

Minutes of a meeting of the **Audit Committee** held at the **New Council Chamber - Town Hall, Reigate** on **Wednesday, 19 July 2023** at **7.30 pm**.

Present: Councillors F. Kelly (Chair); B. Green (Vice-Chair), J. S. Bray, G. Buttironi, V. Chester and Vacancy (Independent Member) (Co-Opted Member)

Attended remotely: Councillors

Visiting Members present: J. C. S. Essex, J. P. King and V. H. Lewanski



9 Minutes

The minutes from the meeting held on 14 June 2023 were **APPROVED**.

10 Apologies for Absence and Substitutions

There were no apologies for absence.

11 Declaration of Interest

There were none.

12 Risk management - Quarter 4 2022/23

The Head of Corporate Policy, Projects and Performance stated that the report provided members with an update on risk management in quarter 4 2022/23.

No new strategic risks were identified in quarter 4 and no strategic risks were recommended for closure. Those risks carrying through into the 2023/24 register, as approved in quarter 3, have received a comment noting their new reference number for the new year.

As well as receiving an update on strategic risks, the Committee was provided with updates on RED rated operational risks.

At the end of quarter 4 there was one RED rated operational risk. Additional detail on this was provided in the part 2 exempt annex.

Due to the timing of the start of the new municipal year and changes to the membership of the Audit Committee, the Audit Committee held on 14 June 2023 was dedicated to the induction of new members. With this change in normal timings, the quarter 4 risks have already been noted by the Executive on 22 June 2023. Any observations made by the Committee at this meeting, would be presented to the Executive meeting in September for members' consideration.

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Following this Audit Committee meeting this report would be considered again by the Executive on 14 September 2023.

In response to a member's question relating to the time lag between this report being written and being presented at the Committee, it was asked whether there had been any material changes that members should be aware of, particularly around SR2 – Financial Sustainability and SR4 – Challenging economic conditions for residents and businesses. It was noted that there had been a number of reports to more recent Committees including the Medium-Term Financial Plan which was considered by the Overview and Scrutiny Committee earlier in the month. There had been no major changes to the forecast, but any emerging challenges and risks would be taken into account when setting the 2024/25 budget. The Corporate Plan Annual Report provided a more comprehensive update on some the work the Council was undertaking to support residents and businesses.

The Committee requested that in future its Members be made aware of reports that were considered at other Committees, but relate to the work of the Audit Committee. Officers agreed to look at how this can be achieved.

It was acknowledged that some risks were allocated more than one risk owner. Questions were asked about whether this was appropriate and how accountability was ensured. It was explained that mechanisms were in place to ensure that risk owners were held to account.

The new energy contract would run from 1 October 2023 until 30 September 2025. An external consultant had been commissioned to undertake building energy audits. Costings and timings to implement measures were being considered across a number of the Council's operational buildings, this included energy efficiencies as well as solar power.

RESOLVED that:

- i) The Committee notes the Q4 2022/23 update on risk management provided in the report and associated annexes and makes any observations to the Executive Meeting in September 2023; and
- ii) In future the Committee will be made aware of other reports that are considered at the Committees, but relate to the work of the Audit Committee.

13 Internal Audit - Quarter 4 2022/23 Progress Report

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), gave the Committee a detailed overview of the quarter 4 progress report on the delivery of the internal audit plan.

It was noted that 90% of the audits had been completed to date and two audits were in progress. The Committee would consider the Annual Report and Opinion at its meeting in September. There had been no audits completed in this quarter with a limited assurance.

The plan needed to remain fluid in order to accommodate emerging audits.

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The report outlined overdue management actions.

Concern was raised regarding the impact and reason for the two-year extension of the overdue procurement management action. An update was provided in the advance questions (question 13 and can be accessed [here.](#)), where it was explained that a Procurement and Contract Management transformation programme began in late June 2023. The Council now appointed an Interim Procurement Lead as a key challenge to date had been around lack of procurement expertise and capacity. There had been no specific impacts on planned procurements to date, although there may have been missed opportunities in terms of always obtaining the best deals and managing contracts. Neighbouring authorities were in a similar position.

Management action targets were set by the Council and in some cases, it was necessary to divert resources and the Covid pandemic was cited as one of those occasions.

In terms of the outstanding procurement and contract management actions, these would remain on the progress report until they were assessed as complete. A follow up review was scheduled to take place on procurement and contract management within the 2023/24 plan.

As per the previous agenda item, the Committee requested that in future its Members be made aware of reports that were considered at other Committees, but relate to the work of the Audit Committee. Officers agreed to look at how this can be achieved.

SIAP confirmed that they would be contacting responsible officers in respect of the outstanding management action regarding Information Governance. Assurances were given that this action would be completed no later than September.

Members were assured that the audit review on Contracts Management which received a limited assurance would be followed up to ensure actions had been implemented before being closed.

In response to a question, it was stated all grants received came with differing terms and conditions. Two of the grants that had been received by the Council had required internal audit review and were therefore added to the 22/23 audit plan.

In respect of deferring the audit relating to the Corporate Plan, it was explained that the audit plan was risk-based and on this occasion other reviews had been assessed as a higher priority. For reassurance, it was stated that there is an annual report to Overview & Scrutiny and Executive on progress with regard to the Corporate Plan.

It was confirmed that the action relating to the Environmental Sustainability audit, recommending improvements to the Annual Report, would be built into the forthcoming Annual Report.

RESOLVED that:

- i) That the Audit Committee note the Q4 2022/23 internal audit progress report available at Annex 1; and
- ii) That the Audit Committee's comments and/or observations on the reports be considered by Council's Chief Finance Officer.

14 Draft Annual Governance Statement 2022/23

The Chief Finance Officer explained that in compliance with the Accounts and Audit Regulations the Council was required to prepare and publish a statement on its internal control and governance arrangements as part of the Annual Statement of Accounts.

It was good practice that the statement be endorsed by the Member body that has responsibility for oversight of these arrangements, hence the reason for the draft Statement being presented to the Audit Committee.

Paragraph 5 of the covering report explained that the Statement drew on a number of sources of information about how the Council was performing in order to give a well-rounded picture.

This was a particularly important document for Members of the Committee because it set out the control assurance framework that was in place to ensure that the Council was well-run and that risks were managed effectively. It explained that it would provide a useful point of reference for the work of the Committee during the coming year – for example when considering reports and updates it would be important to bear in mind the supporting information.

The final version of the Annual Governance Statement would include reference to the independent reports of both the external and the internal auditors when available.

The Statement was also an opportunity to flag any areas for concern or improvement. Two matters of note were referenced:

- The Statement of Accounts for 2020/21 and 2021/22 had not yet been audited or approved by Audit Committee. An extended timescale had been agreed with the external auditor to allow time for completion of agreed actions by the Finance team to address historic shortcomings stretching back over many years in the financial fixed asset register.

These issues did not call into question the accuracy of asset values in the accounts but they did give rise to significant challenges for the Finance team when assembling supporting asset records and audit trail. It was therefore agreed with Deloitte that additional capacity and time would be dedicated to remedying these issues as part of 2020/21 end of year work.

The audit was now in progress and Deloitte expected to complete this by September. They would then commence work on auditing the 2021/22 accounts.

- During the year the authority encountered continued issues relating to a commercial joint venture that has been addressed by the statutory officers under the direction of the Partner, Shareholder and Trustee Executive Sub-Committee and with support from external commercial and legal advisors. This matter was currently subject to legal privilege while the settlement terms were finalised.

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Further discussion regarding the Council's commercial affairs took place in the exempt part of the meeting.

The next step would then be to finalise the Statement in the autumn when the external audit opinion was received and arrange for its signature by the Leader and the Managing Director ready for inclusion in the 2022/23 audited statement of accounts that would be reported to this Committee.

RESOLVED that:

- i) The report be noted; and
- ii) In future the Committee will be made aware of reports that are considered at the Committees, but relate to the work of the Audit Committee.

15 Statement of Accounts Progress Update

The Chief Finance Officer explained that the draft accounts for 2020/21 had been published and the audit was in progress, with completion likely in August/September. An additional meeting of the Committee would be scheduled to receive the auditor's report and approve the accounts and Members would be briefed in advance on the contents.

Also in progress were the draft 2021/22 accounts and the Finance team expected to publish these in August. The audit could then commence and an additional meeting of the Committee would be scheduled to receive the auditor's report when available and approve the accounts.

In respect of the draft 2022/23 accounts, it was anticipated that these would be published in the autumn so that the audit could be completed and the accounts approved by the Committee within the current municipal year.

The reasons for the delays were explained. As previously reported, it had been agreed with the auditor that additional work was required to improve the supporting records for fixed asset values in the accounts. This was now complete. However, at a national level there remained a backlog of audits accounts, due to a number of reasons including shortages in audit firm capacity, increased demands on auditors to carry out more in-depth reviews and late changes to the Code of Practice for preparing the accounts.

The Government issued its assessment of the situation this week following a Public Accounts Committee review and acknowledges that this was now a national crisis requiring all parties involved to take action. Further details of the Government's proposed solution would follow.

In response to a member question, it was stated that there was no longer a specific deadline to publish and audit the annual accounts, however one of the Government's proposals was to introduce a statutory deadline once more.

Local authority accounts were complex and CIPFA were also considering ways in which they might be streamlined.

RESOLVED that the update be noted.

16 Independent Member Recruitment

The Committee was apprised that the process to recruit an independent member to the Committee had commenced and the timetable for this was given. The role profile included the requirement to have some Local Authority experience.

The aim was to ratify the appointment at the Full Council meeting being held in November so that they were able to join the Committee's meeting in December.

RESOLVED that the update be noted.

17 Audit Work Programme Schedule 2023/24

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.

RESOLVED that:

- i) The work programme be noted; and
- ii) That the Finance, Governance & Organisation and Corporate Policy & Resources Portfolio Holders have an opportunity to present an update at future meetings.

18 Any Other Urgent Business

There was none.

19 Exempt Business

RESOLVED that members of the press and public be excluded from the meeting for part of agenda items 4 (Risk Management Quarter 4 - 2022/23), 5 (Internal Audit – Quarter 4 2022/23 progress report) and 6 (Draft Annual Governance Statement) 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.

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 8.44 pm