

## **Governance Scrutiny Group**

### **Chairman's Foreword**

This brief foreword looks back on an unprecedented year for the Governance Scrutiny Group. It has been a very difficult and challenging time over the past few months, with the outbreak of Covid-19 and the subsequent lockdown, which has had a severe impact on the national economy and the Council's finances. Before the Covid-19 pandemic, the Council steered a prudent course during a long period of national financial austerity and the uncertainties it presented. However, I am pleased to report that due to the dedication of both the staff and Councillors, and because of careful financial management over many years, the Council has managed exceptionally well to deal with this crisis. Although it should be noted that there are still difficult, uncertain times ahead and the Council's financial resilience going forward will be severely tested, it is encouraging to know that the Council has the appropriate governance arrangements in place to support this task.

The scrutiny process is vital to challenge and influence how the Council makes decisions to ensure a high service quality and in these unprecedented times, it is even more vital to ensure resilience. This report demonstrates the variety of areas, which the Governance Scrutiny Group has scrutinised over the past year, and the actions taken to ensure the probity and soundness of the Council's decision making. Over the past year, the Group has judiciously and robustly scrutinised the Council's finances, approach to risk, as well as other corporate issues. Unusually a 'Going Concern' report was presented to the Governance Group, given the ongoing situation with Covid, which confirmed the Council's financial sustainability over the next 18 months.

As I hand over the Chair to my colleague, Councillor Davinder Virdi, may I thank my Vice-Chairman, Councillor Jenny Walker and the members of the Governance Scrutiny Group for their support and contributions. In these challenging times, when there is still so much uncertainty ahead, the work of this Scrutiny Group will remain vital and extremely important to the governance of Rushcliffe Borough Council.

Councillor Francis Purdue-Horan  
Chairman Governance Scrutiny Group



Councillor Francis Purdue-Horan  
Chairman



Councillor Jenny Walker  
Vice Chairman

## What we are responsible for?

The Governance Scrutiny Group's responsibilities include:

- **Statement of Accounts** To examine the outturn and statement of accounts resulting in its approval.
- **Annual Governance Statement** To consider the annual report on applying the Council's system of internal control. This statement ultimately comprises a key element of the Council's Statement of Accounts.
- **Capital and Investment Management** To consider the annual and interim reports on capital and investment management activity. Ensuring that practice has complied with the approved Asset Management Strategy, making recommendations to Cabinet or Full Council as appropriate. Including changes to the Treasury and Capital Codes of Practice, which includes how we account for Commercial Investments and reporting on the position concerning both treasury and commercial investments.
- **Protecting against fraud** To consider the annual report on fraud and irregularities in order to make an informed judgement on the corporate governance and internal control statements, making recommendations to Cabinet on improvements. To consider any matters arising as a result of irregularity referred to it by Cabinet.
- **Internal Audit** To consider periodic reports on the more significant findings of internal audit in order to make an informed judgement on corporate governance and internal control statements, making recommendations to Cabinet on improvements.
- **Risk Management** To consider periodic reports on controls over key risk areas as identified in the risk register in support of making an informed judgement on the corporate governance and internal control statements, making recommendations to Cabinet on improvements.

## Our work this year

During this year, the Group considered many service areas and issues within its scrutiny role, particularly:

- Internal Audit, including Progress Reports 2020/21, Annual Report 2020/21 and Strategy 2020 – 2023;
- Constitution Review
- Risk Management Strategy 2020 to 2023
- Going Concern Assessment Linked to Covid-19
- Approval of Statement of Accounts
- Treasury and Asset Investments
- Annual Audit Letter
- Internal Audit Strategy
- Capital and Investment Strategy 2020/21

- Risk Management Progress Report
- External Audit Annual Plan
- Annual Governance Statement 2020/21
- Update on Redmond Review of Public Sector Audit
- Annual Fraud Report

## **Internal Audit**

### **Internal Audit Progress Reports 2020/21**

The Group received and noted four progress reports throughout the year, prepared by the Council's internal Auditors, BDO. Mr Greg Rubins, Head of Internal Audit at BDO attended the meetings to update the Group.

At its meeting on 29 September 2020, a five month update and summary of the Internal Audit Progress Report provided information on the current position of the audit programme. The Group were advised that due to Covid-19, some of the planned audits had not taken place. The Group noted the Budget Management Audit 2020/21 and reported a positive substantial opinion and as a result of testing, two low priority findings were identified, and management actions were agreed.

The Group were advised of some changes to the Internal Audit Plan as agreed with management. These include:

- The Country Parks Income review has been replaced, due to events not going ahead due to Covid-19. A Fraud and Risk Assessment is now planned instead, following the preliminary work completed as part of the annual Fraud Report.
- Markets has been replaced by business grants in light of the extensive emergency work undertaken around business grants as a result of Covid-19.

At its meeting on 24 November 2020, the Group were provided a summary of the Internal Audit Progress Report. It was reported that due to Covid-19, some of the planned audits had not taken place and only two were reported at this meeting. Members noted the positive annual opinion and as a result of testing one medium and eight low priority findings were identified, and management actions were agreed.

The Group were informed that a review had been completed to follow up on the progress made to implement the previously agreed management actions raised by RSM, BDO's internal audit predecessor. There were 33 legacy management actions to consider, which comprised of four medium and 29 low. Overall, 27 of the 33 recommendations have been implemented or superseded, the others are in progress. The opinion of BDO is that Rushcliffe Borough Council has demonstrated good progress in implementing the agreed management actions.

At its meeting on 4 February 2021, the Group were advised that due to Covid-19 some of the planned audits had not taken place or were incomplete. The Group noted the Licensing audit, the opinion issued for Design and Operational Effectiveness were moderate and the impact on Annual Opinion is positive. As a result of testing, five medium priority findings and three low priority findings were identified, and management actions were agreed.

Unusually the last meeting for the year was the 24 June 2021, with the Annual Governance Statement produced later than normal as a result of a national extension to the closure of accounts deadline (from 31 May to 31 July 2021).

### **Internal Audit Annual Report 2020/21**

Mr Gurpreet Dulay from BDO, the Council's internal auditors, attended the meeting on 24 June 2021, and presented the Council's Internal Audit Annual Report 2020/21 for noting by the Group. This was the last report for the financial year and BDO concluded that the Council had a moderate sound system of internal assurance (with Moderate being the second highest rating) and the Group noted that no local authority this year had received the highest Substantial rating and was a positive outcome. The Group noted that of the nine audits, five had resulted in a green 'Substantial Assurance' rating, three with an amber 'Reasonable Assurance' rating, and one was not classified in the same way. In addition, 27 management actions had been identified, including 12 'Medium Priority' and 15 'Low Priority', where management actions had been agreed in all cases.

### **Internal Audit Strategy**

Mr Rubins Head of Internal Audit at BDO, the Council's internal auditors attended the meeting on 2 February 2021, and presented the planned audits due to take place in Year 2 of the Internal Audit Strategy, 2021/22 and highlighted a small number of changes in response to evolving situations and amended risks. The Group noted ten are planned for 2021/22 covering a number of the Council's key processes and systems.

### **Risk Management Strategy Report 2020 to 2023**

At its meeting on 29 September 2020 the Group were presented with the Council's Risk Management Strategy following a Risk Management Health Check by Zurich Municipal in 2019. Members noted the following recommendations had been addressed as follows:

- An approach to risk appetite has been added to the revised strategy, which guides how much risk the Council is willing to accept to achieve its objectives.
- The Council has an entrepreneurial approach to seizing opportunities and has been able to successfully manage its finances throughout a challenging period of austerity while ensuring the delivery of major projects with lasting benefit to residents in the Borough.
- Member training was delivered by Zurich on 2 September 2020.
- Project risk is considered separately within contract negotiations with partners, and guidance for officers has been developed for managing project risks.

The Chairman highlighted the training that Zurich had provided and emphasised the interest and shift in types of risk and in particular the approach to opportunity risk management going forward.

## **Going Concern Assessment Linked to Covid-19**

The Council's External Auditors requested additional assurances in the assessment of Going Concern, these were:

- The Council's current financial position
- The Council's projected financial position
- The Councils' governance arrangements
- The regulatory and control environment applicable to the Council as a local authority

It was reported that the Council's functions and services would continue in operational existence for the foreseeable future and that the Council has an established and robust corporate governance framework. An update of the Council's medium-term financial position (MTFS) covering the period 2020/21 to 2024/25 due to the events Covid-19 was reported to both, Cabinet and Full Council on 24 September 2020.

## **Constitution Review**

At its meeting on 24 June 2021, the Governance Scrutiny Group considered proposed revisions to the Constitution and recommended them for adoption to Council.

## **Approval of the Statement of Accounts 2019/20**

At its meeting on 24 November 2020, the Statement of Accounts for 2019/20, along with the draft Management Representation letter were presented to the Group. It was noted that there were issues linked with Covid-19 which may result in the Statement of Accounts being altered. The Group approved that the Chair of Governance Scrutiny Group and the S151 officer have delegated authority for final approval of the Statement of Accounts for 2019/20 and approve any changes to the Management Representation letter, subject to a satisfactory outcome of the Nottinghamshire County Council Pension fund audit.

## **Treasury and Asset Investments**

At its meeting on 24 November 2020, the Group were provided with a summary of the Council's capital and investment activities for the period 1 April to 30 September 2020 and were advised that Covid-19 had caused huge economic decline in the UK and across the world effecting interest rates, economic growth and unemployment.

In respect of Investment Income and in order to maintain returns and mitigate risks the Council had continued to diversify its investment mix with a view to maximising its rates of return, and although the Council's diversified funds had fallen it is anticipated that these values will recover over time.

In respect of Capital Expenditure and in light of the impact of Covid-19, the Capital Expenditure Programme was reviewed, and adjustments approved by Full Council on 3 December 2020.

The Group were advised that the Council had identified specific sums for its Asset Investment Strategy within the Capital Programme and was committed to two acquisitions, these were completed on 9 July and 13 October and details of the investment appraisals were provided. The Cabinet Portfolio Holder for Finance attended the meeting and praised officers for their work, adding that the new acquisitions were an excellent purchase in an established location within the Borough.

### **Capital and Investment Strategy**

At its meeting on 2 February 2021, the Group were presented with the Council's Capital and Investment Strategy report for 2021/22 to 2025/26, which focused on both traditional treasury activity and the Council's commercial property investments.

The Group were advised of the Capital Prudential Indicators that highlighted the Council's projected capital expenditure plans and funding, the Council's borrowing need and the ongoing impact of the capital programme on the investment balance. The Group noted the Council's overall position with regard to borrowing, which showed an increase in the Capital Financing Requirement (CFR) reflecting the Council's capital commitment in respect of the Crematorium and Bingham Leisure Hub.

The Group were informed of the Council's Treasury Management Strategy and were advised of the UK's economic recovery which is likely to be gradual in wake of the Covid-19 pandemic. It was also identified that the Council may need to borrow externally which will result in borrowing costs.

The Group noted that the Council aims to minimise its exposure to risk by spreading its commercial investments across sectors to avoid single large-scale investments. This includes the Council's commitment to economic regeneration (not purely financial return) has meant that many of its investments have been in industrial units, which have been very successful.

### **Annual Audit Letter**

At its meeting on 4 February 2021, members of the Group received and noted the Annual Audit Letter, which concluded that no significant issues had arisen during the 2019/20 financial year, with only some non-material misstatements in relation to Pensions, Property, Plant and Equipment.

### **Risk Management Progress Report**

The Group were presented with the Risk Management Progress Report which provided an update on the Council's risk activity. This report summarised risks in the Council's Risk Register that have been changed, including the risks identified as a result of the Covid-19 pandemic. Members were advised that there are currently 44 corporate risks and 32 operational risks and that the number of risks within the Risk Register would fluctuate throughout the year as active risk management is undertaken.

The Group were asked to note ten changes to risk, three increases to risk ratings and seven reductions to risk ratings which were summarised in the Risk Management Progress Report. One risk had been removed in respect of the Borough's Leisure facilities and their ability to recover following the initial lockdown in March to June 2020 and that this risk had been replaced by two new risks as follows:

- CRR\_NS17a Impact on the Borough's leisure facilities if closed due to Covid-19
- CRR\_NS17b Impact on the Borough's leisure facilities failure to recover after Covid-19

Additional information at the Group's request had been provided to help improve reporting including additional information in respect of red risks and mitigation of risks so that members can see clearly how Officers manage risks internally.

### **External Audit Annual Plan**

At the meeting on 24 June 2021, Mr David Hoose from Mazars, the Council's external auditors, presented the External Audit Annual Plan for 2020/21. The report highlighted four significant risks, and in particular the Covid-19 grants received by the Council, and it was noted that those areas would be carefully monitored and accounted for. The Group also noted the significant change in approach to the monitoring and reporting of value for money.

Members of the Group noted that the risks identified were similar to those identified in previous years; however, reference was made to the 60% increase in fees costs highlighted in the report and questioned if the uncertainty disclosures and costs would reduce as the Covid pandemic receded. The question of risks related to pensions was also raised and officers were asked if anything could ever be done to mitigate those risks, given that they appeared the same each year. Mr Hoose advised that in respect of pension, this remained a challenge and it was unlikely to change, unless there was a change in regulations. The Director – Finance and Corporate Services advised that there was uncertainty in respect of fees, due to Covid, and a national consultation was currently underway. It was hoped that fees would not increase anymore, and the Group noted that the Council and Mazars would continue to work together to ensure that fees were kept to a minimum.

Members of the Group accepted the External Audit Annual Plan for 2020/21.

### **Annual Governance Statement**

Members of the Group received and approved the Annual Governance Statement at its meeting on 24 June 2021.

### **Update on the Redmond Review of Public Sector Audit**

At the meeting on 24 June 2021, the Group received an update on the recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial reporting. The Director – Finance and Corporate Services advised that Group that the report had been quite

critical in particular regarding the lack of coherence in local audit and governance arrangements. One of the key recommendations in the Council Report related to the possibility of appointing at least one, suitably qualified, independent member to sit on the Governance Scrutiny Group.

Members of the Group considered both the advantages and disadvantages of such an appointment, and the majority of the Group agreed that given that the Council already received excellent advice from both its internal and external auditors and officers, and that members of the Group were appropriately trained to undertake their duties, at the current time it would be inappropriate to consider such an appointment.

### **Annual Fraud Report**

At its meeting on 24 June 2021, Mr Gurpreet Dulay from BDO, the Council's internal auditors, presented the Annual Fraud Report, which provided an overview of general and specific fraud related issues that had arisen at the Council during 2020/21.

Mr Dulay advised that there had been no allegations of fraud and no whistleblowing concerns reported during 2020/21. The Group was advised that as part of the Internal Audit Plan for 2020/21, BDO had undertaken an audit assurance over claims relating to the Small Business Grant Fund, and the audit had identified no potential fraud concerns. The Group noted that staff had recently undertaken fraud awareness training, and had been asked to complete a survey, the results of which were very encouraging.

The Group raised a concern that there was no information available from the Department of Work and Pensions (DWP) regarding potential Housing Benefit fraud and asked if the Group could be updated when any data was received. The Director – Finance and Corporate Services advised that due to Covid, the DWP was extremely busy and it was hoped that information would be available for this report next year.

Members of the Group noted the Annual Fraud Report for 2020/21.

### **Member Panels**

The Group did not establish any member Panels this year.

### **Call-ins**

The Group did not discuss any call-ins this year.

### **Looking forward to the year ahead**

The Governance Scrutiny Group will continue to help review and shape policy; ensuring improvements are implemented by developing a challenging work programme.