – (continued)

Our response

- We will use our valuation specialists, Deloitte Real Estate to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's properties, including whether assets are "specialised" (and so valued on a Depreciated Replacement Cost basis) or not.
- We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.
- We will consider the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.
- The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. We would expect that this will impact the Council, will require specific disclosure in the financial statements, and will result in an Emphasis of Matter in our audit report

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Significant audit risks

Completeness of expenditure and accruals

| | |
|------------------------|---|
| Risk identified | <p>Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure and accruals.</p> <p>For 2019/20, the Council approved a budget with a net cost of service of £17.5m. As at quarter three, the Council reported a forecast underspend of £988k. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.</p> |
| Our response | <p>Our work in this area will include the following:</p> <ul style="list-style-type: none">• We will obtain an understanding of and test the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;• We will perform focused testing in relation to the completeness of expenditure including a detailed review of accruals;• As part of this focused testing we will challenge any assumptions made in relation to year-end accruals;• We will also review expenses recorded in the final months of the year against previous trends to identify if there are any inconsistencies;• We will perform testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end up to the date of signing; and• In addition, we will review the year on year movement in accruals and will investigate any significant downwards movements. |

Significant audit risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks and areas of audit interest: completeness of expenditure, valuation of the Council's estate and the pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will test the design and implementation of key controls in place around journal entries and management estimates;
- We will risk assess journals and select items for detailed testing using data analytics. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We will review accounting estimates for biases that could result in material misstatements due to fraud;
- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment; and
- We will use our Spotlight data analytics software to review ledger postings throughout the year, and particularly at each quarter end, with focus on identifying any manual adjustments to revenue at the period end, or reversing entries that could be indicative of manipulation and management override.

Other areas of audit focus

Pensions liability valuation

| | |
|------------------------|--|
| Risk identified | <p>The Council are part of the Local Government Pension Scheme administered by Surrey County Council. The Council recognised a pension liability of £71.1m at 31 March 2018 which increased to £79.2m as at 31 March 2019. The Code requires that Council's year end carrying value should reflect the appropriate fair value at that date.</p> <p>Also pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.</p> <p>Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required for each council.</p> |
| Our response | <ul style="list-style-type: none"> • We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary. • We will also liaise with the scheme auditor on the results of their audit procedures on the scheme as a whole. • We will consider the make-up of the pension assets and the extent to which the asset types have been valued based on observable market prices or using estimation and judgement in the valuation and consider the extent of uncertainty in the asset valuation and the impact on our approach. • We scope our work, including the nature and extent of our actuarial specialist's involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Committee. • We will consider how the valuation takes into account the recent discrimination rulings (McCloud and Goodwin), including the consultation on changes to the LGPS scheme to address the McCloud ruling, and whether adequately reflected in the valuation. • We will review the disclosure based on the IAS 19 report issued to the Council by the actuary and we will assess the competence and objectivity of the work of the actuary. |

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Other areas of audit focus - continued

Value for Money

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Risk identified

Under the NAO Code, we are required to report whether, in our opinion: the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting auditor guidance note require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

The Council's MTFP maintains balances at prudent levels implements a priority based budget system which considers potential future funding cuts and required efficiencies. There are however, a significant number of capital developments in the Council's plan which require material investment and there is a risk that efficiency measures may not be effective and that the developments are not delivered in an efficient and financially sustainable manner.

Our risk assessment to determine whether any matters represent significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators. We will also consider the arrangements in place regarding the refinancing and the potential redevelopments in our risk assessment.

Our response

Our work in this area will include:

- Updating our understanding of the Council's transformation programmes and the related considerations to achieve value for money;
 - High level interviews with senior operational staff and internal audit as required;
 - Review of the Council's draft Annual Report, Annual Governance Statement and Council papers and minutes; and
 - Consideration of the Council's financial results.
 - Where significant risks are identified we will perform additional procedures to address these risks. We have not currently identified any significant risks. If additional procedures require the support of subject matter experts this may have an impact on fees. We will discuss this with management in advance of any additional work required.
-

Other areas of audit focus - continued

Financial sustainability disclosures

Risk identified

Following the timing of the effect of COVID-19, we do not expect a significant impact on the current year financials, but its impact is expected to result in significant additional costs for FY20/21. Although the Government intends to compensate councils for the impact of COVID-19, it is doubtful that this will extend to fully cover loss of income and any other longer term cost implications impacting on the Council's own resources. Whilst additional funding has been provided to the council, it is, to date, significantly less than the anticipated financial impact on the Council.

Although Councils are required to prepare their financial statements on a going concern basis under the CIPFA Code, they should also make appropriate disclosures in respect of uncertainties affecting their financial sustainability. In addition, if the section 151 officer considers that the council's expenditure, including proposed expenditure, is likely to exceed the resources available, then they are required to issue a section 114 notice, which, inter alia, places significant restrictions upon on-going expenditure.

Our response

We will review management's financial sustainability considerations and conclusions to determine the reasonableness of the disclosures on the financial pressures due to Covid-19 pandemic. We shall specifically review the budget forecasts and perform analytical procedures to evaluate whether any matters impacting upon our responsibilities or requiring us to exercise any of our reporting powers.

Other areas of audit focus - continued

Property asset re-categorisation

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Risk identified

The Council has reviewed the classification of its property assets, taking into account its new 5 Year Plan (Reigate & Banstead 2020-2025 – 'the Plan') which places greater emphasis on using assets for community benefit and prioritises investment in communities, informed the need for managements to review and re-examine the various categories of their assets to meet the plan objectives.

The re-examination and review carried has resulted in management changing the classification of some assets, including through the creation of new asset categories in the fixed asset register to reflect the most appropriate use or condition of the assets. This reclassification includes the identification of a number of additional surplus assets.

Management are reviewing how this will be reflected in the final accounts, and whether to change accounting policies to create new disclosure categories in the financial statements (which may require restatement of the comparatives).

Our response

Our work will include:

- Obtaining an understanding of the overall approach to the re-categorisation;
 - Testing the appropriateness of the revised categorisation for a sample of assets, including consideration whether this reflects an in-year change or reflects circumstances in place in the prior period;
 - Reviewing whether the re-categorisation has been consistently applied;
 - As part of our testing of asset valuations, for assets where the valuation basis has changed, using Deloitte Real Estate valuation experts to consider the appropriateness of the new valuation basis.
-

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Use of this report

This report has been prepared for the Audit Committee on behalf of the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

St Albans, 4 September 2020

Appendices

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Appendix 1 - Fraud responsibilities and representations

Responsibilities explained

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Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in completeness of expenditure, and management override of controls as a key audit risk for the Council.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1 - Fraud responsibilities and representations- continued

Inquiries

We will make the following inquiries regarding fraud:



Officers:

- Officer's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officer's process for identifying and responding to the risks of fraud in the entity.
- Officer's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officer's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officer has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

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Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance



- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendix 2 - Fees and Independence

As part of our obligations under International Standards on Auditing (UK), and the Companies Act, we are required to report to you on the matters listed below:

| | |
|---------------------------|---|
| Independence confirmation | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of Reigate and Banstead Borough Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee. |
| Fees | <p>The "scale fee" set by Public Sector Auditor Appointments Limited for the financial statement audit, including whole of government accounts and procedures in respect of the value for money assessment, is £37,585.</p> <p>However following the initial issues in the 2019 audit, we have communicated a fee variation of £25,000, in respect of the additional costs of the audit (primarily in respect of agreed changes in the Fixed assets register and property valuation report and quality the of initial draft deliverables), which remains subject to PSAA approval.</p> <p>While we acknowledge management's commitment to improvement in the financial reporting process, and would expect improvement and so savings on cost of delivery for the 2018/2019, we consider that the scale fees at present are significantly below the cost of delivery of the audits</p> <p>For 2020, we will be proposing fee variations for the council reflecting:</p> <ul style="list-style-type: none">• our experience of the cost of delivery of the audit;• the areas of increased and/or additional accounting and audit complexity and risk arising from the COVID-19 pandemic; and• wider factors impacting the cost of the delivery of the audit due to regulatory changes and requirements• work on the asset re-categorisation <p>For 2021, there are on-going discussions with PSAA in respect of scale fees. We would highlight that we would expect there to be potentially significant fee increases reflecting a number of changes in 2021 including the requirements of the revised Code of Audit Practice in particular in respect of Value for Money, the increased requirements on audit of accounting estimates under the revised ISA 540, and wider regulatory changes increasing the cost of audit delivery (and in 2022 for the implementation of IFRS 16, Leases).</p> |
| Non-audit services | We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| Relationships | As part of our obligations under International Standards on Auditing (UK) and the APB's Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity. |

Appendix 3 - Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.
<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

Appendix 4 – Developments in financial reporting

Deferral of IFRS 16 Leases to 2021/22

The new leasing standard IFRS 16 Leases will replace IAS 17. Implementation has been deferred to the 2021-22 financial year.

The new standard eliminates the distinction between operating and finance leases for lessees and brings in a single approach under which all but low- value or short term (less than 12 months) leases are recognised. The distinction between operating and finance leases for lessors is maintained.

The Council will need to:

- have arrangements for capturing information on leases and contracts; and
- recalculate lease liabilities for arrangements that have variable elements such as index-linked increases (which is likely to include most PFI contracts).

Successful implementation of the new standard will depend on the Council collating and reviewing relevant information about their new and existing leases. This will require a significant exercise to collect and analyse relevant information and the Council will need to have an effective project plan and timetable to prepare for implementation on a timely basis.

Appendix 4 – Developments in financial reporting - continued

Local Government Pension Scheme (LGPS) – amendments to the statutory underpin

The Ministry of Housing, Communities and Local Government (MHCLG) has published its consultation on proposals to remove age discrimination from the Local Government Pension Scheme.

The consultation, which will run until 8 October 2020, follows the McCloud ruling which found protections given to older members in the judicial and firefighters' pension schemes directly discriminated against younger members in those schemes.

MHCLG's consultation proposes to bring the LGPS in line with the government's commitment to remove the differences in treatment from all public service pension schemes with similar protections.

The Council will need to:

- discuss with their actuary what the impact of the consultation is on the assessment of the McCloud liability; and
- consider the impact for 2019-20 as well as the 2020-21 financial reporting.

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| | |
|----------------------|--|
| SIGNED OFF BY | Head of Projects and Performance |
| AUTHOR | Luke Harvey, Project & Performance Team Leader |
| TELEPHONE | Tel: 01737 276519 |
| EMAIL | Luke.Harvey@reigate-banstead.gov.uk |
| TO | Audit Committee |
| DATE | Wednesday, 9 September 2020 |

| | |
|------------------------------|--------------|
| KEY DECISION REQUIRED | N |
| WARDS AFFECTED | (All Wards); |

| | |
|----------------|---|
| SUBJECT | Internal audit 2020/21 - Q1 progress report |
|----------------|---|

| |
|---|
| RECOMMENDATIONS |
| <p>(i) That the Committee note the Internal Audit Progress Report attached at annex 1;</p> <p>(ii) That the Committee make any comments and/or observations on the report to the Council's Chief Financial Officer.</p> |

| |
|--|
| REASONS FOR RECOMMENDATIONS |
| In accordance with its constitutional responsibilities and Internal Audit Charter, the Audit Committee is required to receive regular updates on the progress of internal audit plan delivery. |

| |
|--|
| EXECUTIVE SUMMARY |
| <p>This report provides an update on the delivery of the 2020/21 internal audit plan.</p> <p>The audit plan was approved by the Audit Committee on 16 July 2020. Due to the Council's response to COVID-19, no audits have concluded in Q1. However, the delivery of the plan agreed by the Audit Committee on 16 July remains on track.</p> |
| The Committee has the authority to approve the above recommendations |

| |
|-------------------------|
| STATUTORY POWERS |
|-------------------------|

Agenda Item 5

1. The requirement of an internal audit function in local government is detailed within the Accounts and Audit (England) regulations (2015), which state that authorities must: 'undertake an effective internal audit to evaluate the effectiveness of [their] risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
2. The latter standards are defined in the Public Sector Internal Audit Standards (PSIAS) which were last updated in 2017.
3. Under Section 151 of the Local Government Act (1972), the Council's Chief Financial Officer holds the statutory responsibility for the overall financial administration of the Council's affairs and is therefore responsible for maintaining an adequate and effective internal audit function. The Head of Projects and Performance has day to day responsibility for managing the internal audit contract.

BACKGROUND

4. The Council's internal auditors are the Southern Internal Audit Partnership (SIAP).
5. The Partnership is hosted by Hampshire County Council and is comprised of a number of local authorities and other public sector organisations.
6. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance.
7. The PSIAS defines internal audit as an 'independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
8. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and are operating effectively.
9. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
10. The Council's Chief Internal Auditor – the Head of the Southern Internal Audit Partnership – is responsible for the management of the Council's internal audit activity.
11. The Audit Committee endorsed the 2020/21 internal audit plan at its meeting on 16 July 2020. This would ordinarily have taken place in March 2020 ahead of the new financial year; the situation with COVID-19, however, meant that this was delayed.
12. The plan was fundamentally updated given the change in risk environment that the COVID-19 pandemic caused.
13. Under the Council's Constitution the Committee is responsible for reviewing internal audit progress reports and monitoring delivery of the annual audit plan.
14. The attached progress report:

- Summarises the status of ‘live’ audit reports (an audit is considered to be ‘live’ if there are outstanding management actions);
- Provides an update on the delivery of the annual audit plan;
- Summarises internal audit performance, including assurance opinions given; and,
- Summarises any adjustments made to the audit plan.

KEY INFORMATION

Q1 2020/21 progress update

15. Section 3 of SIAP’s report details the overall progress in delivering the 2020/21 audit plan.
16. In accordance with the audit plan, no audits concluded in Q1 2020/21.
17. However, progress has been made in delivering the plan agreed by the Committee, with the majority of audits due to take place in Q2 having been scoped.

Overdue management actions

18. Section 4 of the report sets out the management actions from audits undertaken in 2019/20 that are overdue implementation.
19. The Council has been required to focus efforts on responding to the COVID-19 pandemic. As such, outstanding management actions will be addressed in the coming quarters where practicable.

OPTIONS

20. The Committee has two options:
21. Option 1: Note the report and make any observations and comments on its contents to the Council’s Chief Financial Officer.
22. Option 2: Note the report and make no observations to the Council’s Chief Financial Officer.

LEGAL IMPLICATIONS

23. The Committee’s review of the quarterly progress report assists in the fulfilment of the Council’s statutory duty to maintain an independent and effective internal audit function.
24. There are no other legal implications resulting from this report.

FINANCIAL IMPLICATIONS

25. There are no financial implications arising from this report. Internal audit fees are funded within the annual revenue budget.

EQUALITIES IMPLICATIONS

26. There are no equalities implications arising from this report.

Agenda Item 5

| |
|---|
| COMMUNICATION IMPLICATIONS |
| 27. There are no communications implications arising from this report. |
| RISK MANAGEMENT CONSIDERATIONS |
| 28. An effective internal audit function is an important part of effectively managing risk. 29. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan. |
| OTHER IMPLICATIONS |
| 30. There are no other implications arising from this report. |
| CONSULTATION |
| 31. This report has been considered by the Council's Corporate Governance Group as part of its governance role in monitoring audit performance. |
| POLICY FRAMEWORK |
| 32. Internal audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all Corporate Plan Priority areas. |
| BACKGROUND PAPERS |
| None. |

Internal Audit Progress Report 2020/21

August 2020 (Q1)

Reigate & Banstead Borough Council

Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Please enter Reference 1

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations’ operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.

2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review.

CIPFA have recently released a paper which examined the case for standardising the terminology and definitions used in internal audit engagements across the whole of the public sector and has subsequently recommended a standard set of opinions and supporting definitions for internal audit service providers to use.

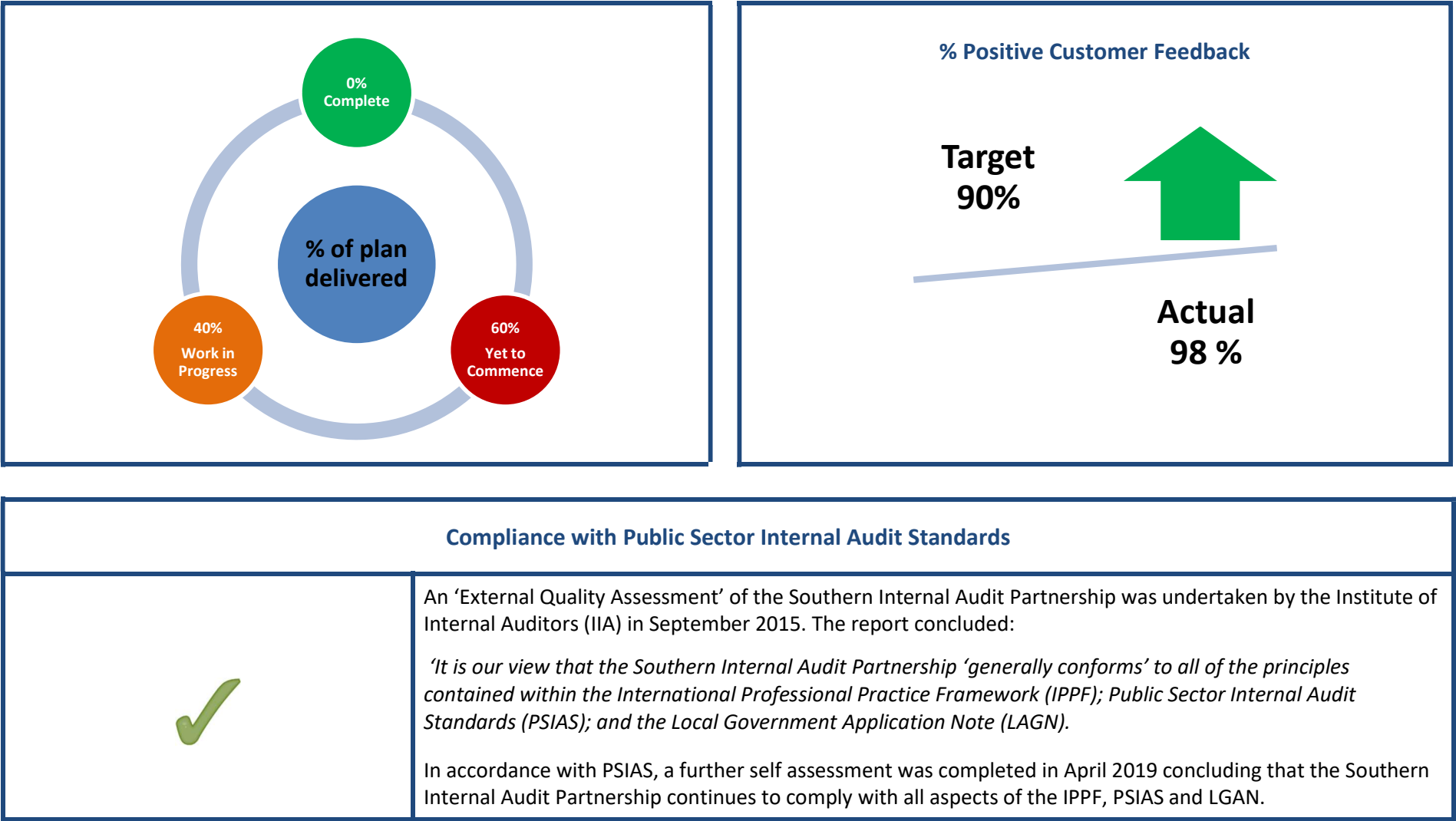
To ensure we continue to conform to the best practice principles, we will be adopting the standard definitions for our 2020/21 work and moving forwards. The assurance opinions are categorised as follows:

| | |
|--------------------|--|
| Substantial | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Reasonable | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

** Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 1*

3. Performance dashboard

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4. Analysis of 'Live' audit reviews

| Audit Review | Report Date | Audit Sponsor | Assurance Opinion | Management Actions ("High Priority") | | | | | | |
|--|-------------|---------------|-------------------|--------------------------------------|--------------|-------------|----------|----------|---|---|
| | | | | Total Actions Reported | Not Accepted | Not Yet Due | Complete | Overdue | | |
| | | | | | | | | Priority | | |
| | | | | | | | | L | M | H |
| Human Resources and Organisational Development | 3.10.19 | HofOD | Adequate | 7(0) | 0(0) | 0(0) | 1(0) | 6 | - | - |
| Investments | 3.10.19 | HofF&A | Adequate | 4(0) | 0(0) | 2(0) | 2(0) | - | - | - |
| Refuse, Recycling and Street Cleansing | 15.10.19 | HofNO | Adequate | 15(3) | 0(0) | 0(0) | 12(3) | - | 3 | - |
| NNDR | 05.02.20 | HofRB&F | Adequate | 3(2) | 0(0) | 0(0) | 2(2) | | 1 | |
| Council Tax | 05.02.20 | HofRB&F | Adequate | 6(2) | 0(0) | 0(0) | 3(2) | | 3 | |
| Main Accounting | 05.03.20 | HofF&A | Adequate | 15(10) | 0(0) | 1(1) | 14(9) | | | |
| Planning Enforcement | 05.03.20 | HofP | Adequate | 2(0) | 0(0) | 2(0) | 0(0) | | | |
| Ethical Governance | 01.04.20 | HofL&G | Adequate | 5(0) | 0(0) | 1(0) | 0(0) | 4 | | |

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There are no new reports published concluding a "limited" or "no" assurance opinion.

6. Planning & Resourcing

The scale of COVID-19 coupled with the speed of its impact and the wide-ranging challenges presented has necessitated new and different ways of working across the Council. Such challenges and subsequent resolutions bring with them new and emerging risks that management need to consider, manage, and mitigate. In response, the Southern Internal Audit Partnership engaged with the Council's Corporate Governance Group to reprioritise the originally drafted audit plan in March 2020 to provide assurance in respect of emerging key risk areas and these are detailed within section 8 of this report.

The revised internal audit plan for 2020-21 was presented to Corporate Governance Group and the Audit Committee in July 2020.

Due to the revision of the internal audit plan, coupled with the delay in approval, progress to date has been limited, however all reviews have now been scheduled over the remainder of the year.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

| Audit Sponsors | | | |
|----------------|-------------------------------------|---------|---|
| HofCP | Head of Corporate Policy | HofW&I | Head of Wellbeing and Intervention |
| HofPP | Head of Projects and Performance | HofCP | Head of Community Partnerships |
| HofOD | Head of Organisational Development | HofC&CC | Head of Communications and Customer Contact |
| HofIT | Head of IT | HofP | Head of Planning |
| HofL&G | Head of Legal and Governance | HofPD | Head of Place Delivery |
| HofF&A | Head of Finance and Assets | HofEP | Head of Economic Prosperity |
| HofH | Head of Housing | HofNO | Head of Neighbourhood Operations |
| HofRB&F | Head of Revenues Benefits and Fraud | | |

7. Rolling Work Programme

| Audit Review | Audit Sponsor | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Tracker (✓ on schedule ✗ Delay) | Comment |
|---|---------------|---------|----------------------|-----------|---------------------|---------------------|-------------------|------------------------------------|---------|
| 2020/21 | | | | | | | | | |
| Corporate | | | | | | | | | |
| Programme & Project Management | HofP&P | ✓ | ✓ | | | | | ✓ | Q2 |
| Financial Resilience | HofF&A | | | | | | | ✓ | Q3 |
| Governance | | | | | | | | | |
| Risk Management | HofP&P | | | | | | | ✓ | Q3 |
| Contract Management | HofL&G | | | | | | | ✓ | Q4 |
| Commissioning & Procurement – Procurement Cards | HofF&A | ✓ | ✓ | ✓ | | | | ✓ | Q2 |
| Health & Safety | HofNO | ✓ | ✓ | | | | | ✓ | Q2 |
| Information Governance | HofIT | | | | | | | ✓ | Q4 |

| Audit Review | Audit Sponsor | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Tracker (✓ on schedule ✗ Delay) | Comment |
|--|---------------|---------|----------------------|-----------|---------------------|---------------------|-------------------|---------------------------------------|---------|
| COVID-19: Small Business Grants | HofF&A | ✓ | ✓ | | | | | ✓ | Q2 |
| COVID-19: Decision Making & Governance | HofPP | ✓ | | | | | | ✓ | Q2 |
| COVID-19: Emergency Response & Recovery | HofCP & HofPP | ✓ | | | | | | ✓ | Q2 |
| IT | | | | | | | | | |
| Information Security | HofIT | | | | | | | ✓ | Q4 |
| Cyber Security | HofIT | | | | | | | ✓ | Q2 |
| IT Disaster Recovery | HofIT | | | | | | | ✓ | Q3 |
| Payment Card Industry Data Security Standard | HofIT | | | | | | | ✓ | Q4 |
| Core Financial Reviews | | | | | | | | | |
| Housing Benefits | HofRB&F | ✓ | ✓ | | | | | ✓ | Q2 |
| Treasury Management | HofF&A | | | | | | | ✓ | Q3 |
| Payroll | HofOD | | | | | | | ✓ | Q3 |

Please enter Reference 1

| Audit Review | Audit Sponsor | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Tracker (✓ on schedule ✗ Delay) | Comment |
|----------------------------------|---------------|---------|----------------------|-----------|---------------------|---------------------|-------------------|------------------------------------|---------|
| People | | | | | | | | | |
| Homelessness | HofH | | | | | | | ✓ | Q4 |
| Place | | | | | | | | | |
| Environmental Health & Licensing | HofNO | | | | | | | ✓ | Q3 |
| Fleet Management | HofNO | ✓ | | | | | | ✓ | Q2 |

8. Adjustment to the Internal Audit Plan

There have been no further amendments to the plan presented to the Audit Committee in July 2020.

| Plan Variations for 2020/201 | |
|--|--|
| Removed from the plan | Reason |
| Working in Partnership | Defer until 2021/22 in order to prioritise new risk areas relating to COVID-19 |
| Community Safety | Defer until 2021/22 in order to prioritise new risk areas relating to COVID-19 |
| Business Continuity & Emergency Planning | Scope refocused to prioritise lessons learnt from COVID-19 and recovery processes in place. |
| IT Governance | Defer until 2021/22 in order to prioritise new risk areas relating to COVID-19 |
| Economic Prosperity | Defer until 2021/22 in order to prioritise new risk areas relating to COVID-19 |
| Income Generation & Commercialisation | Defer until 2021/22. Replaced with the review of Financial Resilience. |
| Added to the plan | Reason |
| Information Security | Deferred from 2019/20 |
| COVID-19: Small Business Grants | Prioritised due to implications of COVID-19. |
| COVID-19: Decision Making & Governance | Prioritised due to implications of COVID-19. |
| Cyber Security | Prioritised due to implications of COVID-19. |
| Financial Resilience | Prioritised due to implications of COVID-19. |
| COVID-19: Emergency Response & Recovery | To review lessons learnt from the Council's response to the COVID pandemic and assurance over the governance and recovery actions in place to return to business as usual. |

Annex 1**Reigate & Banstead Borough Council Assurance Opinions (Pre 2020-21)**

| | |
|--------------------|---|
| Substantial | A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified. |
| Adequate | Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified. |
| Limited | Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk. |
| No | Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives. |



| | |
|-------------------------|--|
| SIGNED OFF BY | Head of Projects and Performance |
| AUTHOR | Luke Harvey, Project & Performance Team Leader |
| TELEPHONE | Tel: 01737 276519 |
| EMAIL | Luke.Harvey@reigate-banstead.gov.uk |
| TO | Audit Committee |
| DATE | Wednesday, 9 September 2020 |
| EXECUTIVE MEMBER | Cllr V. Lewanski |

| | |
|------------------------------|--------------|
| KEY DECISION REQUIRED | N |
| WARDS AFFECTED | (All Wards); |

| | |
|----------------|------------------------------|
| SUBJECT | Risk management - Q1 2020/21 |
|----------------|------------------------------|

| |
|---|
| RECOMMENDATIONS |
| <p>(i) That the Audit Committee note the Q1 update on risk management provided by the report and in annex 1 and make any observations to the Executive.</p> <p>(ii) That the Audit Committee note the newly identified strategic risk detailed in the report and in annex 2 and make any observations to the Executive.</p> |
| REASONS FOR RECOMMENDATIONS |
| The Audit Committee's constitutional responsibilities require it to receive regular updates on risk management. |
| EXECUTIVE SUMMARY |
| <p>This report provides an update on risk management in Q1 of 2020/21.</p> <p>In Q1 one new strategic was identified. This risk will be reported to the Executive for approval.</p> |
| The Committee has authority to approve the above recommendations |

| |
|-------------------------|
| STATUTORY POWERS |
|-------------------------|

Agenda Item 6

1. The Council holds various statutory responsibilities for ensuring that its businesses is conducted in accordance with the law and that public money is safeguarded, accounted for and is used economically and effectively.
2. The Council also has a duty under the Local Government Act (1999) to put in place proper arrangements for the governance of its affairs.
3. The discharge of this responsibility includes arrangements for managing risk.
4. The Council's Code of Corporate Governance outlines these core governance principles; compliance with the code is reported each year via the Annual Governance Statement.
5. The Audit Committee has constitutional responsibilities in the area of risk management, including to:
 - Consider the effectiveness of the authority's risk management arrangements, the control framework and seek assurance that action is being taken to mitigate those risks identified; and,
 - Monitor the effective development and operation of risk management in the Council.

BACKGROUND

6. Reigate and Banstead Borough Council has a proactive approach to risk management. It is an integral part of the Council's corporate governance arrangements and is built into management processes.
7. The Council operates a two-tiered risk management process to address the dynamic and inter-dependent nature of risk categorisation. The risk categories are strategic and operational risks.
8. Strategic risks are defined as those risks that have an impact on the medium to long term ambitions and priorities of the Council as set out in the Corporate Plan and in conjunction with the Medium-Term Financial Plan (MTFP).
9. Members of the Management Team and Executive Members have shared responsibility for strategic risks. It is the responsibility of the Executive to formally endorse any new risks for inclusion on the strategic risk register.
10. Operational risks are risks that are encountered in the course of the day to day delivery of services. However, if an operational risk cannot be fully managed within the service or it has a wider organisational impact then it will be considered for inclusion in the operational risk register by the Council's Corporate Governance Group. Heads of Service have responsibility for operational risks.
11. The Audit Committee received the strategic risks for 2020/21 at its meeting on July 16 2020.

KEY INFORMATION

Risk management reporting

12. The Council's risk registers have been updated at the end of Q1, alongside Directors and Heads of Service.

13. The full risk registers are made available to all members via the ModernGov document library. Risk registers from previous years are available on the eMembers portal.
14. Each quarter the Audit Committee receives an update on risk management. As per the Council's risk management methodology, the risk management report provides an update on all strategic risks as well as any red rated operational risks.
15. The update includes the current risk rating, the direction of travel of the risk as well as a summary of key updates.
16. This quarter's report is the first update the Committee has received following its establishment.
17. Following the Audit Committee this report will be considered by the Executive.

Risk ratings

18. The Council's risk management strategy and methodology utilises the following risk ratings:

| Rating | Action |
|--------|--|
| Red | Where management should focus attention. Immediate actions should be identified and plans put in place to reduce risk as a priority. |
| Amber | Where management should ensure that contingency plans are in place. These may require immediate action and will require monitoring for any changes in the risk or controls. These will be a key area of assurance focus. |
| Yellow | These should have basic mechanisms in place as part of the normal course of management. |
| Green | Where risk is minimal and does not demand specific attention but should be kept under review. |

Q1 2020/21 risk management update

19. An update on the Council's strategic risks for 2020/21 is provided in annex 1.
20. There were no red rated operational risks in Q1.
21. During the quarter one new strategic risk was identified, the detail of which is provided in annex 2.
22. No strategic risks were identified for closure in Q1.

OPTIONS

23. The Committee has two options:

Agenda Item 6

- 24. Option 1: note this report and make no observations to the Executive;
- 25. Option 2: note this report and make any observations to the Executive.

LEGAL IMPLICATIONS

- 26. There are no legal implications arising from this report.

FINANCIAL IMPLICATIONS

- 27. Financial risks are taken into account when preparing the Medium Term Financial Plan, Capital Investment Strategy, Revenue Budget and Capital Programme each year.
- 28. There are no additional financial implications arising from this report.

EQUALITIES IMPLICATIONS

- 29. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

- 30. There are no communications implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

- 31. The Council's risk registers inform the development of the annual risk based internal audit plan.
- 32. There are no other risk management implications arising from this report.

OTHER IMPLICATIONS

- 33. There are no other implications arising from this report.

CONSULTATION

- 34. The contents of this report have been considered by the Council's Corporate Governance Group.

POLICY FRAMEWORK

- 35. The Council's risk management strategy and methodology provides additional information on how the Council manages risk.

BACKGROUND PAPERS

None.

ANNEX 1 – STRATEGIC RISKS 2020/21

| Ref. | Risk description | Owner | Rating | Mitigating actions/update | Direction of travel |
|------|---|----------------|--------|---|---------------------|
| SR1 | <p>Brexit</p> <p>The UK's withdrawal agreement with the European Union includes a transition period where the pre-Brexit trade arrangements will continue to apply. The transition period ends on 31 December 2020, where, if successfully negotiated, new trade arrangements covering goods and services will be put in place. Despite the COVID-19 pandemic, the government remains committed to leaving the transition period by 31 December.</p> <p>The government has the option to extend the transition period but will need to make this decision by June at the latest. If the option to extend is not exercised any later request will require a new treaty and ratification by all EU member states within a short timeframe.</p> <p>If the extension is refused, this leaves the government limited time to agree new trading arrangements. If new trade arrangements aren't negotiated then the transition period will elapse without a trade deal being in place, resulting in a no-deal Brexit which will likely have adverse effects on the economy.</p> | Cllr Schofield | RED | <p>As of the end of Q1 the UK government and EU have not negotiated a new trading arrangement. The UK government has also not exercised the option to extend the transition agreement. This has therefore increased the likelihood of a no deal Brexit as there is now a limited timeframe for the negotiation of new trading arrangements.</p> <p>The Council continues to monitor the advice and guidance issued by the Government and the Local Government Association and will take any steps that are required. The Council also continues to liaise with the Surrey Local Resilience Forum.</p> | ↑ |
| SR2 | <p>Financial sustainability</p> <p>The Council is now operating in a uniquely challenging and uncertain financial context.</p> <p>In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty.</p> <p>The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review</p> | Cllr Schofield | RED | <p>The Council's Medium-Term Financial Plan was reported to the Executive in July 2020. This sets out the forecast budget challenges over the coming five years. It will form the basis for service & financial planning for 2021/22 onwards.</p> <p>COVID-19 has resulted in material new financial risks, both in 2020/21 and potentially over the medium term. Additional unbudgeted expenditure has been incurred to deliver the authority's response and budgeted sources of</p> | — |

ANNEX 1 – STRATEGIC RISKS 2020/21

| Ref. | Risk description | Owner | Rating | Mitigating actions/update | Direction of travel |
|-----------|--|------------|--------|--|---------------------|
| | <p>and Business Rate Reset and Revaluation being delayed.</p> <p>There most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct Government support these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions in future years.</p> | | | <p>income have been impacted by reduced demand during lockdown.</p> <p>Government funding received to date is likely to address a significant proportion of the one-off cost pressures but there remains uncertainty about funding support for lost income from fees & charges and local taxes in 2020/21 as well as about whether income levels will return to pre-COVID levels in the remainder of the year and beyond.</p> <p>The importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward income generating projects such as Horley Business Park, remains a high priority.</p> | |
| 58 SR3 | <p>Local government reorganisation</p> <p>A reorganisation of local government could be prompted by a range of scenarios and circumstances, including the financial failure of an authority within Surrey or as part of a new devolution agenda.</p> <p>Given the COVID-19 Pandemic, a mandated reorganisation or devolution is unlikely. Instead, changes are most likely to result from a neighbouring or partner authority's financial failure or distress.</p> <p>The results of a possible reorganisation are uncertain, though it could adversely affect this Council and the delivery of services for residents.</p> | Cllr Brunt | AMBER | <p>Our neighbouring and partner authorities continue to operate in the same strained financial circumstances as detailed in SR2 above.</p> <p>Surrey County Council recently announced its intention to develop a proposal to central government for a single unitary authority to cover the county.</p> <p>The Council was a joint signatory to a letter to the Secretary of State, Robert Jenrick MP, which requested that the government give consideration to alternative proposals for the future of local government in Surrey.</p> <p>On 30 July Full Council agreed that the Leader of the Council should work with other authorities across the County to develop a</p> | — |

ANNEX 1 – STRATEGIC RISKS 2020/21

| Ref. | Risk description | Owner | Rating | Mitigating actions/update | Direction of travel |
|------------|--|----------------|--------------|--|---------------------|
| | | | | proposal for the future structure of local government in the county. | |
| SR4 | <p>Partner public sector funding decisions</p> <p>The public sector is experiencing significant funding pressures. Budgetary decisions made by other public service providers will impact this borough's residents and businesses as well as the Council itself.</p> <p>The COVID-19 pandemic has increased pressure on public services. These pressures may result in partners being stretched which may require the Council to increase services and support provided. This could have negative funding and resource implications.</p> | Cllr Schofield | AMBER | <p>Our partner public sector organisations are operating in a similarly challenging financial context as detailed in SR2 above.</p> <p>We will continue to hold meetings to discuss priorities and funding between the Leader, Executive and key partners such as SCC, Police and Raven Housing Trust.</p> | — |
| SR5 | <p>Organisational capacity and culture</p> <p>The Council has adopted an ambitious Corporate Plan, supported by a capital investment, housing and Great People strategy.</p> <p>The COVID-19 pandemic will change the way the Council operates and will drastically change the organisational culture and ways of working.</p> <p>The Council will continue to be ambitious and the new ways of working will need to be embraced by both members and officers in order for objectives to be achieved.</p> <p>The failure to remain ambitious will risk the delivery of these objectives in these unprecedented times.</p> | Cllr Lewanski | AMBER | <p>Before the COVID-19 pandemic significant work was undertaken on the Council's Great People work programme (formerly known as the Organisation Development strategy). This has formed a solid basis for post COVID planning.</p> <p>The pandemic has resulted in a need for the organisation to work differently. The future of this is being proactively driven by the New Ways of Working Recovery group.</p> <p>Priority is currently being given to understanding and addressing staff welfare and wellbeing issues.</p> | ↑ |

ANNEX 1 – STRATEGIC RISKS 2020/21

| Ref. | Risk description | Owner | Rating | Mitigating actions/update | Direction of travel |
|------|---|-----------------------------------|--------|---|---------------------|
| SR6 | <p>Economic prosperity</p> <p>A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people and businesses. The COVID-19 pandemic will have negative impacts upon the economy, with forecasts suggesting the worst recession in a century.</p> <p>Prevailing economic conditions have a direct impact on the Council's financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from paid for services and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services.</p> | Cllr Humphreys and Cllr Schofield | RED | <p>Reigate and Banstead has the highest number of furloughed employees in Surrey (of businesses based in the borough). We will closely monitor the impact of the gradual ending of the government's furlough scheme and the impact on local residents and businesses.</p> <p>The Council has been active in helping to support local businesses throughout the COVID-19 pandemic. This includes the processing of business grants and applications for business rate relief. The Council has also distributed money to businesses via the local authority discretionary grant fund.</p> | ↑ |
| SR7 | <p>Reliance on the welfare system</p> <p>The COVID-19 pandemic has resulted in increasing numbers of residents being reliant upon the welfare system as the economy is negatively impacted. This increases the risk of household budgets being stretched and residents being threatened with homelessness. The latter could result in an increase in cost pressures on the Council as our services are increasingly relied upon.</p> | Cllr Knight | RED | <p>The COVID-19 pandemic will likely result in significantly negative economic impacts on residents, the full scale of which is currently unknown. The Council will closely monitor the impact of the gradual ending of the government's furlough scheme and the impact on local residents. The scheme is due to conclude in October.</p> <p>The full roll-out date for universal credit has yet to be confirmed. However, the system is live for those experiencing changes in their circumstances. The effects of COVID-19 may therefore increase universal credit claimants in the borough.</p> <p>Evictions were temporarily suspended following the COVID-19 pandemic. However, as the courts recommence evictions and work through a backlog of cases, the Housing service will</p> | ↑ |

ANNEX 1 – STRATEGIC RISKS 2020/21

| Ref. | Risk description | Owner | Rating | Mitigating actions/update | Direction of travel |
|-------------|--|----------------|--------------|---|---------------------|
| | | | | likely experience a marked increased in homelessness applications from families. | |
| SR8 | <p>Cyber security</p> <p>Organisations are at an ever-increasing risk of cyber-attack as the use of digital systems and technologies increases. More sophisticated attacks and new variants of malicious software underscore the risk of corporate defences being compromised.</p> <p>The shift to remote working and teleconferencing in response to COVID-19 could potentially compromise cyber security.</p> <p>The effects of a cyber-attack are wide and varied though at their worst could result in data destruction, disruption to the delivery of services and data theft.</p> | Cllr Lewanski | AMBER | <p>ICT reports data security matters to the Senior Information Risk Officer (SIRO). The ICT customer base will be kept informed of any specific threats and will be continually reminded to be vigilant when opening email or browsing websites, particular those from unknown sources.</p> <p>The annual assessment of ICT security standards, set by the Cabinet office and known as the Public Sector Network Code of Connection (PSN CoCo), has been passed and certificated.</p> | — |
| SR9 | <p>Fraud</p> <p>Due to the wide range of activities being undertaken by the Council, there is a risk of fraud being committed. The latter is exacerbated by the new areas of activity which the Council has launched following the COVID-19 pandemic.</p> | Cllr Knight | AMBER | The new areas of activity that the Council has delivered since the pandemic started (e.g. business rates relief, grants etc.) increase the risk of fraud. The Council nevertheless has robust control measures in place to protect public funds from fraudulent activity. The Council's processes regarding the payment of small business grants will be audited in Q2 of this financial year. | ↑ |
| SR10 | <p>Marketfield Way</p> <p>Marketfield Way is a major place delivery project for the Council and is critical to shaping Redhill and ensuring the town's continued vitality and viability. It will also generate income which can be reinvested in Council services.</p> | Cllr Humphreys | AMBER | The project continues to be on track. Enabling work has continued despite the COVID-19 pandemic. Office based staff are working remotely and social distancing measures are in place on site. These measures are aligned to industry standards as well as all relevant government guidance. | — |

ANNEX 1 – STRATEGIC RISKS 2020/21

| Ref. | Risk description | Owner | Rating | Mitigating actions/update | Direction of travel |
|------|--|----------------|--------|--|---------------------|
| | The COVID-19 pandemic will likely negatively impact upon this development, including in its delivery as well as its financial viability. | | | | |
| SR11 | <p>Gatwick Airport</p> <p>The COVID-19 outbreak is likely to have a prolonged negative impact on Gatwick airport. The outbreak has seen a large reduction in air travel which can be expected to continue into the foreseeable future due to the negative economic outlook and likely ongoing global travel restrictions.</p> <p>As a key local employer the financial position of the airport will likely have a negative effect on local employment, which may result in an increased number of residents seeking support from the Council.</p> | Cllr Humphreys | AMBER | <p>This risk is largely outside of the Council's control and is dependent on any possible support provided by the government to the aviation sector and the commercial decisions made by private companies.</p> <p>Our neighbouring borough of Crawley (the local authority area in which Gatwick is located) has the highest number of furloughed workers in the country, a significant portion of whom work at Gatwick.</p> <p>As furlough figures are reported where the employer is located, it is likely that a high number of Reigate and Banstead residents are on furlough from Gatwick and its associated supply chain. This will continue to be closely monitored particularly as the government's furlough scheme ends.</p> | — |

ANNEXE 2 – NEW STRATEGIC RISK

| Risk description | Owner | Rating |
|--|------------|--------------|
| <p>COVID-19: second wave/local lockdown</p> <p>In the event of a second wave or local lockdown, the Council will be required to stand up its response to support residents and businesses.</p> <p>This will result in members of staff being redeployed and could result in significant disruption to the delivery of services.</p> | Cllr Brunt | AMBER |

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