

**Minutes of the Audit Committee
19 March 2024**

Present:

Councillor J. Button (Chair)
Councillor K. Howkins (Vice-Chair)

Councillors:

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| M. Arnold | J.R. Boughtflower |
| M. Bing Dong | L. E. Nichols |

Independent Member:

P. Briggs

In Attendance: Councillor C. Bateson

11/24 Apologies and Substitutes

There were no apologies

12/24 Minutes

The minutes of the meeting held on 29 January 2024 were approved as a correct record.

13/24 Disclosures of Interest

In relation to item 10, Councillor Nichols advised that he was on the board of Knowle Green Estates Ltd.

14/24 Grant Thornton Audit Plan

The Committee considered the draft Grant Thornton Audit Plan presented by Joanne Brown (Key Audit Partner for Spelthorne) and Keith Mungadzi (Audit Manager) who advised that it would be completed as they gained a better understanding of the Council. Keith Mungadzi highlighted some of the key aspects of the plan including a summary of the significant risks, value for money arrangements, and sector updates.

The Committee queried whether there would be any compensation as the delay in audited accounts was not due to the Council. The Deputy Chief Executive reminded the Committee that the backlog was not related to Grant Thornton but rather to BDO (the previous auditors) and advised that the regulators have stated auditors should be fairly paid for work that was done, where work had not been carried out then there would be no fee. There would not be any compensation. The Committee asked how much BDO were likely to be paid and were advised that it was too early to say.

The Committee asked how they would be kept updated by Grant Thornton. Joanne Brown advised that there would be regular reports which would include a sector update and a progress paper. At the end of the audit there would also be an audit finding report and an annual auditor's report.

The Committee queried why our audit bill would be higher than that of Elmbridge and were advised that one reason would be our level of commercial investments. The Committee asked what Grant Thornton's approach would be to the Commercial property portfolio and were informed that they would use their own expert valuer to challenge the valuation assumptions.

The Committee asked what consideration would be given to the Public Interest Report issued by KPMG. Joanne Brown stated that sometime had passed since the PIR was issued but it would be referenced in the value for money work. This would also be considered by BDO in their value for money work for the period 2018-2023. Joanne Brown further stated that there would be a need to better understand what the current auditors were doing and what their plans were under the current backstop arrangements.

The Committee asked whether the Bluebox system would be looked at as part of the audit work and were advised that this was not a system they were currently aware of but would be followed up.

The Committee asked whether, when producing this plan, a review of current accounting policies had been carried out. Joanne Bown advised that a brief review of policies had taken place and looked to be in accordance with the code. Some points on the unaudited accounts had been raised with officers with a view to assisting with the drafting of the 2023/24 accounts.

The Committee **resolved** to note the draft Audit Plan.

15/24 Spelthorne response to the consultation on external audit arrangements

The Committee received a report from the Deputy Chief Executive on Spelthorne's response to the consultation on external audit arrangements and reminded Councillors that a draft of the response had been circulated for comments and that the feedback received had been incorporated. The Deputy Chief executive advised that a primary concern was around the number of disclaimers that would be issued and how that would be communicated to

external stakeholders. BDO would be producing five sets of draft statements of accounts and disclaimers, along with a value for money opinion which would be presented to this Committee in September.

The Committee requested if additional training could be provided to members prior to the September meeting and this was agreed.

The Committee queried whether they could have access to some of the CIPFA publications and were advised that this would be possible, however due to the volume of publications produced, the Committee would need to identify which ones they were interested in.

The Committee queried why the national backlog had occurred and were advised that there were several reasons; the large number of agencies involved, audit firm size, a limited number of audit partners with the ability to sign-off accounts, the increasing complexity of the Financial Reporting Council's expectations, and capacity and experience challenges within audit companies and councils.

The Committee **resolved** to note the Government consultation on:

1. Reset
2. Recovery of national arrangements for external audit of local government
3. Longer term reform of external audit recommendations.

16/24 Updated Review of Self Assessment against CIPFA Financial Management Code

The Committee received a report from the Deputy Chief Executive on self-assessments against the CIPFA Financial Management Code and the DLUHC Best Value Theme for Use of Resources. The Committee were advised that the CIPFA Financial Management Code had been introduced in 2019 and that the self-assessment should be a living document. The Deputy Chief Executive suggested that external review of the self-assessment would be useful, and that Southern Internal Audit Partnership may be able to include it within their audit plan. The Committee were supportive of this idea.

The Committee queried whether having another LGA Finance Peer Review would be appropriate and were advised that this could be discussed with the LGA to gauge their opinion on the frequency of reviews but stated there would be cost and resourcing considerations also.

The Committee identified that the layout of Appendix D and E made them difficult to read. The Committee went on to identify several out-of-date references in Appendix B including reference to Overview and Scrutiny Committee and a discrepancy in the amount in the Sinking Fund. The Committee queried the reference to quarterly monitoring reports and advised these had not been received. The Chief Accountant advised that two e-mails providing access to Centros had been sent out and this would be followed-up on to see why they had not been received by members. The Deputy Chief

Executive agreed that there were elements within Appendix B that needed updating and agreed that this would be done and the report brought back to this Committee in July. The Chief Accountant advised the Committee that Finance had been working with Assets on modelling and assumptions for the Sinking Fund.

The Committee suggested the following changes may be useful; the inclusion of more recurring KPI's, clarification on authority levels in terms of financial stewardship, more information on the culture of the organisation specifically how the culture was set at the top level, and that the self-assessment should be conducted by different people each time. The Deputy Chief Executive advised that there were several different structure around financial stewardships, some of which were set out in the Constitution. He went on to state that DLUHC had a Best Value Theme Indicator on Culture which could provide a more rounded view.

The Committee **resolved** to:

1. Note the refreshed self-assessment against the CIPFA Financial Management Code
2. Note the self-assessment against the DLUHC Best Value Theme for Use of Resources.

17/24 Corporate Risk Management

The Committee received a report from the Audit Manager on the significant strategic risks to the Council in delivering its priorities.

The Committee received one question from a member of the public in relation to this agenda item:

Question One from Kath Sanders

Question: *We are told three times in Appendix A that SBC has “participated in a review of capital risk mitigation with DLUHC and CIPFA” and is “in the process of taking on board any improvement suggestions”.*

What are the improvement suggestions and when will the full report be published?

Response from the Chair: *Many thanks for your question.*

Whilst it is true that approximately twelve months ago officers and some councillors had constructive but confidential discussions with CIPFA colleagues, this has not yet led to any formal report or communication from DLUHC. This is in contrast for example with Runnymede Borough Council who were having similar discussions at the same time and who before Christmas received a Best Value non-statutory report from DLUHC.

Therefore we do not know what, if any, improvement recommendations we may receive from DLUHC or when, if ever, we will receive a formal set of recommendations. In the discussions with CIPFA we covered a number of

strands including issues we were already addressing such as further periodic review by external experts of the performance of the investment assets portfolio (JLL recently reported to Development Sub-Committee), enhancing internal audit resilience and capacity (Council in February voted to move its internal audit arrangements to the Southern Internal Audit Partnership).

The Internal Audit Manager identified that the format and presentation of the Risk Register has been refreshed following implementation of a new system, this included removal of surplus content.

The Committee queried why the information on risk relating to the Local Plan had not been updated following the Extraordinary Environment & Sustainability meeting on 29 February 2024. The Internal Audit Manager advised that while she was presenting the report, individual risk owners were responsible for updating information relating to specific risk areas. It was agreed that this would be updated prior to the report being presented to Corporate Policy and Resources Committee in April 2024.

The Committee requested clarification around risk category 7 (Corporate Capacity, Resources, Recruitment and Retention) and asked why there was nothing related to the hiring of contractors on increased salaries for a special role that did not exist within the Council. The Internal Audit Manager advised that under the mitigating actions, reference was made to the Corporate Establishment Review which did address the issue of contractors. The Deputy Chief Executive advised the Committee that hiring of contractors was carried out in accordance with procurement rules, Contract Standing Orders, and reports would have been presented to relevant Committees.

The Committee asked why the risk around Borrowing (risk category 5) was given a score of 9 and queried whether it should be higher. The Deputy Chief Executive advised that the risk was focused on the rising interest rates and that mitigations were in place to minimise the risk including; Treasury Management Strategy 2023-24, support from specialist treasury management advisors, and application of the CIPFA Code of Practice and Prudential and Treasury Management Codes.

The Committee queried why the Council would be moving to a zero-based budgeting approach. The Deputy Chief Executive advised that there were significant challenges ahead and that Councils would likely see a reduction in grant allocations and the amount of business rates that could be retained. The Chief Accountant added that zero-based budgets would ensure that services were in line with the Corporate Plan and would provide an opportunity to rebuild budgets in a robust manner. The Deputy Chief Executive advised that while zero-based budgeting was normally a one-off exercise it could take more than one budget cycle to do thoroughly.

The Committee **resolved** to consider the significant strategic risks and issues highlighted in the report and present them to the Corporate Policy and Resources Committee, ensuring continued wider reporting of the Corporate Risk Register and actions across other Committees.

18/24 Counter-Fraud, Bribery and Corruption Strategy

The Committee received a report on the Council's Counter Fraud, Bribery and Corruption Strategy from the Internal Audit Manager, who advised that fraud cases were perceived to be on the increase and highlighted that Customer Services were participating in a Countywide Single Person Discount exercise.

The Committee asked for clarification around external and internal fraud. The internal Audit Manager stated that this would be made clearer in any future review.

The Committee **resolved** to:

1. Endorse the Council's Counter Fraud, Bribery and Corruption Strategy which forms part of the Council's Constitution
2. Approve the changes recommended to the Council's Counter Fraud, Bribery and Corruption Strategy.

19/24 Accounting Policies

The Committee received a report from the Chief Accountant on the 2023-2024 Accounting Policies for Spelthorne Borough Council alongside those for its subsidiaries Knowle Green Estates Ltd and Spelthorne Direct Services Ltd.

The Chief Accountant advised that while there was a view that Accounting Policies for Council's had become too complex and should be reduced, it was felt that in light of having no audit for five years, the policies should remain as they are at present and then work would be done with Grant Thornton to remove some of the immaterial policies.

The Committee **resolved** to note the 2023-24 accounting policies.

20/24 KGE Accounts

The Committee received a report from the Chief Accountant on the audited financial statements for Knowle Green Estates (KGE) for year end 31 March 2023. The Chief Accountant advised that on a trading basis, KGE was not in a good position and had made a loss. However, the increase in value of housing stock had given KGE a paper profit of £1.2m.

The Chief Accountant informed the Committee that there had been challenges with the accounting aspect of Bluebox and lack of expertise within the team in operating it. The Chief Accountant further advised that with Centros it could be customised to fit what was required for KGE. The Committee queried whether Centros would replace Bluebox and were advised that Bluebox worked very well as a tenancy management system but there were concerns around resilience relating to Bluebox accountancy.

The Committee identified that the report should state that Corporate Policy and Resources Committee is responsible for oversight of KGE.

The Deputy Chief Executive advised that the Board of KGE had been working with officers at ways to close the revenue gaps and that the Local Authority Housing Fund (LAHF) acquisitions had helped to improve the position.

The Committee suspended Standing Orders suspended and agreed to extend the meeting to 10:30pm.

The Committee **resolved** to note the report and in particular the unqualified audit report.

21/24 SDS Accounts

The Committee received a report from the Deputy Chief Executive on the audited financial statements for Spelthorne Direct Services Ltd (SDS) for year end 31 March 2023 and advised that the report should state that the Neighbourhood Services and Enforcement Committee had oversight responsibility of SDS.

The Committee queried what the life span was for the vehicles used by SDS and was advised that for the diesel vehicles, the life expectancy was seven years but through good maintenance this had been extended to ten years.

The Committee asked why there had been an increase in audit fees from £3,500 in 2022 to £10,000 in 2023 and were advised that this was reflective of the work required; SDS was still a young company with associated challenges, and that SDS was a subsidiary of a major group and as such influences the risk assessment by the auditors.

The Committee **resolved** to note the report and particularly the unqualified audit report.

22/24 Forward Plan

The Committee considered its Work Programme for the remainder of the 2023 - 2024 Municipal year.

The Chair advised the Committee that the date of the July meeting had been changed from 25 July to 09 July.

The Deputy Chief Executive advised that Southern Internal Audit Partnership would be present at the July meeting to present their audit plan.

The Committee queried who would be presenting the Procurement update in July as the lead officer would be leaving and were assured that another lead officer would be available to present the report.

Resolved that the Committee Work Programme for the remainder of the 2023 - 2024 Municipal year, be approved with the agreed changes.

The Committee thanked Punita for all her hard work.

Meeting finished at 22:08

23/24 Actions arising from Meeting

The following actions arose from the meeting:

The Deputy Chief Executive agreed to refresh the CIPFA Self-Assessment and bring it to the July 2024 Audit Committee

The Committee Manager agreed to arrange further Audit Training prior to the September meeting. Grant Thornton have offered to provide a half-hour training session prior to a Committee meeting.