

Minutes of a meeting of the **Audit Committee** held at the **New Council Chamber - Town Hall, Reigate** on **Wednesday, 6 December 2023 at 7.30 pm.**

**Present:** Councillors F. Kelly (Chair); B. Green (Vice-Chair), G. Buttironi, V. Chester and N. D. Harrison (Substitute)



**29 Minutes**

The minutes from the meeting held on 6 September 2023 were **APPROVED**.

**30 Apologies for Absence and Substitutions**

An apology for absence was received from Councillor Bray, Councillor Harrison attended as her substitute.

**31 Declaration of Interest**

There were none.

**32 Risk management - Quarter 2 2023/24**

Councillor J King, Executive Member for Corporate Policy and Resources, provided a short update from his portfolio for Committee members highlighting some developments relevant to the strategic risks which have taken place since the end of Q2:

**SR1 – financial sustainability.** Relevant to this risk was the draft 2024/25 budget, recently endorsed by the Executive, and currently undergoing consultation and review by the Overview and Scrutiny's Budget Scrutiny Panel.

The draft budget for 2024/25 anticipated a balanced budget with a call on reserves for specific funding risks faced by the Council.

**SR6 – Local Government reorganisation, devolution and Levelling Up.** In his Autumn Statement, the Chancellor announced that Surrey County Council had been invited by the government to discuss a Level 2 devolution deal.

The deal did not require any structural changes to Local Government in Surrey, but provided the opportunity for Surrey County Council to take on additional areas of responsibility (with associated funding).

The Council would work with Surrey to help to shape the devolution deal.

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**SR9 – Gatwick Airport.** The Council has now submitted its representation to the Planning Inspectorate setting out its views on the proposal to bring the Airport's emergency runway into regular use. This response has recently been shared with all members.

The Head of Corporate Policy, Projects and Performance introduced the report and provided members with an update on risk management in Quarter 2 2023/24.

In quarter 2, no new strategic risks had been identified and no strategic risks were recommended for closure.

**Operational Risks** - As well as receiving an update on strategic risks, the Council provided the Committee with updates on RED rated operational risks.

At the end of quarter 2 there was one RED rated operational risk. Additional detail on this risk was provided in the part 2 exempt annex.

Following the Audit Committee meeting, this report would be considered by the Executive on 14 December.

Due to the timing of when the Executive meeting agenda was published, any observations made by the Audit Committee on the report's contents would be raised at the meeting of the Executive on 14 December.

In response to a member question regarding SR1, Financial Sustainability, it was explained that despite the Council currently forecasting a balanced budget for 2024/25 it was prudent that this remained red rated until the Council knew the final settlement in December. Officers would reconsider this RAG rating ahead of the next meeting.

The Committee felt that SR1 and SR2 were interlinked, and that financial sustainability was a longer-term factor, rather than just one year's budget and noted that there remain concerns looking further ahead. Some of the controls in SR1 related to the Council's commercial strategy. The Council was receiving positive financial returns on The Rise however it was now giving a lower priority to pursuit of its commercial strategy. Due to commercial failings in a number of councils there had been changes to the codes of practice relating to investments that are limiting the scope of new commercial opportunities going forward.

In terms of SR2, a member referred to the plans for Horley Business Park in anticipation of the LLP dispute being settled soon; the Council's investment in Pathway for Care was also discussed. It was noted that these were more about resolving risks than securing financial sustainability. A member questioned why this risk was amber rather than red rated and the process for how risks were scored was explained. The member stated that it was difficult to support the amber rating for SR2.

In respect of SR3, challenging economic conditions for residents and businesses, the Committee acknowledged what was included in this risk. In response to a member question, it was explained that SR3 was more about the impact on individual residents and the increase in demand for services from the Council as economic pressures increased for residents.

Referring back to SR1 and a question relating to the strength of budgetary control, it was explained that the Council had an established budget cycle which was described. Focussing on next year it was stated that ongoing financial risks had been identified but the Council expects to balance its budget. The Council took a medium-term approach to budget planning. The budget was subject to external audit which

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also tested the Council's control environment. Southern Internal Audit Partnership (SIAP) this year was reviewing the medium-term financial plan and also carry out a cyclical programme of audits of core financial systems and controls.

It was explained that officers and Members had concluded over recent years that a small number of commercial investments that commenced around seven years ago were not performing as expected and a fundamental review had been undertaken. The Council had not entered into new company arrangements since that review and has no current plans to do so again.

Members agreed that the Council should not be making commercial investments if it did not have the expertise. Officers acknowledged that buying in expertise did not always plug the gap. The Council had seen how complicated it was to unwind these types of investments.

**RESOLVED** that:

- i) the Audit Committee notes the Q2 2023/24 update on risk management provided in the report and makes any observations to the Executive.
- ii) Comments regarding the classification of SR2 be passed to the Executive.

### **33 Internal audit - Quarter 2 2023/24 progress report**

Natalie Jerams, Chief Internal Auditor of Southern Internal Audit Partnership (SIAP), explained that page 48 of the report showed the list of live audits with the final three columns showing the number of overdue management actions.

All audits from Q1-Q3 were underway with a number due to come to completion. The remaining Q4 audits would begin in January 2024.

Page 52 of the report showed adjustments to the audit plan, these alterations would not impact the internal audit report and opinion.

A member of the Committee explained that he was concerned about contract management being deferred, it was felt that this was a significant piece of work that needed to be undertaken.

In terms of the performance dashboard on page 47 of the report, it was explained that having completed 19% of audits was lower than normal for this point in the year, however 50% were in progress and there was real breadth in this 50%. The Committee was assured there would be 100% delivery and that the annual report would be achieved.

In terms of the audit relating to the use of volunteers it was stated that the actions due on 30 November were complete. There had been 15 management actions that had come out of this audit, 1 of which was to prioritise enhanced DBS checks. Information had now been gathered and mitigations were in place. Processes had been put in place to ensure that the Council stayed on track moving forward regarding DBS checks. It was noted that those audits with limited assurance would appear in next year's audit programme to provide further assurance.

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A Councillor commented that in terms of overdue actions, it would be helpful to have column added to demonstrate what had changed since the previous Committee.

In respect of low and medium priorities it was stated that these still required addressing. It was noted that some of these were overdue by 2 years, including fleet management, procurement and information governance.

In response to a question, it was explained that, following internal changes, the Procurement function had moved into the Finance department. There was now a Procurement Board in place with an improvement plan overseen by the Board. The Council had also employed a procurement consultant to ensure that improvements were delivered. The Strategic Head of Organisation and Transformation gave an overview of the activities that had taken place over recent months.

It was explained that the previous internal audit reviews of procurement and contract management had taken place in 2021. The outcome was to conclude that the Procurement service required a complete redesign in order to address significant gaps.

While individual tendering exercises had continued to take place and were compliant with established processes the lack of strategic oversight meant that the service as a whole was not yet operating effectively to secure value for money across the board. It was anticipated that a new operating model would be fully embedded by April 2024, including recruitment of permanent staff. The Council was also working with a neighbouring authority that was in a similar position so that both authorities could benefit from shared capacity.

In terms of fleet management, the Council was ensuring all its driving assessments were up to date. There had been ongoing long-term sickness and the Council had struggled to recruit HGV drivers. It was noted that all those that were required to drive had been tested, it was occasional users of pool cars that had not been assessed. These overdue management actions were considered by the Corporate Governance Group monthly. SIAP would re audit the service for reassurance.

With regards to information governance, it was explained that there was an asset register, which was currently out of date, and alongside that was a document known as a RoPA (Record of Processing Activities) which was a legal requirement. As the authority had one Data Protection Officer it was decided that there should be a network of 32 data champions across the Council. In the interim they have been trained on how to create a RoPA. Some key services would not be able to complete this by 31 December, however it was anticipated this would be completed by the end of Q4.

#### **RESOLVED** that:

- i) The Audit Committee notes the Q2 2023/24 internal audit progress report available at Annex 1; and
- ii) the Council's Chief Finance Office notes any comments and/or observations made by the Committee.

**34 Review of the Code of Corporate Governance**

The Electoral and Democratic Services Manager and Deputy Monitoring Officer introduced the report, stating that each local authority was required to develop and maintain a Code of Corporate Governance.

The Code of Corporate Governance sets out the principles of good governance and the arrangements in place to ensure that the Council conducts its business in accordance with the law and proper standards.

It provided assurance that the Council was meeting best practice in protecting its assets and serving the community.

The Code of Corporate Governance has been drafted in accordance with the principles set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance entitled 'Delivering Good Governance in Local Government'.

The guidance defines seven core principles that should underpin the governance framework of a local authority, and the Code demonstrates how the Council meets those principles by referring to relevant policies, strategies and governance framework documents. The guidance also recommended that local authorities review their Code each year to ensure it remained compliant and up to date.

The Monitoring Officer has reviewed the Code to ensure it still reflected the current governance arrangements of the Council and considered that no updates were required to the current Code as it still reflected the current governance arrangements of the Council.

In addition, the Council was currently undertaking a review of its Constitution, which formed a fundamental part of the governance arrangements of the Council, and therefore directly affected the Code of Corporate Governance.

This report therefore recommends that the current Code of Corporate Governance be confirmed by the Audit Committee, rather than amend it, with a view to an interim update after the Constitution is reviewed to realign the Code with it.

A member questioned how the Council monitored that the Code was being adhered to. It was explained that in terms of Principle 1, one of the documents was the Constitution and this ensured the right people made the right decisions. Regarding Principle 2, this ensured openness and comprehensive stakeholder engagement with the Corporate Plan. Overall, the Code was owned by different officers and Committees, but ultimately the Statutory Officers were the officers that took main responsibility for adherence to it.

In response to a question, it was explained that the Council undertook a review of the KPIs to ensure the Corporate Plan objectives were being met and the cycle was explained.

In response to a question regarding "social value", it was stated that this could be more clearly defined, however the housing delivery strategy could demonstrate social value as an example. The Council also included areas of social value in its contract management.

With regards to the following bullet point on page 81 of the report:

*Ensure the Leader and the Head of Paid Service/Directors have clearly defined and distinctive leadership roles within a structure whereby the Head of Paid Service/Directors lead in implementing strategy and managing the delivery of services and other outputs set by Members and each provides a check and a balance for each other's authority.*

It was stated that this referred to the Council's Statutory Officers i.e. the Head of Paid Service, the Monitoring Officer and the Section 151 Officer, whose roles are defined in the law with duties to protect the financial and lawful integrity of the actions the Council takes, this provides the supporting 'check and balance' which was set in the law.

In respect of using plain English, it was explained that Democratic Services act as the Council's gatekeepers to ensure reports were written in plain English. There was some concern that this meant officers were checking rather than members of the public.

It was requested that Councillor Lewanski be given access to minutes from the Corporate Governance Group. It was also noted that Councillor Lewanski be briefed on the Annual Governance Statement.

**RESOLVED** that:

- i) The Committee notes the Code of Corporate Governance at Annex 1; and
- ii) Observations from the Committee be considered as part of the next review.

### **35 Audit Work Programme and Schedule 2023/24 and Action Tracker**

The Clerk explained that the work programme set out 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. The action tracker gave an overview of the status of the actions that were requested at the previous meeting.

**RESOLVED** that the work programme be noted.

### **36 Any Other Urgent Business**

There was none.

### **37 Exempt Business**

**RESOLVED** that members of the press and public be excluded from the meeting for part of agenda items 4 (Risk Management - Quarter 2 2023/24) and 5 (Internal audit - Quarter 2 2023/24 progress report) under Section 100A(4) of the Local Government Act 1972 on the grounds that: It involves the likely disclosure of exempt information as defined in paragraphs 3 and 7 of Part 1 of Schedule 12A of the Act.

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3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).
7. Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

The meeting finished at 9.06 pm