



## REIGATE AND BANSTEAD BOROUGH COUNCIL

### Commercial Governance Framework

**FINAL**

**Advisory - Internal audit report: 13.18/19**

**27 February 2019**

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.



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<b>Debrief held</b>	N/a	<b>Internal audit team</b>	Mike Cheetham - Head of Internal Audit Lorna Raynes - Client Manager Chris Benn - Assistant Manager
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<b>Final report issued</b>	27 February 2019	<b>Client sponsor</b>	Caroline Waterworth - Head of Legal
		<b>Distribution</b>	Caroline Waterworth - Head of Legal Doula Pont – Head of Projects and Performance

# 1 EXECUTIVE SUMMARY

## 1.1 Agreed Scope

This advisory review examined those aspects of control and scrutiny that the Framework proposes to ensure that key areas of good governance are addressed. In particular:

- the rationale for commercial ventures are challenged and demonstrated;
- an effective commercial structure is chosen,
- suitable terms of reference are proposed, delegated powers defined and personal responsibilities prescribed;
- monitoring and reporting structures are considered to ensure effective scrutiny and oversight of performance and outcomes;
- separations of duty are considered and conflicts of interest avoided;
- risk consideration is factored into all stages of the venture from conception, implementation to reporting and closure;
- financial accounting is efficiently recorded and effectively reported.

As agreed with management, the following limitations apply to the scope of our work:

- The scope of the work will be limited to the areas listed in the 'areas for consideration' section above.
- In addition, our work does not provide absolute assurance that material error; loss or fraud does not exist.
- We will not comment on any decisions or actions taken as a result of the framework, only on the framework itself.
- Our review will be advisory and will not result in a formal assurance level.

## 1.2 Background

A draft governance framework has been prepared by officers to set out a best practice template for the creation and delivery of commercial ventures and companies by the Council in future. It will be presented to members for consideration and approval in March 2019. The Framework is structured to follow the lifecycle stages of a commercial venture, with elements applying to each stage.

The framework is the distillation of lessons learnt from a review of commercial governance arrangements undertaken by a Member Task Group in 2018-19. The objective of this Framework is to set out a best practice template for the set up and delivery of commercial ventures and companies by the Council in future

## 1.3 Conclusion

The proposed Commercial Governance Framework provides good high-level guidance on key areas of expected control. This prescriptive approach for determining areas for governance and the consideration of future commercial relationships with the Council ensures that a systematic and consistent methodology can be demonstrated. We have made some minor suggestions for improvement to the draft proposal as set out at Appendix A of this document.

## 1.4 Key findings

We have identified a number of examples of good practice within the drafted framework. In particular the framework sets out clear lines of guidance that address the initiation, planning, execution and closure of commercial activities. These considerations are galvanised through a self-assessment checklist that is intended to mitigate risk and detail controls.

## APPENDIX A: SUGGESTIONS FOR IMPROVEMENT

We have identified the following areas of potential improvement

Framework Content	Further Suggestions
Initiation / Business Plan / Governance Structure / Self-Assessment Checklist	<p>1.1 There is potential within the draft to make clear where responsibility lies for completing the checklist, to whom this will be reported and where the record of the completed checklist will be archived. We would anticipate that the Council's monitoring officer or Chief Executive would hold this responsibility.</p> <p>1.2 We note that the Guidance makes reference to the need for an examination of the 'pros and cons' in respect of the need for a commercial venture. This could be somewhat refined to highlight the need for specific SWOT analysis of the proposed business cases.</p> <p>1.3 The self-assessment checklist could also prescribe the highlighting of any specific CIPFA, DCLG or Cabinet Office Guidance on the area proposed which could impact on the decision to create a commercial venture.</p>
<p>The Framework applies to any commercial venture (e.g. limited company or LLP in which the Council is a shareholder, where the Council's actual cumulative exposure exceeds £100,000.</p> <p>The shareholder function for all ventures will be exercised by a single, properly constituted Commercial Ventures Executive Sub-Committee. This may be supported by Member/Officer advisory group(s)</p>	<p>1.4 The framework should provide a cross reference or link to the Council's own Code of Conduct for Members and the Cabinet Office Guide for Members of Public Office that makes reference to Councillor duties for ensuring the safeguarding of public funds and the proper custody of assets.</p>
Success/outcome measures will be translated into KPIs which will be reported regularly to the Executive Sub-Committee.	<p>1.5 We would stipulate that the outcomes proposed within Business plans must be specific, measurable and time bound.</p> <p>1.6 Where performance reports to the Sub-Committee are made and outcomes are claimed we would expect an element of independent assurance to provide verification of these claims.</p>

Framework Content	Further Suggestions
Checklist - Is the delivery of the project being tracked and monitored and early action being taken to address risks?	1.7 We would recommend that the framework would require the external commercial entity to maintain an active risk register that is routinely monitored by its own management board and that this register accompanies the proposed quarterly performance report to the Council's Commercial Ventures Executive Sub-Committee. Controls and further actions intended to mitigate risk must be recorded together with a risk/action owner within the risk register

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## FOR FURTHER INFORMATION CONTACT

**Mike Cheetham - Head of Internal Audit**

Mike.Cheetham@rsmuk.com

Tel: 07800 617204