

BOROUGH OF REIGATE AND BANSTEAD

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held at the New Council Chamber - Town Hall, Reigate on 10 June 2021 at 7.00 pm.

Present: Councillors J. Baker, M. S. Blacker, J. Booton, G. Buttironi, R. J. Feeney, J. P. King, S. A. Kulka and R. Michalowski.

Also present: Councillor Lewanski.

1. ELECTION OF CHAIR

RESOLVED that Councillor J King; having been proposed by Councillor Michalowski, and seconded by Councillor Buttironi, be elected as Chairman of the Audit Committee for the 2021-22 municipal year.

2. ELECTION OF VICE-CHAIR

RESOLVED that Councillor Feeney; having been proposed by Councillor J King, and seconded by Councillor Michalowski, be elected as Vice-Chairman of the Audit Committee for the 2021-22 municipal year.

3. MINUTES

The minutes from the meeting held on 18 May 2021 were **APPROVED** as were the exempt minutes from the meeting held on 11 March 2021.

4. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

An apology for absence had been received from Councillor Walsh.

Councillor Feeney attended the meeting virtually and was therefore unable to vote.

5. DECLARATION OF INTEREST

There were no declarations of interest.

6. DRAFT ANNUAL GOVERNANCE STATEMENT 2020/21

The Interim Head of Finance explained that the Council was required to publish an annual statement on its internal control and corporate governance arrangements as part of the Statement of Accounts. It was good practice for this to be endorsed by the Committee that oversaw these arrangements.

Key information was shown in paragraph 5 of the report and this was explained. It was noted that consideration had also been given to COVID-19, its impact on governance arrangements, and the special measures put in place in response to the situation.

The final version would reference the most recent opinions from both internal and external auditors.

The Statement includes any areas of concern or requirement for improvement. Although no significant weaknesses had been identified, work was ongoing to continually improve, ensuring compliance with good practice.

The next step was to finalise the Statement for signature by the Leader of the Council and the Head of Paid Service. It would then be included in the audited Statement of Accounts which was due to be reported to this Committee in the Autumn.

RESOLVED that the Committee notes the Draft Annual Governance Statement 2020/21 as set out in Annex 1 to the report.

7. EXTERNAL AUDIT PLAN 2021/22

Ben Sheriff (Director), Deloitte, introduced the report and stated that the plan set out the audit regime for the year and included areas of risk and focus, particularly around valuations and pensions.

He observed that the situation relating to COVID-19 had progressed. Last year's financial statement was produced just a few days after the first lockdown and there was a high degree of uncertainty. Twelve months later, as a result of the ongoing pandemic the Council received additional income and was undertaking additional activities, including the payment of various grants. These created some complexities in the accounting for 2020/21 which would be focused on during the audit. However, unlike last year there will no longer be an asset valuation uncertainty comment that would need to be included in Deloitte's opinion. There would be a focus on the broader impacts of COVID-19 and this was explained.

It was highlighted that audit reporting in respect of the value for money and use of resources opinion would be different from previous years. The opinion issued on the 2020 accounts was unqualified: the new regime adopted for 2021/22 was explained, including the separate reporting timescales. It was noted that if a significant weakness was identified, that would also be reported within the main audit opinion.

It was questioned whether any areas were being deprioritised for review during the audit and the impacts; it was stated that this was not the case. All relevant information in the accounts needed to be tested, focusing on materiality. There was still some uncertainty as to how COVID-19 transactions flow through the accounts, for example in terms of whether they were showing as income and cost to this authority or whether the Council was acting as an agent for MHCLG (Ministry of Housing, Communities and Local Government); this would have an effect on selection of areas to be tested.

A Councillor referred to page 13 of Deloitte's report and questioned why the risk highlighted in the report had been rebutted by Deloitte. In response, Practice Note 10 was referred to and was explained. It was stated that, for example, while some income streams for public bodies were material and complex, they were less open to manipulation than in other sectors.

RESOLVED that the External Audit Plan 2021/22 be noted and approved.

8. INTERNAL AUDIT - 2020-21 ANNUAL REPORT AND OPINION

Neil Pittman, Head of SIAP, presented the annual internal audit and opinion. It was acknowledged that this had been a challenging year, with competing demands. Thanks were extended to the team and all Officers across the Council on fulfilling the audits virtually.

Despite audits taking place virtually, the process had not been inhibited. The overall opinion was shown on Page 37 of the agenda pack and the Committee was informed that SIAP was able to give the opinion of “reasonable”. Key observations were shown on page 40, with an additional item in significant issues on page 42, alluding to financial resilience. It was explained that in the near future, new income streams were required, and this could not be underestimated.

In terms of SIAP’s review of Financial Sustainability, it was acknowledged that, while current financial position was sound, new income streams would not come online for some years and it was therefore questioned whether there was sufficient resilience over the medium term. The Committee was informed that the Council had healthy reserves but needed to bear in mind that these were finite. The key financial strategy was to develop sustainable sources of income. Part 1 of the Commercial Strategy had been agreed to support this and Part 2 was being produced. Officers reported that the Service and Financial Planning process had begun for 2022/23 and Executive Members acknowledged that the Council needed to see through its strategy for developing sustainable income. Fees and charges were being examined so these could be optimised. There were also a number of income generating projects that were closer to delivery and these were outlined.

A question was asked regarding the high level of suppliers (each with an aggregated spend higher than £25,000, where contract arrangements would be expected to be in place). It was explained that this was a concern as this was not in compliance with contracts procedure rules which was why it was highlighted. However, there was confidence in the actions to address the issues raised and that these were being acted on with expedience and diligence by Officers. The Interim Head of Finance agreed to provide a further written response to Members to help put the figures quoted into context .

A Councillor thanked everyone for the compilation of the report however raised concern that a fleet vehicle had been used without a valid MOT. Reassurance was sought that this could not reoccur. It was agreed that a written response on this action would be provided separately, along with further detail regarding the server room security.

In terms of the “reasonable” opinion, it was noted that this was standard wording and that reasonable was a fair outcome. The majority of Councils would sit within this category.

RESOLVED that:

- (i) the Committee notes the annual internal audit report and opinion as per annex 1 of the report; and
- (ii) written responses would be sent to Members.

9. INTERNAL AUDIT - Q4 2020/21 PROGRESS REPORT

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), explained that the fundamental purpose of the report was to demonstrate key delivery of the 2020/21 Audit Plan.

Performance to date showed that 86% of audits were complete, 14% were in progress, this meant that two were at draft report stage, while one remained at field work stage.

The Committee was apprised that there had been four new final reports and one draft report published concluding “limited” or “no” assurance since SIAP’s last progress report. The report showed a line by line breakdown of audits undertaken this year; it also listed adjustments due to reprioritisation as a result of the risks around COVID-19.

Following a question by a Member regarding cyber security it was stated that in respect of section 4 of the report, that work had concluded with a “reasonable” assurance and in terms of section 8, it had been considered that cyber security should be incorporated into the 2021/22 plan. The rationale for this audit related to staff working from home and any potential vulnerabilities to the network.

Concern was raised regarding procurement via credit card and there were questions regarding the management actions. In response, it was stated that there had been 19 management actions, of which 12 had been assessed as complete at the time of preparing the report. SIAP had been asked by the Interim Head of Finance to audit the use of credit cards as they were used more frequently during the emergency response to COVID-19. This area had been due for a review as this had not been undertaken for some time. Following the audit, new processes had been put in place and these were explained.

In response to a question relating to fleet management, it was noted that 16 management actions had been completed and 5 remained outstanding. Assurance was given that these would be followed through to completion as with all audits.

Members were referred back to Audit Guidance Statements and in terms of processes put in place, there was a whole framework that ensured processes, checks and controls were monitored on an ongoing basis. Measures were in place that ensured they remained relevant as business evolved.

RESOLVED that the Audit Committee notes the internal audit progress report contained in the annexes to the report.

10. RISK MANAGEMENT - QUARTER 4 2020/21

Councillor Lewanski introduced the item stating that the report provided an update on risk management in Q4 2020/21.

Annex 1 of the report provided an update on all strategic risks, including their rating and a summary of the key updates.

No new strategic risks were identified in Q4.

In Q4 one strategic risk was identified for closure: SR4 – Partner Public Sector Funding Decisions. This risk was recommended for closure as the Council's funding reliance on the County Council had reduced, therefore reducing the potential impact of any funding or budget decisions Surrey makes. This recommended closure aligned with the finalisation of the Council's and Surrey's 2021/22 budgets.

Impacts resulting from partner public sector funding decisions going forward would be covered in 'SR2 – Financial Sustainability'; in the 2021/22 Strategic Risk Register.

In addition to strategic risks, the Committee also received updates on RED rated operational risks. At the end of Q4 there was one rated operational risk, the detail of which is provided in the part 2 exempt annex.

Following this Audit Committee meeting this report would be considered by the Executive on 24 June.

In terms of the number of strategic red rated risks, it was acknowledged that COVID-19 had a big impact and there was a financial impact on residents. There was always a large workload, however there was a continuing desire to consider issues that affected residents. Risks around the impact COVID-19 had on Gatwick Airport were highlighted and it was acknowledged that this would skew the risk ratings.

In relation to SR8, it was asked whether spot checks were made on Officers to ensure appropriate use of ICT as it felt this was more effective than a reminder. The internal audit gave a reasonable assurance on cyber security and it was agreed that this observation be fed back to the ICT Team.

RESOLVED that:

- (i) The Committee notes the Quarter 4 update on Risk Management provided by the report and associated annexes;
- (ii) The recommended closure of strategic risk on 'Partner Public Sector Funding Decisions' (SR4) as detailed in Annex 2 be noted.

11. AUDIT COMMITTEE FORWARD PLAN 2021/22

RESOLVED that the Audit Forward Plan 2021/22 be noted.

12. ANY OTHER URGENT BUSINESS

There was none.

13. EXEMPT BUSINESS

RESOLVED that members of the Press and public be excluded from the meeting for part of agenda item 6 (Risk Management – Quarter 4 2020/21) under Section 100A(4) of the Local Government Act 1972 on the grounds that:

- (i) it involves the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12A of the Act; and
- (ii) information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

The Committee concluded within the exempt part of the meeting, that as there were no further updates or comments since the meeting held on 11 March 2021 the Committee could move back into the public part of the meeting.

The Meeting closed at 8.00 pm