

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 28 September 2021 at 7.30 pm.

Present: Councillors J. P. King (Chairman), R. J. Feeney (Vice-Chair), J. Baker, M. S. Blacker, S. A. Kulka, R. Michalowski, S. T. Walsh and A. King (Substitute).

Also present: Councillors J. Booton.

14. MINUTES

The minutes from the meeting held on 10 June 2021 were **APPROVED**.

15. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

An apology for absence had been received from Councillor Buttironi, Councillor A King attended as his substitute.

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

16. DECLARATION OF INTEREST

A Councillor declared that all members present had a general non-pecuniary interest as all were borough Council Tax payers.

17. APPOINTMENT OF THE INDEPENDENT MEMBER TO THE COMMITTEE

It was **NOTED** that the Full Council meeting held on 23 September 2021, appointed Robert Coyle as the Independent Member to the Audit Committee. Robert Coyle was welcomed to the meeting.

18. TREASURY MANAGEMENT OUTTURN 2020/21

The Interim Head of Finance gave an overview of the treasury management function, explaining that treasury management covered the management of the Council's cash and borrowing, as compared to budget management which focussed on controlling spending and income. The Council was required to have a balanced revenue budget whereby all expenditure was covered by income suggesting a neutral annual cash flow, therefore income would equal expenditure, however surpluses/shortfalls were held, either due to short term mismatches of spending and income flows, or as part of a deliberate strategy and this was explained. These cash sums were then reported at the end of the year on the balance sheet.

The Capital Financing Requirement (CFR) was a key element of treasury management and this set out how the capital programme would be funded over coming years. This was usually through a combination of grants, asset sales and borrowing. That borrowing had an impact on the revenue budget that includes funding for loan interest costs and sums set aside for principal repayment (known as the Minimum Revenue Provision or MRP). Management of the Council's cash balances and borrowing were the two key elements of treasury management. The

governance of Local Authority treasury management was outlined as were the treasury management reporting requirements.

An overview of the Treasury Investment Strategy and borrowing plans was given, as was the delegation of responsibility for Treasury Management. It was highlighted that the Audit Committee's role was the scrutiny of Treasury Management Strategy and performance. The Committee would be consulted each year on development of the new Treasury Management Strategy. In anticipation of preparing the Treasury Management Strategy for 2022/23 in-depth training for the Committee would be arranged, with support from the Council's treasury advisors, Link, in the new year.

The Treasury Management Outturn report provided an update on the performance of the Council's treasury management activities for the last financial year and was part of the formal reporting requirements under the CIPFA Code of Practice on Treasury Management. It was stated that with one with one exception, the Council complied with legislative and regulatory requirements and operated within the limits specified in the Treasury Management Strategy. As previously reported to Overview and Scrutiny Committee and Executive throughout last year, the exception related to periods of time during the year when the Government paid over tens of millions of pounds in emergency funding to the Council at short notice as part of the national COVID-19 pandemic response. As a result, it had not been possible to spread the funds across a range of banks and financial institutions as was normally required, to ensure compliance with the limits for how much was invested with individual institutions as set out in the Treasury Management Strategy. However, this had now been resolved mainly through opening additional accounts with new institutions to spread the counterparty risk.

It was questioned as to the number of additional accounts that were opened and their lifespan. Further information regarding this would be provided in a written answer after the meeting.

The distribution of funds between in-house investments and investments with brokers was highlighted (Table 7 of the report). It was explained that some of these investments dated back over several years when rates of return were higher whereas more recent investments were invested at a point when rates of return were lower. Security and liquidity were the most important factors when investing. A written response was requested to provide a schedule of investment accounts held, to include the rates of return that the Council was receiving.

The level of inflation impacts on the Council's budget planning. The main area of concern would be pay inflation pressures and impacts of inflation on material and labour providers that would impact building projects. Once current energy deals expired, new deals available could also be impacted by inflation.

In terms of the extraordinary circumstances relating to COVID-19, the Council had to manage an influx of Government funding and had acted as an agency for distribution of these funds. This situation demonstrated that the Council had strong mechanisms in place to deal with this challenge as it occurred.

In respect of the debt portfolio (Table 6 of the report), it was explained that the Council was allowed to borrow within its Capital Financing Requirement. The Council did not currently have any long-term loans but there were cashflow

circumstances in which short-term loans were required. The local authorities from whom funds had been borrowed had a cash surplus and the Council was able to agree favourable terms with them.

The Committee questioned the figures which were stated as being 'to be confirmed' within Table 10 of the report (Investment Portfolio). It was stated that the timing for receipt of published accounts from third party companies was currently out of step due to COVID-19 publication delays and this had caused the gaps in information within this table. At the meeting of the Audit Committee being held in November, the Council should be in a better position to report the figures. When the accounts are published, the tables would be updated so that the complete figures were reported; this would include any reduction or increase in investment value.

It was confirmed that Greensand Holdings Limited and Horley Business Park LLP had issued management accounts however there were protocols on the timing for reporting them.

The Committee questioned who in the Council was aware when counterparty limits were breached (during the response to the pandemic). Starting with the first lockdown in late March 2020, when the Council started to receive an influx of Government funding, new controls were put in place to manage and report these funds. More frequent monitoring of the cashflow position was introduced, including the Interim Head of Finance receiving daily updates, giving daily approval to where the funds were placed, thereby ensuring clear accountability. This was later revised to weekly monitoring which was currently ongoing and would continue for the foreseeable future. Weekly updates were provided to the responsible Portfolio Holder and also to the Incident Management Team which included the Leader. Overall there were effective controls in place and there was transparency of reporting.

In respect of Tables 2 and 3, the Interim Head of Finance agreed to produce a written response detailing reconciliation.

With regard to the Council's investments, there were limited places it could invest, and these tended to be either short-term or long-term investments and conversations were always on going with the Council's treasury management advisors regarding investment options and opportunities.

The Interim Head of Finance agreed that the half-yearly report would be brought back to the Committee when the outstanding company information was available so that members would be able to re-scrutinize it.

RESOLVED that:

- (i) The Audit Committee notes the report;
- (ii) The comments made would be fed back to the Executive; and
- (iii) Written responses would be sent to Members.

19. INTERNAL AUDIT - Q1 2021/22 PROGRESS REPORT

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), gave the Committee an overview of Annex 1 to the report, which provided an update on the delivery of the 2021/22 internal audit plan as of the end of quarter 1. An update on the outstanding audit reviews from 2020/21 was also provided.

So far this year one limited assurance rated audit review, relating to the Harlequin Theatre, had concluded. This examined local income, banking and reconciliation functions.

The Interim Head of Finance explained that the audit had been commissioned due to the unusually high level of banking discrepancies identified when the Finance team were preparing bank account reconciliations. The outcome of the audit was to highlight areas of weakness and inconsistency at the operational level that were causing these errors. It also confirmed that this was due to human error rather than irregularity. Action was now underway to update procedures to eliminate the scope for error and train Harlequin staff in their use.

The interim Head of Finance confirmed that the Harlequin was the service that received the highest volume of cash. Members were assured that there were controls in place for the Council's other venues that accepted cash payments.

The Interim Head of Finance agreed to provide a written response to members on progress in progressing the management actions arising from this audit and on the current budget position for the Harlequin.

Referring to page 49 of the report, it was noted that 44% of audits were yet to commence, all other audits related to Q4 and were on track for delivery. In terms of live audits there were a number of management actions that were pending. A number of actions that were overdue had received revised implementation dates. All quarter 2 audits were on track. The audit review on the Local Government (COVID-19 Sales, Fees & Charges) Compensation Scheme had been signed off in October.

There were 2 outstanding actions relating to cyber security and they had received revised implementation times for the end of September. SIAP would follow these actions through to completion.

Concern was raised regarding the number of overdue actions for the review relating to Human Resources and Organisational Development. It was explained that because the report was undertaken in October 2019, this did not mean the actions needed to be completed by this date and may have only just become overdue. The revised date for these actions was December 2021. Meetings with senior officers consider SIAPs reports monthly and question why some deadlines were being delayed or deferred. SIAP attended these meetings and discussed areas of concern, particularly with high priority actions. It was important to set realistic targets for actions, as it had become apparent that some original target dates were likely to have been unachievable.

A member stated that it would be useful to have a summary of the overdue actions in a table, as well as further information showing target dates, showing planned, managed and actual.

Further information was requested regarding the 2 high priority cyber security actions. It was stated that one related to the need for recruiting a member of staff and the other related to patch that was awaiting implementation.

RESOLVED that:

- (i) written responses would be sent to Members;
- (ii) a summary table to be produced detailing information regarding management actions;
- (iii) That the Audit Committee notes the Q1 2021/22 internal audit progress report available at annex 1; and,
- (iv) That the Council's Chief Finance Officer notes the comments made.

20. RISK MANAGEMENT - Q1 2021/22

Councillor Lewanski, Portfolio Holder for Corporate Policy and Resources, introduced the item stating that this report provided an update on risk management in Q1 2021/22.

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

In Quarter 1, one strategic risk has been identified for closure:

- The risk SR11 – 'Reform of the Planning System' was recommended for closure as the Government's plan to reduce the threshold for the provision of affordable homes had now been dropped. This therefore changed the implication of this risk and necessitated its closure.

However, to reflect the ongoing risk associated with broader planning reform, a replacement strategic risk was proposed:

- The new risk 'Planning system reform' reflected the latest implications of the Government's proposed reforms to the planning system, as detailed in the 'Planning for the Future' White Paper. Additional detail was available in annex 5 of the report.

As well as receiving an update on strategic risks, the Committee also received updates on red rated operational risks.

At the end of Q1 there were two red rated operational risks. Additional detail on red rated operational risks was provided in the part 2 exempt annex and in annex 3.

Due to meeting scheduling limitations, this report was considered by the Executive in advance of the Audit Committee on 16 September. The Executive approved the

closure of the previous planning risk and the reopening of a new risk to reflect the current implications of the risk.

It was stated that any observations or recommendations made by the Audit Committee would be reported to the relevant Executive member and, if required, to the following meeting of the Executive.

There was a general question regarding the composition of the risk register and why the financial activities (including companies/commercial ventures) of the Council were not within this, and Horley Business Park was given as an example. In response it was stated that the Chair of Overview and Scrutiny had raised this as an issue at the Executive. This was being looked into by the Portfolio Holder, Councillor Archer, to look at showing Horley Business Park as a strategic risk on the register however there were commercial sensitivities to consider. The Committee concurred that more of a general risk to the risk register should be added around commercial ventures. The Head of Corporate Policy stated that commercial ventures formed part of SR2, which focused on the overall financial sustainability of the Council.

In respect of SR5, it was noted that the Council had not yet received a response to its "Levelling Up" bid.

In response to a question asking why broader items that were out of the Council's control were included in the risk register, the Head of Corporate Policy stated that despite the Council not having direct control over employment in the borough for example, unemployment had implications on Council services and its financial position. The Council was able to support businesses in the area and needed to acknowledge the risk.

In respect of the Risk Register as a whole, comments were made regarding its composition and format. It was agreed that options would be considered with the Portfolio Holder for Corporate Policy and Resources.

Discussion took place around SR7, Cyber Security and it was confirmed that the Council's ICT strategy would drive future investment in ICT capabilities and resilience.

RESOLVED that:

- (i) Options relating to the risk register to be considered;
- (ii) the Q1 update on risk management provided by the report and associated annexes be noted;
- (iii) the recommended closure of the strategic risk on 'Reform of the planning system' (SR11) as detailed in the report and in Annex 4 be noted; and
- (iv) the recommended opening of a new strategic risk on 'Planning system reform' as detailed in Annex 5 be noted.

21. WORK PROGRAMME - 2021/22

The Clerk explained that the work programme showed the intended work to be carried out by the Committee over the coming municipal year. This was a live document and was subject to change according to requirements and availability of information.

A Member suggested that an additional meeting of the Committee could be required.

RESOLVED that the work programme be noted.

22. ANY OTHER URGENT BUSINESS

There was none.

23. EXEMPT BUSINESS

RESOLVED that members of the Press and public be excluded from the meeting for part of agenda item 5 (Risk Management – Quarter 1 2021/22) 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 paragraphs 3 and 7 of Part 1 of Schedule 12A of the Act;
- (ii) Information relating to the financial or business affairs of any particular person (including the authority holding that information).
- (iii) information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

The Meeting closed at 9.46 pm