

# Minutes of a meeting of the **Audit Committee** held at the **New Council Chamber - Town Hall, Reigate** on **Wednesday, 7 December 2022** at **7.30 pm**.

**Present:** Councillors J. P. King (Chair); J. Booton, V. Chester, Z. Cooper, A. King and R. Coyle (Co-Opted Member)

**Visiting Member present:** Councillor Lewanski (Executive Member for Corporate Policy and Resources)



## **23 Minutes**

The minutes from the meeting held on 7 September 2022 were **APPROVED**.

## **24 Apologies for Absence and Substitutions**

Apologies for absence were received from Councillors Thompson and Baker. An apology for absence had also been received from Councillor Schofield (Deputy Leader and Executive Member for Finance and Governance).

## **25 Declaration of Interest**

There were none.

## **26 Treasury Management Strategy Mid-Year Report 2022/23**

The Chief Finance Officer explained that the report provided an update on the performance of the Council's treasury management activities for the first half of the current financial year. The report formed part of formal reporting requirements under the CIPFA Code of Practice on Treasury Management.

Overall, the report confirmed that treasury management activity for the current year was on track and complied with the limits that Members previously approved.

There was one minor non-compliance that was highlighted in the report, an occasion when funds were held in an investment account for one day more than the timescale specified in the Strategy. There were no impacts arising from this breach and action had been taken to improve controls to avoid recurrence. Additionally, an anomaly had also been identified within the Strategy that had been approved earlier in the year, which would be remedied when this was reviewed in March 2023.

In response to a member question regarding Table 3 (page 20 of the report) where it appeared that the Council's Capital Financing Requirement (CFR) was forecast to exceed the Operational Boundary, it was explained that the Operational Boundary for External Debt was defined as being the limit beyond which external debt was not normally expected to exceed. It was based on the forecast Capital Financing Requirement (CFR) which was the difference between forecast Capital Programme

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expenditure and the available resources to fund it. In typical circumstances the Council would be expected to take out external borrowing to fund the CFR.

While this situation would ordinarily require a request to Executive and Council to seek approval to increase the Operational Boundary to ensure continued compliance, this authority did not yet have any external borrowing as it continued to call on available cash balances to finance expenditure. Therefore the Boundary was not actually at risk of breach.

The main reason for the higher than forecast CFR was a change to the timing of receipt of a £34.000 million capital receipt from the Marketfield Way development.

While the majority of the Treasury Management Strategy Report 2022/23 was noted, Committee Members expressed strong reservations about the information presented at Table 5: Investment Portfolio – Non-Treasury Investments. Specifically, the limitations of the information provided in this report about the current and forecast value of the Council's investments in Horley Business Park LLP, Greensand Holdings Limited and Pathway for Care Limited.

The Committee recommended that the Executive query with the report owner and the report template provider (Link), whether it would be prudent and suitable to revise the table in light of the latest asset valuation information.

Committee Members also asked officers to provide more detailed briefings on the current trading position of the Council's companies and the risks of having to write off investment losses. They also asked for assurance on the Executive's plans to mitigate any risks identified.

In terms of risk and the Council's investments, members were asked to refer to the response given to question 12 of the advance questions, which explained that investments in general carried risks. While there were a variety of matters that were of current concern relating to the company investments, these had been identified and were being addressed through the Council's governance arrangements. This treasury report presented a narrow snapshot of the information required to be presented as part of the treasury reporting and the value of the underlying assets should be looked in the round within the Council's statutory accounts.

Further discussion on this item took place within the exempt part of the meeting.

### **RESOLVED** that:

- i. The Committee notes the report and asks officers to provide more information and/or clarification on any specific points (Option 2 in the report);
- ii. Feedback from the Committee to be provided to the Executive for consideration at its meeting on 15 December;
- iii. Training be arranged for members with the Council's treasury advisors prior to the next Audit Committee meeting in March when the Treasury Management Strategy for 2023/24 is to be considered; and
- iv. A briefing to be provided for Audit Committee Members on the Council's company investments.

**27 Internal audit - Quarter 2 2022/23 progress report**

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), gave the Committee an overview of the quarter 2 progress report on the delivery of the internal audit plan.

It was noted that 20% of the audits had been completed to date, 50% remained as work in progress and 30% were yet to commence. No reviews in quarter 2 had concluded with limited or no assurance.

Page 43 of the report showed 13 medium priority management actions that were overdue, along with their revised due dates.

The two audit reviews that were carried over from the previous year had now concluded and would form part of this year's report and opinion. There had been no further adjustments to the plan since the Committee's last meeting held in September.

In response to a member question regarding the review dates of IT virtualisation, it was stated that two servers had to be replaced and these were due to be configured the following week. The Council had to wait 3 months for the servers to be delivered.

**RESOLVED** that the Committee notes the report and observations be made to the Council's Chief Finance Officer.

**28 Risk management - Quarter 2 2022/23**

The report provided an update on risk management at the close of Quarter 2.

No new strategic risks had been identified and no strategic risks were recommended for closure.

One operational risk (IT disaster recovery) was red rated and was therefore being reported to the Audit Committee within a part 2 exempt annex.

In response to a Member observation regarding SR3 (Commercial Investment), the Authority was comfortable with the amber rating given to this risk and the Committee would be updated if that rating changed.

**RESOLVED** that the Committee notes the update on risk management provided by the report.

**29 Risk Management Strategy - 2023/24-2025/26**

The report introduced the updated Risk Management Strategy, which was provided at Annex 1.

The Strategy was subject to a review every three years. The Strategy sets out the Council's overarching approach to risk management and articulates how the Council identifies, assesses, manages and reports on the risks that it faces in delivering its objectives.

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The Audit Committee had been previously briefed on the scope of the update and their comments and suggestions sought. This informed the review.

The main changes were:

- The inclusion of a corporate risk appetite – the Audit Committee inputted into this via a survey and workshop with Zurich. This would assist the Committee in considering the Council's response to identified strategic risks.
- The introduction of an assurance framework that documents all risks faced by the Council and maps the corresponding controls. This would improve visibility of the entirety of the Council's internal control environment.

Previous feedback given by the Committee influenced other minor and consequential updates to the Strategy, for example the proposed reporting of inherent and target risk.

The Council has worked with Zurich who have also acted as a critical friend in the development of the Strategy. Zurich confirmed that the updated Strategy was robust and conformed to sector best practice (the full opinion was included within the agenda pack (Annex 2)).

Committee members were also provided with the accompanying Methodology document to aid their understanding (Annex3). This was an officer level document to aid Strategy implementation therefore did not require formal consideration by the Committee.

The Strategy was being brought to the Audit Committee to allow the Committee to make any comments or observations to the Executive. Following the Audit Committee meeting, it would be finalised and presented to the Executive, which was considering the Strategy at its January meeting ahead of its adoption by Full Council. The strategy was reviewed on a quarterly basis and an annual statement was produced.

Following an observation by a member, it was explained that where 2 risk appetites were shown in the report for one risk category, that risk category sat between the two risks appetites.

In terms of who accepted or authorised higher levels of risk within the Council it was stated that in general terms the Council had its officer Scheme of Delegation which sets out various delegated authorities for different levels of decision-making, as well as the Code of Corporate Governance which sets out different roles and responsibilities. It was requested that references should be made as to which documents documented where responsibilities lay.

Overall, Members felt that the Strategy was a good document, however it was also felt that the Council ought to be tighter in its language specifically when describing risks, the implication a risk may have; and the result this may have.

**RESOLVED** that the Committee notes the updated Risk Management Strategy 2023/24 – 2025-26 and observations be made to the Executive.

### **30 Update of the Code of Corporate Governance**

Each local authority was required to develop a Code of Corporate Governance and keep it up to date.

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

The Council was committed to reviewing the Code annually to ensure it remained up to date with current legislation and Council policies and practices.

As part of this review, the existing Code was considered by the Corporate Governance Group in October, and several changes were recommended by the Council's Chief Finance Officer and Monitoring Officer.

It was recommended that:

A draft amended code was attached at Annex 1 of the report, including the recommended changes which included the following updates:

1. To fix broken links to referenced documents under each principle.
2. To add references to the Council's financial sustainability programme under principles 2, 3, 4, 6, and 7.
3. To refer to the Council's Commercial Strategy under principle 2; and,
4. To refer to the Council's Asset Management Plan and IT Strategy under principle 3.

Once approved, the updated Code would be published on the Council's website (in place of the current version) and would be referenced when drafting the Annual Governance Statement.

Audit Committee was asked to consider and approve the recommended updates to the code.

**RESOLVED** that the adoption of the Code of Corporate Governance as attached in Annex 1 of the report be approved.

### **31 Audit Work Programme Schedule 2022/23**

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 members information relating to the status of actions that had been requested by the Committee.

**RESOLVED** that the report be noted.

### **32 Any Other Urgent Business**

There was none.

33 Exempt Business

**RESOLVED** that members of the press and public be excluded from the meeting for part of agenda items 4 (Treasury Management Strategy Mid-Year Report 2022/23, 5 (Internal Audit – Quarter 1 2022/23 progress report) and 6 (Risk Management Quarter 1 - 2022/23) 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 paragraph 7 of Part 1 of Schedule 12A of the Act;

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

The meeting finished at 8.58 pm