

**MINUTES
OF THE MEETING OF THE
GOVERNANCE SCRUTINY GROUP
THURSDAY, 23 FEBRUARY 2023**

Held at 6.00 pm in the Council Chamber, Rushcliffe Arena, Rugby Road, West
Bridgford

PRESENT:

Councillors D Virdi (Chairman), R Adair, K Beardsall, R Butler, D Simms and
P Gowland (Vice-Chairman)

ALSO IN ATTENDANCE:

Mr G Dulay – BDO (Council's Internal Auditors)
Mr D Hoose – Mazars (Council's External Auditors)

OFFICERS IN ATTENDANCE:

P Linfield	Director of Finance and Corporate Services
C Caven-Atack	Service Manager - Corporate Services
S Whittaker	Service Manager - Finance
K Brennan	Finance Business Partner
T Coop	Democratic Services Officer

APOLOGIES:

Councillors Mrs M Stockwood, L Howitt, K Shaw and J Stockwood

24 Declarations of Interest

There were no declarations of interest.

25 Minutes of the meeting held on 24 November 2022

The minutes of the meeting held on 24 November 2023 were approved as a
true record and were signed by the Chairman.

26 Third Internal Audit Progress Report

Mr Dulay from BDO, the Council's internal auditors presented the third Internal
Audit Progress Report for this financial year, in Appendix A, which reflects the
progress made against the Annual Internal Audit programme along with any
significant recommendations with regards to the audits completed during this
period.

The report highlighted the completion and issuing of one report from the
Internal Audit Annual Plan as follows:

The Main Financial Systems

This audit received a substantial rating for both design and operational effectiveness. Mr Dulay informed the Group of three low level findings of concern:

1. In one instance an officer external to the finance team had been granted both requisitioner and authoriser level access up to the value of £15,000. However due to the systems automated controls this was deemed a low risk finding.
2. In respect of the procurement card procedure notes, these do not state what type of spend is permitted and associated limits nor the requirement for cardholders to retain receipts.
3. In two instances invoices that had been raised from Purchase Orders on the e-procurement system had goods received values different from the invoice. These related to annual contracts where the goods receipt had been completed ahead of the service being received.

Mr Dulay explained that overall, the council has good controls in place to manage its main financial system and that the findings raised are low level findings and would be addressed by management.

Members asked whether the concerns had been actioned by management, highlighting the individual officer access to both requisitioner and authoriser and the potential risk of fraudulent activity occurring. The Service Manager – Finance confirmed that all management recommendations had been completed and the relevant controls were in place. In respect of the individual who had been granted access to both requisitioner and authoriser this had not been picked up when the officer had changed roles. The Service Manager – Finance advised that the financial system does not allow an individual to raise and authorise a purchase order/invoice.

It was **RESOLVED** that the Group notes the Internal Audit Progress Report for 2022/23 prepared by the Council's Internal Auditor.

27 Internal Audit Strategy

Mr Dulay presented the Internal Audit Strategy 2023-2026 which focuses on the planned audits due to take place in year one of the new cycle of audits, starting 2023/24. These were provided in Appendix A for the Group to consider.

Mr Dulay explained the plan is set within the context of a multi-year approach to internal audit planning, looking at key risk areas over a three-year audit cycle, adding that the audit programme is kept under continuous review with any areas of significant risk added.

The Group noted that ten audits are planned for 2023/24, covering a number of the Council's key policies and systems. These include:

- Main Financial Systems
- Reconciliations
- Rushcliffe Oaks Crematorium (income)
- Fleet Management and Air Pollution

- Fraud Report
- Governance and Partnership Arrangements

There will also be a follow-up audit of recommendations made in previous years but not yet implemented to ensure that audit recommendations are being complied with by officers.

Mr Dulay advised that there is also the requirement that Councillors understand and approve the role and scope of Internal Audit covered in the Internal audit Charter as stated at Appendix 1 of the Audit Plan.

In considering the audit plan the Group were asked the following questions:

- Is the Group satisfied that sufficient assurance is being received within the annual audit plan to monitor the council's risk effectively?
- Does the strategy for internal audit cover the Council's key risks as they are recognised by the Group?
- Are the areas selected for coverage this coming year appropriate?

Members asked whether Streetwise had successfully been transferred back to the Council's control, adding that should Streetwise be considered as a risk and therefore an area to be looked at within the internal audit programme. The Director – Finance and Corporate Services explained that Streetwise forms part of the Transformation Programme and would be looked at through the Council's budget and performance reports at the Corporate Overview Group.

The Group noted that Streetwise had been added to the Corporate Risk Register as an Opportunity Risk and could be added to the internal audit programme in a future financial year.

It was **RESOLVED** that the Group review and approve:

- a) The Internal Audit Strategy and Plan 2023-2026
- b) The Internal Audit Charter, Appendix 1 of the Internal Audit Strategy and Plan

28 **Annual Audit Completion Report**

Mr Hoose, from Mazars, the Council's external auditors presented the Audit Completion Report in Appendix A and the Management Representation Letter in Appendix B, which reports to those charged with Governance the key conclusions in the audit process 2021/22 financial year.

Mr Hoose explained that there had been a delay in issuing the Audit Completion Report due to delays in the outcome of the Nottinghamshire authorities Pension Fund audit which feeds into Rushcliffe's accounts in addition to a national issue relating to the treatment of infrastructure assets which were out of the Council's and Mazars control.

The Group were advised that Mazars are also required to report their Value for Money conclusion within 90 days of the Audit Completion. Mr Hoose explained

this had not yet been completed, it was noted that Mazars had not identified any weaknesses in the Council's arrangements and do not anticipate any issues.

The Audit Completion report identified the key risks as follows:

- Pension Scheme valuations in the estimated asset values used by the Actuary to prepare the Council's IAS19 report. Management has chosen not to amend the accounts on the grounds of this not being material which was agreed by Mazars.
- There were a small number of minor disclosure amendments and two adjusted misstatements which were reported to officers in the Internal Control recommendations. It was noted that officers would be putting controls in place.
- The deadline for signing off the Statement of Accounts had not been met due to delays in the auditor's gaining assurance from the Pension Fund Adjustment again for a third year, resulting in a Prior Period Adjustment (PPA) requiring amendments to some infrastructure assets in the 2020/21 balance sheet which has had a knock on effect on the 2021/22 balance sheet.
- A further PPA was required in relation to the recognition of a deferred capital receipt in the 2020/21 accounts. The Director – Finance and Corporate Services did not agree with it being a PPA but was not prepared to risk the accounts being qualified.

In concluding, Mr Hoose advised there had been no significant issues during 2021/22 financial year. The Group were presented the Management Representation Letter at Appendix B of the report. The letter confirmed that the Council is satisfied with the validity of the financial statements provided by Mazars.

The Chairman thanked Mr Hoose and acknowledged the accounts would be completed and confirmed in the next week. In respect of the next financial year, it was noted that due to delays and timescales the Statement of Accounts may be delayed again for the meeting in September 2023. The Group were also advised that from 2024 Mazars would be taking on the Audit of the Nottinghamshire Authorities Pension Scheme.

The Chairman commented on the Prior Period Adjustment (PPA) in respect of deferred capital receipts for the sale of Sharpill and asked whether this may cause future issues in the accounts. Mr Hoose explained this should have been shown as a debtor in the accounts with a corresponding entry in unusable reserves, which overall had no impact on the 2021/22 balance sheet and this had been resolved with the PPA entries.

The Group observed the healthy and frank conversations between Officers and auditors and expressed their thanks to Mazars and Officers.

It was **RESOLVED** that the Governance Scrutiny Group:

- a) Approve the findings of Mazars Audit Completion Report (Appendix A)
- b) Approve the Management Representation Letter (Appendix B)

- c) Receive at a later date a follow up letter from Mazars in relation to the significant matters outstanding.

29 **Approval of the Statement of Accounts**

The Group were presented the Council's statutory Statement of Accounts for the financial year 2021/22.

The Group were advised that there had been a delay submitting the Statement of Accounts for approval due to issues outside the Council's and the Auditors control. As with the previous year, the audit completion report was again delayed due to assurances in respect of the Pension Fund audit and an issue identified nationally relating to the treatment of infrastructure assets which had resulted in the delay to signing off the accounts until a decision had been made by CIPFA.

The Statement of Accounts 2021/22 were provided in Appendix A, and includes the Council's Annual Governance Statement (AGS) at section B. This was agreed by the Leader and Chief Executive and was approved by Governance Scrutiny Group at its meeting on 30 June 2022.

Members asked specific questions in respect of inflation and how had this impacted on the Council's capital expenditure. The Director – Finance and Corporate Services advised that the Bingham Hub and Crematorium have been delivered within budget. In addition, the Group were advised that contingency reserves are in place to mitigate financial shocks and were also informed that a more detailed Budget report will be presented at its Full Council meeting on 2 March 2023.

In respect of the Council's pension liability, members were asked to note a graph showing the Council's net worth over the past ten years, which shows a positive trend of an increase in net worth, with a downward turn in 2020/21 due to the impact of Covid-19 on pension values, with the net worth increasing in 2021/22 to £47m.

It was **RESOLVED** that the Governance Scrutiny Group approve the Statement of Accounts for 2021/22 (Appendix A) including the Annual Governance Statement at Section B.

30 **Risk Management Progress Report**

The Service Manager – Corporate Services presented the Risk Management Progress report which provided an update on risk activity since the last risk report was presented on 1 November 2022.

The Group were advised that the Risk Management Group last met on 31 January 2023, in order to review risks on the register and to make recommendations. A risk management audit was also carried out in June/July 2022 by BDO, the Council's Internal Auditors, and the Risk Management Level of Assurance was given a substantial rating for design and operational effectiveness.

The Group noted that training had been delivered by Zurich to provide Service Managers with an opportunity risk workshop and Zurich had also provided training for members of Governance Scrutiny Group on 1 November 2022.

The Service Manager – Corporate Services advised the Group that there are currently 41 corporate risks and 27 operational risks on the risk register and advised the Group that the number of risks will fluctuate as active risk management is undertaken.

At Appendix A of the report, the Group were presented the Council's existing Risk Registers containing Corporate, Operational and Opportunity risks. It was noted that there were no new risks and one risk had been removed as a result of the completion of the Bingham Arena. Risks that have decreased or increased were summarised as follows:

Risk Increased

OR_DEG08 Loss of income as a result of the refund of planning application fees under the provisions of the Government's Planning Performance and Planning Guarantee: the likelihood has increased from 3 to 4 as a result of receiving a request for refund on a major scheme £32,324. Taking legal advice but likely to have to be paid back.

Risk reduced

CRR_NS18 Failure of public sector partnerships / withdrawal of financial support: likelihood reduced from 2 to 1 - Rushcliffe Primary Care Network committing more funding to the joint Health Development Officers post.

CRR_NS19 Failure to safeguard children and vulnerable adults: likelihood decreased from 2 to 1 - the risk has improved with all staff undertaking E-learning Training and the Steering group now meeting again on a quarterly basis.

OR_CED01 Threat of violence to staff: likelihood reduced from 3 to 2 - likelihood was increased due to covid, but has now been reduced back to unlikely

Risk change

CRR_FCS23 ICT supplier goes out of business: the impact reduced from 3 to 2 and likelihood increased from 2 to 3 - there is a lot of uncertainty and acquisitions happening in the technical market for companies struggling and on the verge of bankruptcy. One of our suppliers have recently been acquired. A number of factors are contributing to the instability of suppliers.

Members asked a specific question in relation to taxi licensing and whether the standard of taxis in Rushcliffe had been affected by cheaper licensing fees offered by other authorities, and whether the Council had noticed any loss in income due to taxi's obtaining these cheaper licenses, proposing that taxi licensing should be considered as a risk to both the Boroughs standards and

loss of income. The Service Manager – Corporate Services explained that as Rushcliffe's standards for taxi licensing had increased, taxi drivers were safer, thus eliminating any risk. The Service Manager – Finance added that there had been no financial loss.

The Chairman highlighted Operational risk OR_DEG08 'Loss of income as a result of the refund of planning application fees' and asked whether the increase in likelihood from 3 to 4 could rapidly escalate. Councillor Butler as the Chairman of Planning Committee explained that this was due to a refund on a major planning application and was an exceptional example. The Chairman questioned whether this risk should increase if it were an exception and the Service Manager – Corporate Services will request it be reviewed at the next Risk Management Group meeting.

It was **RESOLVED** that Governance Scrutiny Group:

- a) Noted the report contents
- b) Considered and made recommendations on risks that have red alert status

31 **Draft Risk Management Strategy 2023 - 2026**

The Service Manager – Corporate Services presented the Council's Draft Management Strategy, informing the Group that the current strategy is due to expire in April 2023. The Group noted that a review had taken place and changes had been made to reflect best practice as a result of further risk management training for officers and the Group last Autumn.

The Group were reminded that the Council's Risk Management Strategy forms the framework within which risks are identified, articulated, assessed and managed, and noted that risks are reviewed monthly by Lead Specialists, bi-monthly by Service Managers and twice yearly by the Risk Management Group and the Governance Scrutiny Group.

The Group were advised that the Council use Zurich Municipal to provide advice and deliver training to both officers and councillors and current best practice has been drawn from the training and implemented withing the draft strategy. The Group also noted the Council's Internal Auditors (BDO) had also conducted an audit on the Council's Risk Management process during 2022 and the following changes have been made to the strategy:

- More comprehensive introduction and explanation of the RBC Risk Management process
- Reference to the recent training from Zurich Insurance and BDO audit
- Reference to Pentana, the Council's performance monitoring system which includes a risk management module
- Information about the monitoring and review process of both risks and the Risk Management Strategy
- Alterations to the roles and responsibilities section to reflect the internal management restructure of 2021.

The Group commented on the frequency of when the Risk Management Group meet and questioned whether the meetings ought to be more frequent. The Service Manager – Corporate Services explained that anything significant would be picked up at the bi-monthly performance clinics and reported to the Risk Management Group, adding that the risk register is constantly changing and that the reports that come to Governance Scrutiny Group are just a snapshot.

The Group expressed that they were more than happy with the reviewed Risk Management Strategy and the process for identifying and reporting risks.

It was **RESOLVED** that the Governance Scrutiny Group:

- a) Considered and noted the Draft Risk Management Strategy 2023-2026
- b) Approved the ~Risk Management Strategy for 2023-2026

32 **Capital and Investment Strategy Monitoring Q3**

The Finance Business Partner presented the Capital and Investment Strategy, Quarter 3 report, which summarised the capital and investment activities of the council for the period 1 April to 31 December 2022.

The Finance Business Partner referred to the supporting information within the report.

In relation to the Economic Forecast the Group were advised that the Bank of England had warned that inflation may reach 12% in the coming months, as the price of fuel, energy and food put pressure on household budgets. In reaction to this the Bank of England increased the base rate to 3.5% with further increases anticipated.

The Council's treasury advisors, Link Group have revised its interest rate forecasting, reporting that interest rates will peak at 4.5% in June before starting to tail off from December 2023.

In relation to Investment Income the Group were presented the Council's current investments and respective counterparties at Appendix D of the report. It was reported that interest receipts are higher than had been estimated due to ongoing increases in interest rates and larger investment balances, due to the re-profiling of the Capital Programme and additional S106 monies. It was noted that all investments have been made in accordance with the Council's Capital and Investment Strategy.

In light of the cash balances, the Group were advised that the Council continues to internally borrow to fund the capital expenditure, whilst ensuring investments are secure and liquidity is achieved.

The Group noted the Council's diversified funds at Appendix A of the report. The Finance Business Partner explained that funds are currently showing a £1.4m deficit from the downward trend experienced by the political turmoil last year. In addition, there is also a statutory override preventing any accounting

loss impacting on the revenue accounts, which was due to end 31 March 2023. However, DLUHC have decided to extend this for a further 2 years.

In relation to Borrowing the Council has established a range of Prudential Indicators as detailed in Appendix B of the report. The Finance Business Partner highlighted the Liability Benchmark which would reflect the need to borrow. However, a credit balance confirmed the Council has no need to borrow in the medium term.

In relation to Commercial Investments, it was noted that the Council's target should not exceed 30% with the current actual just under 20%.

In conclusion the Group were advised that Treasury Management continues to be fraught with difficulty, Officers will continue to monitor the environment and report any significant issues to the Governance Scrutiny Group.

Members felt the report was positive in light of the inflationary pressures and rising interest rates and were encouraged to see that the Council was in a good position.

Members asked specific questions in relation to the Council's investments provided in Appendix A, and asked whether these were ethical investments, adding that officers should be mindful of the risk if not investing ethically. The Service Manager – Finance explained that the Council will not knowingly invest in non-ethical businesses and are guided by Link the Council's Treasury Advisors. Members acknowledged good steps were being made but that 'not knowingly' does not go far enough.

The Chairman advised that this had been raised at a previous meeting of Governance Scrutiny Group and requested that further information to support the Council's investments would be helpful to the Group in defining the Council's Corporate responsibility in relation to ethical investments.

It was **RESOLVED** that the Group noted the Capital and Investment Strategy update position as of 31 December 2022.

33 **Capital and Investment Strategy 2023/2024**

The Finance Business Partner presented the Council's Capital and Investment Strategy 2023/24 to 2027/28 (Appendix A), which focuses on both traditional treasury activity and the Council's commercial property investments in light of CIPFA's updated Prudential and Treasury Management Codes.

The Group were advised that the Department for Levelling Up, Housing and Communities (DLUHC) regulations have been issued, which will require the Governance Scrutiny Group to consider a Minimum Revenue Provision (MRP) Statement in advance of each year. It was noted that out of the variety of options provided to local authorities, the Council has chosen option 3, the Asset Life Method.

The Group were informed of the CIPFA Treasury Management Code (2021), whereby under the revised Prudential code, investments are separated into

categories for Treasury Investment, Service Investment and Commercial Investment, and requires local authorities to produce a treasury Management Strategy Statement on an annual basis. The Strategy Statement includes those indicators that relate to the treasury management functions and ensure that the Council's investment plans are affordable, prudent and sustainable, whilst providing security and liquidity on investments.

In relation to the Borrowing Strategy 2023/24 to 2027/28 the Finance Business Partner explained that the Council chooses to internally borrow within operational boundaries. This means that no external borrowing costs are incurred, but there is an opportunity cost of using internal borrowing by way of lost interest on cash balances. The Finance Business Partner explained that the Treasury Management Code introduced a new indicator, 'Liability Benchmark' which reflects the real need to borrow. It was noted that the Council's reserves are being used to fund future capital expenditure and working capital and S106 monies are returning to a more realistic level.

In relation to current investments the Group were advised that as part of the budget and financial strategy 2023/24 report being taken to Council on 2 March 2023, it is recommended that a separate reserve is identified to cover mitigation by appropriations to reserves of £1m. The Group were asked to note these funds over the past 3 years have generated £1.35m in interest receipts and the expectation is over time the value will rise as the economy recovers.

In relation to Commercial Investments, the Finance Business Partner explained that whilst the Council is committed to being self-sustainable, it has taken the decision to no longer invest in property for commercial gain and this accords with the current professional ethos of CIPFA.

The Group were reminded that the updated Treasury Management Code requires local authorities to document a comprehensive knowledge and skills schedule for both members and officers responsible for treasury management and that training is kept up to date.

Members who had attended the Treasury Training for members expressed their greater understanding of the Council's Capital and Investment Strategy. The Chairman asked if there had been any changes in the Treasury Management Code since the last training in November 2022. The Service Manager – Finance advised that the Council's Strategy remains the same, however there have been two additional indicators; the Liability Benchmark; and the updated Prudential code in respect of investing in property for commercial gain. The Group were reminded that the Council is in a good position and therefore does not need to borrow externally and that it has made the decision to no longer invest in property for commercial gain and no longer has an Asset Investment Fund.

Members were encouraged by the Council's financial performance, expressing how it was a credit to management and officers that the Council was in the fortunate position of being debt free.

It was **RESOLVED** that Governance Scrutiny Group recommend for approval at Full Council:

- a) The Capital Strategy and Capital Prudential Indicators and Limits for 2023/24 to 2027/28 contained within Appendix A (paragraphs 5 to 15)
- b) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraphs 16 and 17) which sets out the Council's policy on MRP
- c) The Treasury Management Strategy 2023/24 to 2027/28 and the Treasury Indicators contained within Appendix A (paragraphs 18 to 66)
- d) The Commercial Investments Indicators and Limits for 2023/24 to 2027/28 contained within Appendix A (paragraphs 67 to 81).

34 **Work Programme**

The Chairman advised that Governance Scrutiny Group has an intense programme of substantive items for future meetings and asked officers if there is likely to be further delays with the Council's Financial Statements. The Service Manager – Finance explained that the evenings agenda had been unusually large with delays to the signing off of the Statement of Accounts, adding that the Statement of Accounts is unlikely to go to the meeting scheduled for September 2023.

It was noted that this was the last meeting of Governance Scrutiny Group for 2022/23 and that the Group membership is likely to change after the elections in May and when the membership of scrutiny groups are announced at Annual Council on 25 May 2023.

The Chairman thanked all members and officers for their contribution at Governance Scrutiny Group over the last 12 months.

It was **RESOLVED** that the Group note the Work Programme for 2023-2024:

June 2023 (Date TBC)

- Internal Audit Progress Report
- Internal Audit Annual Report
- Annual Fraud Report 2022/23
- Annual Governance Statement (AGS)
- External Audit Annual Plan
- Annual Audit Letter and Value for Money Conclusion
- Constitution Update
- Capital and Investment Strategy Outturn 2022/23
- Work Programme

September 2023 (Date TBC)

- Internal audit Progress Report
- Statement of Accounts

- Annual Audit Report
- Risk Management
- Going Concern
- Capital and Investment Strategy Monitoring Q1
- Work Programme

November 2023 (Date TBC)

- Internal Audit Progress Report
- Capital and Investment Strategy Monitoring Q2
- Work Programme

February 2024 (Date TBC)

- Internal Audit Progress Report
- Annual Audit Strategy
- Risk Management Strategy 2024/25
- Capital and Investment Strategy Monitoring Q3
- Capital and Investment Strategy 2024/25
- Work Programme

The meeting closed at 7.52 pm.

CHAIRMAN