

**AUDIT COMMITTEE
15TH FEBRUARY 2022**

PRESENT: The Chair (Ms Jane Nellist)
The Vice Chair (Councillor Parsons)
Councillors Boldrin, Charles, Gray, Hadji-Nikolaou
and Snartt

External Auditor (Mazars)
Strategic Director - Environmental and Corporate
Services
Strategic Director - Commercial Development,
Assets and Leisure
Head of Strategic Support
Audit Manager
Democratic Support Officer (EB)

APOLOGIES: Councillor S. Bradshaw

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. She also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

49. MINUTES FROM THE PREVIOUS MEETING

Two amendments were requested to the minutes of the previous meeting:

- Page 6 the minutes stated the following: "The Chair raised issues with the lack of clarity in the narrative of the Statement of Accounts, highlighting that the narrative needed to explain issues to people who did not necessarily have a marketing background." This was amended to read 'accounting background'.
- Page 6 of the minutes stated the following: "There was a policy on Reinvestment Reserve. When these reserves reached a sufficient level they were no longer topped up. At times the Working Balance could be put into the Capital Reserve. Potentially circumstances could prevail to change the allocation of reserves." This was amended to read: "Regarding whether movement of money in and out of reserves was based on policy or circumstance, it was clarified that there was no general policy on when money was moved in and out of reserves, and usually occurred in response to circumstances. However standard custom and practice operates in respect of the Reinvestment Reserve which is topped up to a £500k on a regular basis (subject to the working balance having sufficient capacity) to allow ongoing funding for 'spend to save' activities."

Other than the above the minutes of the meeting of the Committee held on 31st January 2022 were agreed as a correct record and the amended minutes would be signed at the next meeting.

50. DISCLOSURES OF PERCUNIARY AND PERSONAL INTEREST

No disclosures were made.

51. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

52. EXTERNAL AUDIT PROGRESS REPORT

A report of the External Auditors providing a progress report and technical update was submitted to the Committee for consideration. (Item 5 on the agenda filed with these minutes).

Mark Surridge from Mazars attended the meeting via video-link and assisted with the item.

The Committee were informed that:

- The Financial Statement and the final drafts of the Annual Audit Reports had been signed off.
- Conclusions around Value for Money were clean and there were no modifications.
- The 2020/21 Audit certificate could not be issued until the Auditors report and information on Government Accounts were received. This remained outstanding and there was no indication on when they would arrive.
- Resources were in place for the 2021 Audit. Assurances were set up to be completed over the summer. Whilst the majority of arrangements were the same, a consultation had been issued proposing changes that may impact this year including:
 - A proposal to defer implementation of lease accounting by another year.
 - A proposal to change accounting requirements for land and buildings including a 2-year pause on valuations.

The External Auditor noted that a watching brief needed to be maintained on the above proposals.

Councillor Snartt raise the issue of scrutinising cyber-security arrangements and asked if anything more could be done on the issue or whether the Council was compliant.

The External Auditor drew the attention of the Committee to the recent cyber-attack on Gloucester City Council and stressed the importance of being vigilant on the issue and suggested that it is something that the Committee should be aware of. He added that there were controls in place, however it was important not to be complacent as attacks can happen out of nowhere and an increase in attacks had been seen across the corporate sector.

The Vice-Chair drew the Committee's attention to the Government-recommended high-level questions used to train Councillors on cyber-security issues and stated that

he would welcome training on cyber-security and the Government recommended questions as this would help the Committee understand and scrutinise the delayed IT Health Check report.

In response to a question from the Vice-Chair it was clarified that liability benchmarking referred to how big a loan-book was in comparison to other organisations.

The Councillor Parsons enquired as to whether since CIPFA and the Government had banned the Council from investing in commercial property for revenue, was it acceptable to include a historic investment when mentioning the purpose and objective of each category of investments.

The External Auditor clarified that it could be included as anything historical could not be backdated. He further clarified that the proposed changes were designed to restrict over-borrowing and over exposure.

RESOLVED That the Committee noted the report.

Reason

To acknowledge the Committee's consideration of this item.

53. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Strategic Director, Environmental and Corporate Services, was submitted providing the Committee with details of the Strategic Risk Register produced for the period to 2022/23. (Item 6 on the agenda filed with these minutes).

The Organisational Development Manager attended the meeting to assist the Committee with the consideration of this item and informed the Committee that the document had been reviewed in line with recommendations from the Internal Audit Report and revised to include 10 risks instead of six. There were four new risks relating to: Staffing and Workforce, Governance, Partnerships and Climate Change. These had been included following a benchmarking exercise taking into account what other authorities were collating in their Strategic Risk Registers.

The Organisational Development Manager further noted that there had been a change to Strategic Risk 10 in the Risk Register (SR10) to reflect the wide legislative changes surrounding the Environment Bill. She also noted that the Risk Management Framework had been updated.

The Chair suggested that an accompanying narrative would be useful for the Financial Statements in order to highlight areas for the Committee to look at.

The Chair expressed approval that a benchmarking exercise had been done and that the Register had been updated to include new risks.

The Chair drew attention to the section of the report which outlined the 'Four T's' (Tolerating the Risk, Treating the Risk, Terminating the Risk, Transferring the Risk) and requested that reference to the '5th' T be made clearer.

The Vice-Chair raised the following points:

- The Residual Risk on SR2 breakdown should be 9 rather than 12.
- On the breakdown of SR3 on Current Treatments and Controls, the final two bullet points appeared as statements rather than actions.
- Management processes were a missing factor as it was important to ensure that processes were correct and not focus solely on performance.
- Regarding SR6, if it started with an inherent risk of 4 and went to 2, was it really a risk at that level?
- Regarding SR8 Current Treatments and Controls, what was done to monitor their effectiveness?
- Regarding SR9, there was nothing in Treatment and Controls.

The Organisational Development Manager responded:

- The typo on the SR2 Breakdown would be corrected.
- The final two bullet points on the Current Treatments and Controls on the breakdown of SR3 would be made into actions rather than statements or removed.
- Processes could be included in respect of SR5.
- Regarding SR6, it also tied in with organisations risk appetite which was set at a certain level for issues regarding partnership. It started low but would not necessarily need to be reviewed in a lot of detail.
- The issues surrounding SR8 and SR9 were an omission.

Councillor Snartt drew attention to SR4 Statutory Workforce Treatment and Controls and noted that certain areas of the Council may be struggling more than others and as such this did not fully reflect the risk.

The Organisational Development Manager explained that risk was put in as some areas were harder to recruit to and offered to bring this out in more detail.

The Vice-Chair drew attention to the Risk Appetite and enquired as to whether it referred to the risk now and whether it was a political or an officer decision.

The Organisational Development Manager clarified that it referred to the risk now as identified in the Risk Management Framework that had been signed off by Cabinet. She added that the current Risk Management Framework would also go to Cabinet. She further added that an annual risk-management workshop was held with members of the Cabinet where risk was identified.

The Head of Strategic Support further clarified that in terms of risk management policy and framework, when it was updated in 2018, there had been a discussion with Cabinet as to what the risk appetite was, and it had been agreed. It had since been reviewed again and it would go back to Cabinet to endorse.

The Organisational Development Manager suggested that similar risk appetite would be seen in similar organisations.

RESOLVED that the Committee note the report.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that should they materialise would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing.

The Organisational Development Manager left the meeting following the conclusion of this item.

54. CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2022/23

A report of the Head of Finance and Property Services was submitted providing the Committee with an opportunity to scrutinise the proposed Capital Strategy for 2022/23 and associated recommendations that are being recommended by Cabinet to full Council for approval. (Item 7 on the agenda filed with these minutes).

The Strategic Director for Environmental and Corporate Services attended the meeting to assist the Committee with the consideration of this item.

The Committee were informed in regard to the Treasury Management Strategy that:

- The strategy would be largely similar to the existing strategy.
- There would be a more proactive treasury management approach. Balances were high, peaking around £60million and would reduce towards the end of the financial year due to how Council tax was collected.
- Security and liquidity were priorities.

The Committee were informed in regard to the Capital Strategy that:

- The strategy had been amended to reflect the findings of the External Auditor's report.
- The ability to borrow from the Public Works Loan Board to finance commercial properties had been curtailed. The new prudential code would require that the Section 151 Officer sign that any borrowing for assets for yield. The Council would not be able to invest in commercial property unless it had significant Capital Reserves.
- The Council's Minimum Revenue Protection (MRP) policy was in line with the previous code and sufficiently prudent.
- Loans to subsidiaries had been left in the strategy as the Council may wish to do so in the future and it gave flexibility in the strategy, however there were no immediate plans to do this. If such loans were to be made it would be subject to a report to Cabinet and Council.

The Chair suggested that risks could be re-written in line with the framework.

The Strategic Director for Environmental and Corporate Services clarified that current reports were completed in line with the previous framework and when the new strategy came into place it would have to go through templates.

The Chair raised objection to the use of the phrase 'assumed' as it appeared speculative.

The Strategic Director for Environmental and Corporate Services responded that he would consider the wording.

A typographical error was noted on page 11 of the Treasury Management Strategy. 2019/20 should have read 2020/21.

Councillor Snartt asked if there was a time limit on the amounts going forward for availability in future years.

The Strategic Director for Environmental and Corporate Services clarified that £15million had been put into the plan approximately a year ago for the regeneration and funding of the Enterprise Zone as placemarkers for unknown opportunities that may arise. At the year-end in the Outturn Report, the Council would be asked to put this money into future years. The Council may reject this, however it was assumed it would happen. This is money that would be borrowed. If opportunities did arise then money could be spent against it. The governance rules of the Council required such an allocation to be in the Capital Plan and Capital Strategy and any major spend would need to be subject to a report to Cabinet and Council.

The Strategic Director for Commercial Development, Assets and Leisure added that any spending would need justification and if anything came into the plan it could be updated through the proper process.

Councillor Parsons suggested that Cabinet may wish to ringfence with a policy MRP money to prevent it disappearing into the treasury.

The Strategic Director for Environmental and Corporate Services clarified that the MRP restricted the Council's budget and the money was a balancing figure. Treasury balances were not hypothecated against the MRP. The MRP showed as a charge against the Council's budget. The MRP could be used if the Council defaulted to ensure that loans could be paid back if due. There was no link between what was in the MRP provision and the cash balance. The treasury was managed as a single pool of money. The MRP provision on the balance sheet was to recognise the issue of repaying loans. How the treasury was used was not impacted by the MRP.

The Strategic Director for Commercial Development, Assets and Leisure clarified that it was possible to conflate MRP with the Commercial Property Reserve, which mitigated against risk. He clarified that the MRP was an accumulation of principle to repay debt once it matured.

Councillor Parsons asked as to whether the statement on prudential borrowing was new.

The Strategic Director for Environmental and Corporate Services clarified that it was the same wording as last year, however if prudential borrowing was undertaken, it would be a departure from previous years. When asked by Councillor Parsons if this was a realistic option, the Strategic Director for Environmental and Corporate Services suggested that if the Council were to need to fund a significant investment then prudential borrowing would probably be required, however, this had not happened within the financial year.

Councillor Parsons drew attention to structural deficit within annual revenue budgeting and asked what could be done with borrowing to ensure that the general fund was dealt with if the Council took on that commitment and what assurance could be taken through prudential borrowing.

The Strategic Director for Environmental and Corporate Services suggested that it would depend on the opportunity and on the decisions of Cabinet and Council. Where the Council had borrowed recently was in the forward funding of the Enterprise Zone. There had been a repayment loan covering what would have been an MRP charge. This was what was usually seen with prudential borrowing. He added that if money was borrowed for regeneration it would come with an 'MRP ticket'. The charge would be relatively low but this would be a decision for Councillors to take.

Councillor Parsons asked if it could be ensured that Cabinet made the risk appetite clear if prudential borrowing occurred in order to avoid damage to the structural deficit.

The Strategic Director for Environmental and Corporate Services noted that the Council had applied the MRP in the finance of the refuse fleet contract extension and the total cost including MRP was lower than the comparable cost that would have been incurred had the contractor had to finance the fleet.

RESOLVED that the Capital Strategy (including the Treasury Management Strategy) for 2022/23 be noted.

Reason

To ensure that the proposed documents are appropriately scrutinised.

55. INTERNAL AUDIT PROGRESS REPORT Q3 2021-22

A report of the Head of Strategic Support was submitted summarising the progress against the 2021/22 Audit Plan, outlining key findings from final reports and any outstanding recommendations. (Item 8 on the agenda filed with these minutes).

The Audit Manager attended the meeting to assist the Committee with the consideration of this item and informed the Committee that good progress was continuing to be made against the plan with a further three audit reports being issued since the last update, all having reasonable assurance, with executive summaries being included in appendix B of the report.

The Audit Manager drew the attention of the Committee to the Audit Recommendations. It was reported that three of the outstanding recommendations had been implemented with a further three nearing completion.

The Chair referred to the Audit Plan and enquired as to whether the Council would be compromised due to the Actual Days exceeding the Planned Days.

The Audit Manager clarified that sometimes days ran over depending on the engagement plan. She further clarified that there were no significant areas that were unable to be completed.

The Chair offered help from the Audit Committee in making sure that recommendations were implemented.

The Audit Manager confirmed that this was not necessary at this time as an updated way of getting recommendations implemented had been agreed with the Senior Leadership Team.

Councillor Snartt asked as to whether there were any updates on asbestos management.

The Audit Manager responded that the asbestos management contract had been coming to an end as it was being audited. The new tracker was now in place with a new contractor in order to better manage it. This was not yet fully completed, however, risks were not thought to be high as the Internal Auditors were aware of what was happening.

The Vice-Chair drew attention to Absence Management having been deferred for a year and asked if this was in hand.

The Audit Manager emphasised the need to look at what had been put in place. If it was not thought that it could be implemented in time, a report would be brought to the Audit Committee, however the Internal Auditors were comfortable with the implementation dates. A new target date would be set.

RESOLVED that the Committee note the report.

Reason

To ensure the Committee is kept informed of progress against the Internal Audit plan and work of Internal Audit

The Strategic Director for Environmental and Corporate Services left the meeting and returned during this item.

56. 2022/23 INTERNAL AUDIT ANNUAL PLAN

A report of the Head of Strategic Support was submitted presenting the proposed Internal Audit Annual Plan for 2022/23, including the proposed IT Audit Plan for 2022/23. (Item 9 on the agenda filed with these minutes).

The Audit Manager attended the meeting to assist the Committee with the consideration of this item and informed the Committee that the Plan has been prepared based on organisational control and risk assessment in consultation with Senior Management. She added that timings were an indication and likely to change.

Councillor Snartt noted that only one Audit Area was based on the Strategic Risk Register and asked as to whether the Risk Register should be reflected in the internal Audit Plan.

The Audit Manager clarified that the Plan was based on all Risk Registers and not just the Strategic Risk Register. When the Audit Report was done, if a risk was in the Corporate Risk Register it was included, however, lower business risk registers did not go to Committee.

The Vice-Chair drew attention to the audit areas of Section 106 Agreements and Capital Programmes. He asked as to whether audits were based on performance and what the remit was for the audit. He further asked whether the Capital Plan Engagement Plan was about spending on time and to budget.

The Audit Manager responded that there had not been a full engagement plan agreed.

The Strategic Director for Environmental and Corporate Services added that the audit of Section 106 agreements considered the process of making sure there was an agreement in place and making sure that processes go through, and money was not handed back to developers. He added that they aimed to ensure that money was spent in line with the agreement. In terms of the audit of the Capital Plan, it considered processes surrounding project management and how the Plan was delivered and what officers thought needed to be on the Plan.

The Audit Manager added that the audits were an overview of the full process of the capital programming.

The Chair drew attention to the delay on the IT audit and enquired as to whether this increased the risk of cyber-attacks.

The Audit Manager stated that the contract was due to end in March 2022 and a procurement process was being undertaken for April 2022 onwards and the Audit was set up.

RESOLVED that the Committee approve the proposed audit plan.

Reason

To ensure that Internal Audit resources are effectively utilised.

57. COUNCIL'S USE OF REGULATORY OF INVESTIGATORY POWERS ACT (RIPA)

A report of the Head of Strategic Support was submitted providing the Committee with a summary of the Council's use of RIPA powers. (Item 10 on the agenda filed with these minutes).

The Head of Strategic Support attended the meeting to assist the Committee with the consideration of this item and informed the Committee that no RIPA powers had been used by the Council. He further informed the Committee that Cabinet had approved updated RIPA policy for 2022 including recommendations from an inspection in September 2021. He added that a briefing note would be circulated to Councillors and to the Chair of the Audit Committee about RIPA and the circumstances under which it might be used.

REVOLVED that Committee notes the report and that there has been no use of RIPA powers by the Council for the period from 1 November 2021 to 31 January 2022.

Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

58. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme. (Item 11 on the agenda filed with these minutes).

The Head of Strategic Support noted that dates were provisional and were subject to approval by Council.

The Head of Strategic support noted that the Future of Local Public Audit and Policy for Engagement of External Auditors for non-audit work had now been brought to Committee. He further noted that the Committee was now considering the Governance and risk aspect of Commercial Investment and performance review includes consideration of rents and charges as a standing item.

Concern was raised by the Committee that there had been a long delay on the IT Health Check. It was clarified that the Public Services Network was being reviewed and this had delayed the IT Health Check. It was requested that an update be brought to Committee on progress made on the IT Health Check that would be understandable to non-IT specialists and would include a timescale of completion.

Attention was drawn to the long period of time before the next meeting of the Committee, and it was suggested that a further provisional Committee date was needed to cover Quarter 4 of 2021/22.

RESOLVED

1. That an update on progress on the IT Health Check be brought to the Audit Committee including a timescale of completion.
2. That a further Committee date to cover Quarter 4 in the 2021/22 Council year be identified.

Reasons

1. To keep the Committee informed of IT health issues and progress on the IT Health Check.
2. To cover issues for Quarter 4 in the 2021/22 Council Year.

59. EXEMPT INFORMATION

It was resolved that members of the public be excluded from the meeting during the consideration of the following item on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

At this point in the meeting the recording was stopped.

60. INVESTMENT PERFORMANCE REPORT – Q3 (OCTOBER TO DECEMBER) 2021/22

An exempt report of the Strategic Director for Commercial Development, Assets and Leisure. (Exempt item 13 on the agenda filed with these minutes). A summary of the Committee's discussion on this matter is provided in the exempt minute (Audit Committee 60E. 2021/22).

NOTES:

1. No reference may be made to these minutes at the Council meeting on Date Not Specified unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.
2. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.
3. The Strategic Director for Commercial Development, Assets and Leisure and the External Auditor joined the meeting remotely.