

prudent to move forward with the document as it stood and add additional ad-hoc items at the next meeting in November 2016.

Councillors asked for reassurance from officers that the impact of the recent court case in Southwark regarding water rates would be included in the Risk Register due to come before the Committee in November 2016. Officers explained the situation and confirmed that this sort of unexpected court ruling was the type of matter that would be added to the Risk Register as it was updated on an ongoing rolling basis.

The Committee was also informed of the intention of officers to provide members with a briefing session on risk prior to the November 2016 meeting.

Graeme Clark, Director of Finance and Resource, would provide Cllr Hesse with a copy of the Risk Register reported to the Audit Committee to enable him to familiarise himself with the document.

Gail Beaton would remove the word `recurrent` from the title and mark each item individually as either `recurrent` or `ad-hoc`.

Members raised the issue of communication and expressed a desire to ensure residents were aware that the Council had a good risk management approach that was achieving results. The Chairman agreed and remarked that the visibility of the work of Audit was an important requirement under the Committees terms of reference. An item would be added to the next agenda on communication of risk management and the principles of risk.

The Audit Committee RESOLVED to;

1. Note the content of the work programme, and
2. Agreed to revisit the work programme at the next meeting

19. EXTERNAL AUDIT FINDINGS REPORT (Agenda item 6.)

Iain Murray of Grant Thornton introduced the External Audit Findings Report to the Committee. He was very happy to see the good work done by the Council in embracing the early close agenda and expected to have a full dry run in 2017/18 prior the mandatory earlier reporting regime coming into effect for 2018/19.

He explained that the Report highlighted the key issues affecting the results of Waverley Borough Council's Group and Council financial statements for the year ended 31 March 2016.

He praised the Council for the very high standard of the financial statements; for providing them in advance of the statutory deadline; and for supporting them with an excellent set of working papers. Some non-material issues had been identified but none of the adjustments had impacted the Council's reported position.

Three issues of deficiency had been identified in the Council's financial report. This included:

1. Housing Revenue Account (HRA) asset register;

The HRA asset register included five assets with a total value £297k, which had been demolished, converted or where ownership had transferred during the year. There was a risk that the HRA asset register had not correctly reflected the HRA asset base.

2. Pension Fund Liability;

The actuary (Surrey County Council Pension Fund) had provided Waverley with an incorrect estimation of 2015/16 benefits paid. The risk was that incorrect values provided by the actuary lead to a material misstatement of the Council's pension fund assets and liabilities.

3. Short term debtors and HRA rent arrears;

The total HRA tenant rents and cost debtor disclosed in the financial statements as £540k agreed to the trial balance from the general ledger but was not supported in full by the corresponding report form the Orchard internal I.T. system. This showed a balance of £455k. Officers were unable to provide a reconciliation for the £85k balance during the audit. The risk was that the housing rent arrears debtor in trial balance had been misstated.

It was noted that management had agreed to take the action proposed by Grant Thornton to rectify these issues as follows:

1. Housing Revenue Account (HRA) asset register;

Regular reconciliation of the properties on the HRA asset register to the Orchard housing system.

2. Pension Fund Liability;

Review information provided by Actuary to ensure it is was reasonable, in line with expectations and comparable with the prior year if appropriate.

3. Short term debtors and HRA rent arrears;

Carry out a reconciliation between the HRA tenants rent arrears control account and the Orchard rent system. Consider whether there were items on the general ledger control account which should be cleared and/or written off.

In response, Members asked that the management response to pension fund liability issue be strengthened in order that all third party data is comprehensively checked for accuracy.

Graeme Clark would strengthen the management response to the pension fund liability issue recorded in the Report.

Councillors also expressed concern at the cumulative general fund budget shortfall of £3m identified as a significant risk on page 24 of the Report (page 32 of the agenda pack). Officers explained that the shortfall was mainly due to the changes to funding under consideration by central government. It was noted that the Audit and Corporate Overview & Scrutiny Committees would need to work closely together on keeping a track on the issue.

The Chairman agreed and informed the Committee that he had already been in contact with the Leader of the Council to ensure the work of each committee was co-ordinated.

Closing with their `value for money` conclusion, Iain Murray explained that Grant Thornton were satisfied that, in all significant respects, Waverley had the proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Audit Committee RESOLVED to endorse the External Audit Findings Report.

20. STATEMENT OF ACCOUNTS (Agenda item 7.)

Graeme Clark introduced the Committee to the Statement of Accounts for the financial year ended 31 March 2016.

He thanked officers for their hard work in producing the Accounts to meet the early closure requirements without any major issues. Any learning identified would be fed into how the Finance Team handled the production of next year's statements. He also explained that he would be liaising with Iain Murray of Grant Thornton to ensure they too were able to complete a dry run of the early close requirements during 2017/18.

Graeme explained that the purpose of the Accounts was to help demonstrate the Council's accountability for public funds. They supported the Council's key objective of providing good value for money by showing how its resources had been utilised. There were three recommendations associated with the Accounts under the agenda item.

Recommendation 1 was to approve the Statement of Accounts. The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. These regulations incorporated a statutory requirement to be approved by a resolution of a Committee of the relevant body by 30 September 2016.

It was also a requirement that the Council issued a Letter of Representation to its external auditors at the conclusion of the accounts (Recommendation 2).

Recommendation 3 fulfilled the obligation placed on the Council by International Audit Standards requiring the Committee to confirm that the 2015/16 accounts had been prepared on a `going concern` basis. Graeme explained that this concept was one of the core principals underpinning local authority accounting practice and referred to the assumption made that, when the Accounts were prepared, the organisation would continue to operate for at least 12 months following the accounting period in question.

The fourth recommendation under the agenda item was to agree to move the Audit Committee date in June 2017 to a date in late June or early July in order to carry

out a dry run of the early close requirements that were to become mandatory in 2018/19.

Members were positive about the dry run but did ask that a backup date be pencilled in to allow the June 2017 meeting to go ahead a couple of weeks later if required due to unforeseen circumstances preventing the earlier schedule being met.

An alternative date for the June 2017 meeting would be arranged to allow for any unforeseen circumstances preventing the earlier schedule being met.

The Audit Committee RESOLVED to;

1. Approve the Statement of Accounts for the financial year ended 31 March 2016; and to
2. Approve the Letter of Representation for 2015/16; and to
3. Confirm that the accounts had been prepared on an ongoing basis; and to
4. Move the Audit Committee date in June 2017 to July 2017 in order to carry out a dry run of the early close requirements that become mandatory in 2018/19

21. UPDATE ON INTERNAL AUDIT ANNUAL REPORT 2015-16 ACTIVITY EXCEPTION REPORT (Agenda item 8.)

Gail Beaton explained that at the previous Audit Committee meeting on 21 June 2016, Members had noted that the information contained in the Internal Audit Annual Report for 2015-16 had been comprehensive. However, they had requested an update on the current position of the areas raised in the Report designated as 'partial assurance' (amber red) as there had not been any 'no assurance' (red) areas given in the year being reported on.

Members were happy with the update but asked whether a column could be added to include due dates and persons responsible to the Report. Cllr Hesse was dissatisfied with the phrases and information used in the Report and expressed concern that the 'covalent' system used to produce the data was not comprehensive enough. Officers explained that some of the wording and classifications used may be different to those experienced by Cllr Hesse in his work outside of the council but that they were sure risks were being captured correctly and managed. Gail Beaton agreed to hold a one to one session with Cllr Hesse to show him around the covalent system.

The Audit Committee RESOLVED to note the status and progress made to strengthen the control environment as part of the activity completed by the Internal Audit Service in 2015-16.

22. PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2016/17 (Agenda item 9.)

Gail Beaton advised the Committee that, following feedback received at the last meeting, the spreadsheets associated with the Report (attached as Annexe 1), had been simplified whilst at the same time included extra data (such as recording of the number of recommendations and the assurance opinion).

A new review was being included (shown in blue) on the plan for the Construction Industry Scheme to provide assurance that the system currently in operation was compliant with legislative and HRMC requirements.

Councillors were very happy with the revised spreadsheet format and explained that they found it much easier to navigate and understand.

The Audit Committee RESOLVED to note the progress for the Internal Audit Plan 2016/17 as attached at Annexe 1 and endorsed the proposed inclusion of the review shown in blue.

23. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 10.)

Gail Beaton advised the Committee that its aim was to inform them of senior management's progress in implementing the recommendations raised by the Internal Audit Service following a review in their service areas. The Audit Committee was being asked to consider what action was required in respect of those recommendations that were overdue or appeared likely to be implemented later than the originally agreed target date.

Annexe 1 contained three items regarding the I.T. Service Desk that were due by 30 September 2016. Updating the figure recorded, Gail explained that the items were now 75% complete and that she expected them to be achieved by the due date.

The remaining item related to Pest Control Fees and Charges. There was no completeness check being done to ensure that all referrals had been completed or cancelled. The information required from the contractor to monitor cancellation activity would take longer than originally envisaged to resolve.

The Committee was happy to agree the extension to 30 October 2016 as requested but asked that the financial amount involved be quantified and reported in these Minutes. The quantified total annual income for Pest Control was £20,000.

The Audit Committee RESOLVED that, having identified the information in Annexe 1 and identified any action it wished to be taken, the implementation date for the recommendation listed in Annexe 2 be agreed.

24. ANNUAL GOVERNANCE STATEMENT (Agenda item 11.)

Graeme Clark advised the Committee that the AGS was a statutorily required document that had to be approved alongside the Statement of Accounts. Its purpose was to provide a summary of the beliefs and methods of the Council in the way in governed itself.

Councillors had spent a number of weeks developing the AGS with officers through several draft stages since the last meeting in June 2016. Cllr Hesse believed that the AGS lacked thoroughness; processes were not adequately described and that the use of language was poor.

Iain Murray reiterated that the AGS was not meant to be a thorough, technical document. The content was heavily prescribed by CIPFA and Grant Thornton was happy that the AGS presented at the meeting complied with requirements and was in keeping with the External Audit Findings Report. In light of the assurance received from officers and Iain Murray, Cllr Hesse explained that a lot of his earlier concerns had been allayed.

Overall, Members felt that the Annual Governance Statement was an opportunity to better convey the good work done in financial management and control, and would thus like to see improvements next year, especially with regard to reassurance on issues or situations that have been highlighted in public.

The AGS would undergo a final proof read before publication and it would be forwarded to Cllr Hesse for comment.

The Audit Committee RESOLVED to approve the attached Annual Governance Statement 2015/16.

The result of the vote was as follows:

For – 3
Against – 0
Abstain – 1

Total 4 Members present.

25. COUNTER FRAUD INVESTIGATION SUMMARY (Agenda item 12.)

Gail Beaton advised the Committee that the value of financial savings detailed in Annexe 1 for Quarter 1 of 2016-17 was £225,000 based on Audit Commission notional figures. However, these did not include the real value to Waverley as it cost on average £200,000 to build a new house. When tenancies were relinquished, they were then allocated to those on our housing waiting list who fulfilled the necessary criteria. Therefore, the investigation activities had resulted in savings of £800,000, not being required to replace those properties.

The Committee were very pleased with the progress being made and thanked Gail for the adjustments made to the formatting of Annexe 1 and the inclusion of financial values.

The Audit Committee RESOLVED to

1. Note the success of the investigation activity and continues to support the work being completed to safeguard Waverley's assets and ensuring that only those that are legitimately eligible to receive our services are successful; and
2. Note the Council's participation in the National Fraud Initiative to assist in identifying fraudulent activities.

26. OBSERVATIONS OF THE TRUSTEE REPORTS AND FINANCIAL STATEMENTS
(Agenda item 13.)

Graeme Clark advised the Committee that the meeting of the full Council was the trustee for both accounts and that its AGM takes place each October after the meeting of full Council. Following a request in 2015, the Audit Committee had been given the right to see each set of draft trust accounts prior to the AGM so that it may forward its observations to the trusts before they those accounts were approved.

Councillors were confused by the bracketing of large numbers in the accounts. Officers reassured them that it was a quirk of these accounts that bracketed numbers stood for positive figures rather than negative for which brackets are often used.

Iain Murray explained that Grant Thornton had looked at aspects of the trust accounts that had had a material impact on Waverley's own accounts as part of the External Audit Findings Report.

Members requested that one of the observations to be passed on to the trusts be that the 'reserves policy' in each set of accounts be more specific than 'reasonable' in order to be more meaningful.

The Audit Committee RESOLVED that its observations be recorded in the Minutes of the meeting and agreed the Chairman present these observations as part of the presentation of the Minutes of this meeting to the next full Council and at the Trusts AGM on 18 October 2016.

The meeting commenced at 7.01 pm and concluded at 9.36 pm

Chairman