

**Minutes of the Audit Committee  
24 March 2022**

**Present:**

Councillor T. Fidler (Vice-Chairman)

Councillors:

J.T.F. Doran

A.J. Mitchell

L. E. Nichols

**Apologies:** Councillor J.R. Boughtflower

**In Attendance:** S. Sehmi, Councillors C. Bateson, M. Beecher and J. Button

**Welcome**

Sandy Sehmi, Independent Member, was welcomed to his first Audit Committee meeting.

**1/22 Minutes**

The minutes of the meeting held on 25 November 2021 were approved as a correct record.

**2/22 Disclosures of Interest**

There were none.

**3/22 External Audit update**

David Eagles, Senior Partner – Public Sector for BDO (the Council's current external auditors), advised that they had not recommenced their 2018/19 audit of the financial statements and looked forward to the conclusion of the KPMG 2017/18 audit so they could work on the Council's outstanding accounts audits.

BDO had completed a compliance review of the Homes England grant and submitted their findings to Homes England.

BDO had also completed their fieldwork on the 2019/20 benefits assurance programme and would submit their draft report in the coming days. There were not many issues to address, and it was anticipated that submission could be made by the end of March 2022 as agreed with the Department of Work and Pensions. The 2021/22 review was scheduled by BDO for summer 2022.

The Chief Finance Officer advised that an update on the KPMG Value for Money (VFM) Opinion would be reported as part of the VFM Working Group update.

**Resolved** to note the update.

#### **4/22 Risk Appetite Framework**

The Internal Audit Manager provided an update to the Committee on progress made in developing the proposed Risk Appetite Framework (RAF), which would help guide how much risk and opportunity the Council would seek and accept to enable consistent, transparent and informed risk-based decisions in delivering corporate priorities and objectives.

The Committee were advised that since their last meeting, further work had been carried out on the RAF and documents presented (risk appetite pack) to a senior management team meeting for discussion. Whilst Group Heads were supportive in principle and recognised the potential benefits, they were concerned about the additional pressure and work on an already overstretched corporate capacity. In view of this, the Internal Audit Manager advised that it was proposed to adopt a 'soft' implementation approach which it was believed would result in improved buy-in over time by providing an opportunity for colleagues to gain greater understanding and familiarity with the concept and lead ultimately to a better outcome.

The Committee asked how it was envisaged that a soft implementation would be implemented and how that might compare to a more formal approach and this was explained. Members considered it essential, rather than desirable, to proceed with a Risk Appetite Framework and that whilst a pilot case might be trialled initially, it was important to set out a timescale and plan for both soft implementation as well as wider and full implementation. The events of the past two years and current issues had highlighted the importance of considering and documenting risk before making any decision.

In response to a question asking if the aim was to achieve a single risk appetite, the Internal Audit Manager advised that it was considered that an overarching appetite for the Council could be limiting as there may be varied risk appetites in different areas, so it would be more appropriate to have several impact measures to which appetite levels could be applied.

It was suggested that it would be beneficial to add a risk section to the Committees report template now and officers agreed that was a sensible step and would demonstrate that risk was being considered.

**Resolved** to:

1. Note the work in progress in developing a risk appetite framework for the Council.

2. Agree the soft implementation of a risk appetite framework for the Council and that a further report including a proposed timeframe and plan is added to the Committee's forward plan for their next meeting.
3. That a risk section be added to the template for future Committee reports.

## **5/22 Homes England Compliance Audit**

The Chief Finance Officer presented a report to the Committee which outlined the results of the Homes England Compliance Audit. The Council had received a grant from Homes England partly funding the development of the White House Hostel and as part of the process had to provide assurance that the Council had met all of Homes England's funding conditions, contractual requirements and also properly exercised their responsibilities in respect of the grant.

Homes England had provided a very concise document reporting on the outcome of the audit which confirmed that all programme requirements and guidance had been met and no breaches identified. The Chief Finance Officer undertook to confirm with Homes England that the report received was the full report and would then circulate it to members of the Committee.

BDO advised that they had been required to complete an online compliance checklist.

In response to a question regarding the selection of the auditor, the Chief Finance Officer advised that it was at the Council's discretion and it had seemed sensible to ask BDO, as the Council's external auditors, to undertake this.

It was noted that the Equality and Diversity section of the accompanying report had been marked as 'not applicable'. The Chief Finance Officer advised that the comment related specifically to the audit process but accepted that it may have been appropriate to add some comment in relation to the project and would note this for the future.

The Committee was pleased to note that the report graded compliance as green. The Housing Strategy Lead Officer and the housing team were thanked for their work as were BDO, the auditors.

The Committee **resolved** to note the outcome of the Compliance Audit.

## **6/22 Corporate Risk Management**

The Corporate Risk Register identifies strategic risks faced in achieving corporate priorities and objectives and how these are managed, monitored and reported.

The Internal Audit Manager presented her report and advised that risks influenced by external factors continued to be highlighted in blue on the

register. The most significant risks were those assigned a red RAG rating and she outlined those risks and mitigation measures. The issues were:

- Housing - Developments and targets
- Affordable Housing
- Economy
- Sustainability and Climate Change
- Corporate capacity/resources/recruitment and retention

The last item, corporate capacity, had recently moved from amber to a red rating. It was acknowledged that recruitment and retention was a national issue that other organisations and, in particular, local authorities were also experiencing. It was relevant to all roles and discussions were ongoing to try to improve the situation.

A member of the Committee commented that the risk register needed to be structurally clearer. There was a blurring or merging of risks and some crossover between controls and commentaries, and consequently a danger that actions may be taken without the actual risk being addressed. Officers acknowledged the concerns were valid, but thought it was important that managers took ownership and provided input to the register and agreed to consider whether a structured framework would assist managers and ensure clarity around controls.

The Committee was informed that the Corporate Risk Register was reviewed by the management team ahead of the Audit Committee cycle. In addition, the Corporate Risk Management Group, drawn from senior management across the organisation, also met on a quarterly basis and reviewed and discussed the register. Previously, the Risk Register was reported to Cabinet on a regular basis to raise political awareness and a recommendation was contained in the report that it should be brought to the attention of other Committees.

The Committee **resolved** to make a recommendation to Corporate Policy and Resources Committee to:

1. Consider the significant strategic risks and issues highlighted in this report with a view to Corporate Policy and Resources deciding on an appropriate course of action.
2. Pursue with Corporate Policy and Resources Committee scope for wider reporting of the Corporate Risk Register and Risk Action Plan across other Committees.

## **7/22 Covid-19 Risk Considerations**

The Internal Audit Manager presented her report which highlighted the pandemic recovery risks for Spelthorne and mitigation measures in place. Those risks affected by external factors were again highlighted in blue. There were overlaps and synergies with the risks in the Corporate Risk Register and, in particular, relating to the economy and finances.

The Committee's view was sought on future risk reporting and whether this should be extended beyond the pandemic to include other factors. It was agreed that it was appropriate to widen the focus to include external factors such as the international political situation, increased energy costs and the rate of inflation. There was some discussion as to whether these risks should be merged into the main Corporate Risk Register or if two separate reports should be retained and the consensus was that it was appropriate to keep them separate.

**Resolved to:**

1. Note the COVID-19 pandemic recovery risk report and Risk Assessment at Appendix 1.
2. For future risk reporting, support redefining the focus from the pandemic to wider externalities impacting the Council and its communities, including the macroeconomic environment and geopolitical uncertainty.

**8/22 Changes to 2022/2023 Accounting Policies for SBC and Group**

The Chief Accountant advised that a new approach was to be adopted to more realistically apply depreciation across the Council's lands and buildings to reflect the likely life expectancy of the various components of the assets. This would apply to the Council's property, plant, equipment and municipal buildings but exclude the investment properties and ensure consistency across the consolidated Spelthorne Group accounts.

The proposals followed Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. The KGE board had been consulted and accepted the proposals.

In response to a question about cash flow implications, the Chief Accountant advised that there would be no direct impact on cash flow, but regular reviews of scheduled repairs to buildings and work required would be factored in as part of the annual budget process.

The Committee asked about the rationale of choosing £5m as the starting point for the new methodology and if there was any provision to inflate that over time. The Chief Accountant advised that the fixed asset portfolio had been reviewed and the aggregate was approximately £1.2m. There were a number of properties around £1m but nothing significant at £5m level and this was being used as a starting point and would be discussed with relevant parties including Audit Committee, external auditors on a regular basis.

**Resolved** to note the changes to the methodology for the Council's property, plant and equipment, including municipal buildings, but excluding investment properties, as these will continue to be valued at 'fair value', in accordance with the CIPFA Code.

## **9/22 Money Laundering Policy**

The Interim Group Head of Corporate Governance advised the Committee that the Money Laundering Policy had been reviewed and updated to ensure it reflected current good practice. The procedures within the policy were still relevant and did not require amendment. The policy formed part of the Council's constitution and therefore required Council's approval of any changes.

The changes proposed reflected the five key principles within the CIPFA Code of Practice, provided details of the roles and responsibilities of officers and moved away from individual names of officers to job titles.

In response to a question about responsibility, the Committee was advised that responsibility for reporting any concerns lay at personal and corporate level. The policy only provided an overview and more detailed information about the procedure was separate to that.

**Resolved** to recommend to Council the adoption of the Revised Money Laundering Policy as set out in Appendix A to the report.

## **10/22 Internal Audit Annual Plan 2022/23**

The Internal Audit Manager outlined the proposed Annual Internal Audit Plan for 2022-23 which demonstrated how the authority would fulfil its statutory and professional requirements. The focus was to review higher risk areas that align with the Council's corporate priorities and objectives but also to ensure sufficient attention was given to any emerging or evolving risks and was designed to be flexible.

Delivery of the plan was conditional upon the appointment of an Audit Apprentice Officer and would have to be revised and prioritised if that resource was not approved. The Committee was advised that the growth bid for an Audit Apprentice had not been prioritised as part of the 22/23 budget and therefore not included in the budget for the forthcoming financial year. An in-year bid would have to be put to the Corporate Policy and Resources Committee and funding identified for the current and future years so this could be considered.

Concern was expressed by the Committee that they were being asked to agree a plan that was conditional upon the appointment of an additional officer and it was suggested that the matter should be deferred to a future meeting so the matter could be addressed. The Internal Audit Manager advised that work would continue in the interim whilst discussions continued about the resource but would be refined to balance priorities.

Further information was requested about the scope and description of some of the audits. Whilst officers were open to sharing those, it would depend on the context and would have to be on a case by case basis. Members were

reminded of the need to be mindful of the independent aspect of the audit team's work, including the direction of work in provision of assurance.

Clarification was sought regarding the commercial asset investment audit listed. The Internal Audit Manager advised that an audit was currently underway and scoped as discussed. A further audit was earmarked for Q4 2022/23 separate to the current work. A further separate audit of the Bluebox system was scheduled for the 2022/23 audit plan with a focus on the housing rental income area, but the timing was dependent on any issues identified from the current commercial assets audit which encompassed commercial rental income elements of Bluebox.

**Resolved** to note the Internal Audit Plan for 2022/23 and that the Plan is referred to the next meeting of the July Committee for further consideration.

### **11/22 Committee's Forward Plan for 2022/23**

The Committee considered its Forward Plan for the forthcoming municipal year.

The Chair had put forward a number of items for consideration by the Committee. The Chief Finance Officer advised that some of those items were already on the Internal Audit Plan, some were not within the Committee's remit and as the coming months were busy for any finance related issues, it was suggested that any additional items were planned for later in the year.

**Resolved** that the Committee's Forward Plan for the coming municipal year be approved subject to the addition of the items previously discussed during the meeting and the following items:

- Budget setting process for additional staff (July meeting)
- Revenue equalisation reserve. (This required some work on strategy first before coming to the Committee but would be added to the Plan as a future item.)

It was moved, seconded **and resolved** to move the exclusion of the Press and Public for the following item in view of the likely disclosure of exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006.

(Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information))

It was agreed that one further issue should be discussed initially with the Interim Monitoring Officer and, if appropriate, added to the Forward Plan at a later date.

**12/22 VFM Task Group update**

The Chief Finance Officer advised that the Knowle Green Estates had received an unqualified audit for the 2020/21 accounts as had Spelthorne Direct Services.

The KPMG Value for Money Opinion had still not been settled; discussions were continuing and of a confidential nature so only limited information could be divulged. KPMG had given an indication of the conclusions they were minded to make and the Council had responded through the VFM Task Group. A further response from KPMG was awaited advising to what extent those comments had been considered and how they intended to bring the matter to resolution.

**Resolved** to note the update.