

WAVERLEY BOROUGH COUNCIL

MINUTES OF THE AUDIT COMMITTEE - 27 MARCH 2018

SUBMITTED TO THE COUNCIL MEETING - 24 APRIL 2018

(To be read in conjunction with the Agenda for the Meeting)

**Present**

Cllr John Gray (Chairman)	Cllr Jerry Hyman
Cllr Richard Seaborne (Vice Chairman)	Cllr Anna James
Cllr Mike Band	Cllr Stephen Mulliner
Cllr Nicholas Holder	

**Apologies**

Cllr Pat Frost

**Also Present**

Sophia Brown and Iain Murray from Grant Thornton  
Peter Vickers, Head of Finance  
Walter Stockdale, Financial Services Manager  
Vicki Basley, Senior Accountant  
Gail Beaton, Internal Audit Client Manager

42. MINUTES (Agenda item 1.)

RESOLVED that the minutes of the meeting held on 20 November 2017 be confirmed and signed.

43. APOLOGIES FOR ABSENCE (Agenda item 2.)

Apologies were received from Cllr Pat Frost.

44. DISCLOSURE OF INTERESTS (Agenda item 3.)

There were no disclosures of interest in connection with items on the agenda.

45. QUESTIONS BY MEMBERS OF THE PUBLIC (Agenda item 4.)

There were no questions from members of the public.

**PART I - RECOMMENDATIONS TO THE COUNCIL**

There were no matters falling within this category.

**PART II - MATTERS OF REPORT**

The background papers relating to the following items are as set out in the reports included in the original agenda papers.

46. 2016/17 CERTIFICATION LETTER (Agenda item 5.)

Sophia Brown from Grant Thornton presented the 2016/17 Certification letter to the Committee. Grant Thornton had certified the Housing Benefit subsidy return and issued a qualification letter. The certification work had identified a number of issues, however these were considered relatively insignificant and the claim had not been amended. The Council would carry out some additional testing in three areas as set out in the letter.

Cllr James noted that an additional 940 cases would be tested in relation to rent allowances and queried how many had been tested in the first instance. It was explained that 20 cases had been tested to begin with and one error had been found. The Council had then looked at the population where the error had been found, and as this was 940, had decided to undertake 100% testing. Members were concerned that testing 940 cases could be unduly onerous on the Council however it was explained that the process was relatively straightforward and not time-consuming.

The Committee RESOLVED that the 2016/17 Certification Letter be noted.

47. EXTERNAL AUDIT PROGRESS REPORT (Agenda item 6.)

Sophia Brown presented the External Audit Progress Report and Sector Update to the Committee. She explained that Grant Thornton had completed its planning for the 2017/18 financial statements audit. Interim work had been carried out in February and this had not identified any significant weaknesses. Walkthrough testing had helped to cement the auditors' understanding of how the systems were used and early substantive testing had not identified any issues.

Cllr Gray asked Sophia to clarify the process in terms of audit visits. She explained that this began with an interim review, followed by testing, then a pre-accounts visit, and concluding with the accounts visit.

Members queried how robust the testing would be when the Council had already stated that a plan was in place. Iain Murray from Grant Thornton explained that the testing would be proportionate to the risk, and would look at the upper end of what could be considered reasonable. Anything unrealistic or overly ambitious would be brought the attention of the Audit Committee.

Cllr Hyman noted that the Sector Update highlighted that the proportion of principal bodies where the auditor was unable to issue an opinion by 30 September had increased, and asked whether Waverley should be concerned. Iain responded that these related to authorities that were facing significant financial difficulties, and was more common at county level due to the costs of adult and children's services.

The Committee thanked Sophia and Iain for the update and RESOLVED to note the External Audit Progress report.

48. 2017/18 EXTERNAL AUDIT PLAN (Agenda item 7.)

Iain Murray presented the 2017/18 Audit Plan to the Committee. The Plan set out both the local and national context for the audit, including any relevant sector changes. Cllr Mulliner noted that this included a reference to the Council's Investment Strategy, which would support economic development in the borough. He queried what the situation would be in relation to purchases outside the borough. Iain responded that while capital could be used to invest outside the borough, the legal position in relation to borrowing for investment outside the borough had not yet been tested. He added that Grant Thornton had an ongoing, open dialogue with senior officers at the Council and would raise any concerns as they arose. Cllr Gray also asked that the Audit Committee be informed of any emerging concerns.

In terms of risks identified, Iain explained that these would be similar to those the Committee would have seen in previous years. The valuation of property, plant and equipment and valuation of pension fund liability had been moved to the significant risks section, only because of a change in Grant Thornton's working methods, not because the risk in these areas had increased.

Cllr Mulliner noted that the valuation of property was carried out by internal valuers on a rolling basis, and queried whether an external opinion was ever sought. It was explained that an external valuation would only be used if something was particularly unusual.

The Committee RESOLVED to note the External Audit Plan for 2017/18.

49. STATEMENT OF ACCOUNTS - ACCOUNTING POLICIES (Agenda item 8.)

Peter Vickers, Head of Finance, advised the Committee that the Council was required to prepare its accounts in compliance with the terms of the Code of Practice on Local Authority Accounting, developed by CIPFA. There had been two changes to the Code for 2018/19; however these would not have a significant impact on the Council due to the nature of its transactions.

IFRS 9 [Financial Instruments] introduced a new classification and measurement of financial assets with a requirement to make a loss allowance based on a new 'expected credit loss' impairment model. Cllr Gray noted that a Commercial Property void/non-payment fund had been established and queried how the level had been calculated. Peter responded that this would be shown in this year's accounts.

The Committee RESOLVED to note the changes to financial reporting standards.

50. ANNUAL GOVERNANCE STATEMENT 2017/18 (Agenda item 9.)

A briefing on the draft Annual Governance Statement had been held on 21 March. This had given members of the Committee an opportunity to discuss the draft Annual Governance Statement in detail. A number of potential governance issues had been raised during this session, and Cllr Gray requested that Peter Vickers and Robin Taylor feed back these back to the Leader and Chief Executive to ensure that they were aware of the Committee's concerns.

The Committee RESOLVED to note the progress of draft Annual Governance Statement, with the final version to be brought to the July meeting of the Committee.

51. PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2017/18 (Agenda item 10.)

The Committee reviewed the latest position on the reviews contained within the 2017/18 Audit Plan. The Committee was pleased to note that the majority of planned reviews had now been completed; some reports were still at draft stage but were progressing well. Gail Beaton, Internal Audit Client Manager, informed the Committee that the review of email server and virus protection had not been required, as this was already covered by the requirements of PSN compliance; this had therefore been removed from the plan.

Cllr Holder queried whether review of Fire Safety Assessment Checks included the Council Offices building however Gail clarified that this specifically related to Waverley's housing stock.

Members were concerned to note that no assurance had been given in relation to the management of keys for garages. Gail confirmed that the review had found that very weak controls were in place, and this had resulted in nine audit recommendations. The majority of these recommendations had now been implemented or were due to be implemented in the near future. When no assurance could be given as a result of a review, the target date for implementing the recommendations would be much shorter. The outcome of the review had been reported to the relevant Head of Service and the Directors also had access to the report. Members were keen to know that adequate action had been taken, and Cllr Band agreed to review the report and actions on behalf of the Committee.

The Committee RESOLVED to note the progress and the changes to the Internal Audit Plan for 2017/18.

52. PROPOSED INTERNAL AUDIT PLAN FOR 2018/19 (Agenda item 11.)

Gail Beaton presented the proposed Audit Plan for 2018/19 to the Committee. She explained that she carried out a risk assessment and consulted with Directors and Heads of Service in order to identify items to include in the plan. Gail welcomed the Committee's views on any further items to be included in the audit plan.

Cllr Holder noted that a new IT system was being introduced in the Planning service, and suggested that this be included as a review. Gail agreed to look into this, and determine whether it would be appropriate to review it now or once it was more bedded in. Members had several concerns about the new online planning record system; they found it difficult to locate documents and felt that there had not been sufficient testing. It was also felt that guidance and training should have been provided before the system was implemented, not afterwards. Cllr Gray suggested that, in view of the number of queries from members of the public, this might also be a worthwhile Overview and Scrutiny review.

The audit plan for 2018/19 included the review of the Agresso interface that had been deferred from the 2017/18 plan. Cllr Hyman queried whether the interface was now fully implemented as it seemed to have been taking a long time. Officers reported that the interface was now in place and working, the audit would be undertaken in Quarter 1 to ensure that it was working as expected. Cllr Hyman had some further concerns regarding the IT systems used to monitor housing stock and ensure that properties met the decent homes standard; he suggested that further audit work be carried out on the accuracy of data in the Orchard system and the way it worked alongside the Keystone system.

Cllr Band noted that a review of the Community Infrastructure Levy had been included for 2018/19. He highlighted that CIL wasn't likely to be implemented until around December and therefore queried whether there would be time to do a worthwhile review. Officers responded that this had been discussed with the Head of Service, and the review would either be carried out in Quarter 4, or would be deferred to Quarter 1 the following year.

The Committee RESOLVED that the proposed Internal Audit Plan for 2018/19 be approved.

53. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 12.)

The Committee received a report setting out the latest position regarding the implementation of internal audit recommendations. At its last meeting, the Committee had asked for an update on the progress made on several recommendations relating to information governance. An update from the Head of Service was set out in the report; this included a comprehensive project plan being put in place and Information Governance Board meetings being led by Graeme Clark, Strategic Director. Additionally, there would be briefings for Councillors on GDPR to be held on 30 April.

Members were concerned that the due date for IA18/02.006 [Legal basis of processing Personal Data] was 20 May 2018, which was only two days before GDPR would come into force. Officers responded that they were confident that this would still be met.

Gail Beaton also drew the Committee's attention to two recommendations relating to Housing, which were due to be implemented by the end March. She assured the Committee that these recommendations would be implemented on time.

The Committee RESOLVED that the progress being made to comply with the General Data Protection Regulation by 25 May 2018 be noted.

54. FRAUD INVESTIGATION SUMMARY (Agenda item 13.)

The Committee received a report setting out the progress being made on fraud investigations, primarily focusing on housing tenancy fraud. The Committee was pleased to note that the investigations had resulted in eight council properties being handed back. The financial value of the work up to the end of Quarter 3 was £481,420 although the Committee noted that this figure didn't represent the 'real' value of the properties as it would cost around £200,000 to build a new council

home. The total figure for the year would be presented to the Committee at its next meeting, however Gail Beaton indicated that this would be around £700,000.

Members remained impressed with the professionalism and hard work of the Fraud Investigation Officer, and noted that he worked very effectively with other officers around the organisation to progress cases.

Cllr Gray commented that there seemed to have been fewer referrals this year when compared with the previous year. Officers responded that while there had been a reduction in referrals, they were generally of better quality, which could indicate that people now had a better understanding of the process.

The Committee also asked how Waverley compared with other councils. Gail responded that Waverley was generally achieving verily highly when compared with other Surrey Councils.

The Committee RESOLVED that the success of the investigation activity and the results achieved be noted.

55. COMMITTEE RECURRENT WORK PROGRAMME (Agenda item 14.)

The Committee RESOLVED to note its Annual Recurrent Work Programme.

56. EXCLUSION OF PRESS AND PUBLIC (Agenda item 15.)

At 8.37pm it was:

RESOLVED that pursuant to Procedure Rule 20 and in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during the item, there would be disclosure to them of exempt information (as defined by Section 1001 of the Act) of the description specified in the paragraph 3 of the revised Part 1 of Schedule 12A to the Local Government Act 1972, namely:

Information relating to the financial or business affairs of any particular person (including the authority holding that information).

57. FUTURE DELIVERY OF INTERNAL AUDIT FROM APRIL 2019 (Agenda item 16.)

The Committee RESOLVED that the recommendations within the report be agreed.

**The meeting commenced at 7.00 pm and concluded at 8.51 pm**

**Chairman**