

To: All Members of the AUDIT COMMITTEE
(Other Members for Information)

When calling please ask for:

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Calls may be recorded for training or monitoring

Date: 14 September 2018

Membership of the Audit Committee

Cllr John Gray (Chairman)

Cllr Richard Seaborne (Vice Chairman)

Cllr Mike Band

Cllr Pat Frost

Cllr Jerry Hyman

Cllr Stephen Mulliner

Cllr Sam Pritchard

Cllr Liz Townsend

Dear Councillors

A meeting of the AUDIT COMMITTEE will be held as follows:

DATE: TUESDAY, 25 SEPTEMBER 2018

TIME: 7.00 PM

PLACE: COMMITTEE ROOM 1, COUNCIL OFFICES, THE BURYS,
GODALMING

The Agenda for the meeting is set out below.

Yours sincerely

ROBIN TAYLOR

Head of Policy and Governance

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NOTE FOR MEMBERS

Members are reminded that contact officers are shown at the end of each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

AGENDA

1. **MINUTES**

To confirm the Minutes of the Meeting held on 24 July 2018 (to be laid on the table half an hour before the meeting).

2. **APOLOGIES FOR ABSENCE**

To receive apologies for absence.

3. **DISCLOSURE OF INTERESTS**

To receive from Members, declarations of interests in relation to any items included on the Agenda for this meeting, in accordance with the Waverley Code of Local Government Conduct.

4. **QUESTIONS BY MEMBERS OF THE PUBLIC**

The Chairman to respond to any questions received from members of the public of which notice has been duly given in accordance with Procedure Rule 10.

The deadline for receipt of questions is 5pm on Tuesday 18 September 2018.

5. **QUESTIONS FROM MEMBERS**

The Chairman to respond to any questions received from Members in accordance with Procedure Rule 11.

The deadline for receipt of questions is 5pm on Tuesday 18 September 2018.

6. **ANNUAL AUDIT LETTER 2017/18 (Pages 7 - 18)**

The attached Annual Audit Letter, produced by Grant Thornton, summarises the key findings arising from the work they have carried out at Waverley Borough Council for the year ended 31 March 2018.

The Letter provides a commentary on the results of Grant Thornton's work to the Council and its external stakeholders, and highlights issues they wish to

draw to the attention of the public.

Recommendation

It is recommended that the Audit Committee receives and comments on the Annual Audit Letter from Grant Thornton.

7. AUDIT COMMITTEE TERMS OF REFERENCE 2018/19 (Pages 19 - 20)

Each year, the Audit Committee is invited to review its Terms of Reference. A comprehensive review was carried out in November 2017 and the current Terms of Reference are attached.

Recommendation

It is recommended that the Audit Committee reviews its Terms of Reference and recommends any amendments to the Standards Committee and Council.

8. AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2017/18 (Pages 21 - 44)

This report details the work undertaken by the Audit Committee over the municipal year 2017/18. The purpose of this annual appraisal of the work of the Committee is to help Members review the previous year's work and plan for the coming year.

Recommendation

It is recommended that the work carried out by the Audit Committee in 2017/18 be noted.

9. TAX STRATEGY (Pages 45 - 50)

The Council is required to have in place a Tax Strategy to fulfil its responsibilities under the Legislation in Criminal Finances Act 2017, and to undertake to respond appropriately to the Corporate Criminal Offence guidance from HMRC issued September 2017.

Recommendation

It is recommended that the Audit Committee recommends to the Council that the proposed Tax Strategy be approved.

10. FINANCIAL REGULATIONS UPDATE (Pages 51 - 54)

The Audit Committee is asked to consider the update to the Financial Regulations and recommend them to the Council, in compliance with the Audit Committee Terms of Reference under Article 8 of the Constitution. Specifically, the Audit Committee is required to maintain an overview of the Council's Constitution in respect of financial regulations.

Recommendation

It is recommended that the Committee recommends the update to the Financial Regulations to the Council for adoption.

11. CONTRACT PROCUREMENT RULES UPDATE SEPTEMBER 2018 (Pages 55 - 60)

The Contract Procurement Rules form part of the Council's Constitutional framework. They should be maintained and updated as and when required to adopt legislative changes, reflect best practice in the industry and support the Council's corporate objectives.

Recommendation

It is recommended that the Audit Committee recommends to the Council that the proposed amendments to the Contract Procurement Rules be approved.

12. INTERNAL AUDIT CHARTER (Pages 61 - 72)

The report provides an update to the Committee on the updated Internal Audit Charter that has been developed in accordance with the Public Sector Internal Auditing Standards. The standards apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS (Attribute Standard 1000) requires organisations to have an Internal Audit Charter that formally defines the purpose, authority and responsibility of the internal audit activity, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

Recommendation

It is recommended that the Audit Committee approves the Internal Audit Charter.

13. PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2018/19 (Pages 73 - 76)

The Committee's Terms of Reference include provision for the Committee to comment on the progress made in the achievement of the Audit Plan. An update on the current position of the reviews in 2018-19 is presented.

Recommendation

It is recommended that the Committee notes the progress on the 2018-19 Audit Plan as attached in Annexe 1.

14. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Pages 77 - 78)

To inform the Audit Committee of Senior Management's progress in implementing the recommendations raised by Internal Audit following a review in their service areas. This report will enable the Committee to consider what

action is required in respect of those that are overdue or appear likely to be implemented later than the target date.

Recommendation

It is recommended that the Committee notes the current position.

15. COMMITTEE RECURRENT WORK PROGRAMME (Pages 79 - 80)

Recommendation

The Audit Committee is invited to note the recurrent annual work programme, attached.

16. EXCLUSION OF PRESS AND PUBLIC

To consider the following recommendation on the motion of the Chairman:

Recommendation

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(s) 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(s), there would be disclosure to them of exempt information (as defined by Section 1001 of the Act) of the description specified in the appropriate paragraph(s) of the revised Part 1 of Schedule 12A to the Local Government Act 1972 (to be identified at the meeting).

17. ANY OTHER ISSUES TO BE CONSIDERED IN EXEMPT SESSION

To consider any matters relating to aspects of any reports on this agenda which, it is felt, may need to be considered in exempt session.

**For further information or assistance, please telephone
Amy McNulty, Democratic Services Officer, on 01483 523492 or by
email at amy.mcnulty@waverley.gov.uk**

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Annual Audit Letter

Year ending 31 March 2018

Waverley Borough Council

August 2018

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2. Audit of the Accounts
3. Value for Money conclusion

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Appendices

- A Reports issued and fees
- B Recommendations

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Waverley Borough Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 24 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

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Materiality	We determined materiality for the audit of the group's financial statements to be £1,796,000, which is 2% of the group's gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 24 July 2018.
Whole of Government Accounts (WGA)	We were not required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions as the Council did not exceed the required threshold.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 24 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Waverley Borough Council in accordance with the requirements of the Code of Audit Practice.

Executive Summary continued

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during the audit by the finance team and other staff.

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts one week before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular Audit Committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your teams with training on financial accounts.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £1,796,000, which is 2% of the Council's gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £90,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts [and the narrative report and annual governance statement published alongside the Statement of Accounts] to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Waverley Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for Waverley Borough Council.</p>	<p>Our work did not identified any material issues in respect of revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We carried out the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • Obtained a full listing of journal entries, then identified and tested unusual journal entries for appropriateness; • Evaluated the rationale for any changes in accounting policies or significant unusual transactions; and • Reviewed accounting estimates, judgements and decisions made by management. 	<p>Our work did not identified any material evidence of management override.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 24 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council made the draft accounts available to audit at the end of May 2018, in advance of the statutory deadline. The financial statements were supported by an excellent set of working papers, and the finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 24 July 2018.

None of the adjustments we identified had an impact on the Council's reported financial position. We identified a small number of adjustments to improve the presentation of the financial statements.

We identified that the Council's sundry debtor balance included debtors that were over 12 months old and in some cases debtors had been outstanding for several years. A review of corporate debt is planned as part of the 2018/19 Finance Service Plan Management. As part of this process we recommend:

- a review sundry debtors over 12 months to assess if balances should be written off or referred to bailiffs.
- that the allowance for doubtful debt should be reviewed and increased to the appropriate levels if necessary to support debt write off.
- any debt written off should be accounted for against the appropriate impairment allowance.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Waverley Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial position The Council set a balanced General Fund budget for 2017/18 which is robust but challenging to deliver. The Council's budget challenge process identified proposals for cost savings, additional income and expenditure growth. The Council has identified income and savings proposals which total £1.036m, growth proposals of £0.055m, and council tax increase of £5 at band D of £0.268m. The financial strategy identifies budget pressures in each of the three years to 2019/20. Beyond this period there is significant uncertainty around business rate and new homes bonus funding.</p>	<p>We met with key officers to discuss key strategic challenges and the Council's response, and considered reports to members to:</p> <ul style="list-style-type: none"> Review the outturn position for 2017/18 and the budget plans for 2018/19 and 2019/20; Review the Council's progress in updating its medium term financial strategy to inform our understanding and review the supporting information trails and assumptions ; Review how the Council works collaboratively with partners to deliver functions and services; and Review how the Council is making the best use of its asset base. 	<p>Your financial performance in 2017/18 remains sound and your outturn position was a £246k surplus on the general fund. This surplus is largely related to the Council's income from its investment property portfolio. Your outturn position on the HRA was a £1.5m surplus which mainly relates to efficiencies and savings made within the maintenance budget.</p> <p>Your general fund position of £3.3m at the end of 2017/18 is in line with your overall medium term financial strategy to maintain the balance at £3.2m. To support the general fund position you continue to maintain a number of reserves which allow you to take a longer term view on the investments needed to deliver your strategic objectives and to provide some resilience against current and future financial challenges. The investment property income received during the year has allowed the Council to transfer £200k of the income to a Commercial Property Risk Fund to protect against future income risk.</p> <p>The Council is clear that no funding will be received in 2019/20 and 2020/21 in respect of the four year settlement. The potential impact of the Government's fair funding review and the forthcoming comprehensive spending review add uncertainty to funding assumptions in the later years of your medium term financial strategy.</p> <p>Budget shortfalls are being addressed by numerous strategies and workstreams in place to make savings or generate income. One clear area the Council is focussed on is the need to make savings from better procurement, and with a number of major contracts due for renewal in 2019 the Council has been looking at how it can procure better services in a more cost effective way, including working with partners.</p> <p>Whilst the Council has a proven track record of delivering savings over the past 10 years, the identification of general fund and HRA budget gaps remain a risk to the Council's medium term financial health. On that basis it is important that you continue to monitor progress to identify potential shortfalls as soon as possible so that mitigating actions may be taken.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Non-Audit related services	
- Shottermill Recreation Ground Trust	2,000
- Ewart Bequest independent examination	2,000
- Pooling of housing capital receipts return	2,800

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	53,888	53,888	53,888
Housing Benefit Grant Certification	15,557	TBC	11,381
Total fees	69,445	TBC	65,269

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Recommendations

We identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

Issue and risk

Recommendations

1


Amber

Overstatement of sundry debtor balance

Our work on your sundry debtor balances identified £512k of debtors which were over 12 months old and in some cases has been outstanding for several years. Management have carried out an initial review of these debts and have identified £232k which either remains outstanding or where no clear payment plan exists, suggesting some uncertainty remains about its recovery.

We understand at a review of corporate debt is already planned as part of the Finance Service Plan. As part of this process we recommend:

- a review of sundry debtors over 12 months to assess if balances should be written off or referred to bailiffs.
- that the allowance for doubtful debt should be reviewed and increased to the appropriate levels if necessary to support debt write off.
- any debt written off should be accounted for against the appropriate impairment allowance.

Management response

'Agreed – review will be undertaken and reported to Audit Committee.'

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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8.02 **Audit Committee**

The Audit Committee is the means of bringing independent, effective assurance into the Council's corporate governance arrangements. This covers:-

- Risk management framework
- Control environment and arrangements
- Financial performance
- Non-financial performance (processes and controls)
- Financial reporting.

8.03 **Terms of Reference**

The Terms of Reference are as follows:

1. Corporate Governance

- 1.1 To review the Council's arrangements for corporate governance and recommend necessary actions to ensure compliance with best practice as set out in the current CIPFA/SOLACE Framework "Delivering Good Governance in Local Government" and any revision thereof.
- 1.2 To review the Council's compliance with its own and other published regulations, standards and controls, covering both financial and general issues and, if appropriate, make recommendations to the Council.
- 1.3 To maintain an overview of the contract procedure rules and financial regulations and recommend their adoption to the Council.
- 1.4 To review Council policies in "Whistleblowing" and the anti-fraud and anti-corruption strategy and the Council's complaints-handling process and recommend any changes to the Council.
- 1.5 To monitor the effective development and operation of internal control in the Council with particular reference to all aspects of risk management, including Waverley's Corporate Risk Registers.
- 1.6 To review any issue referred to it by the Head of Paid Service or a Director or any other Council Committee.
- 1.7 To approve the Council's Annual Governance Statement.

2. External Audit

- 2.1 To consider whether appropriate accounting policies have been followed in the preparation of the annual statement of accounts and to approve any changes to these policies.
- 2.2 To receive all reports from the external auditor to the Audit Committee.
- 2.3 To consider any concerns arising from the audit of the accounts and to agree appropriate action to be taken including bringing the matter to the attention of the Council.
- 2.4 To consider and approve the annual statement of accounts.
- 2.5 To comment on the scope and depth of external audit work and to ensure that it gives value for money, especially with regard to reports dealing with risk management and performance matters.

2.6 To make recommendations to Council regarding the appointment of the External Auditor.

3. Internal audit

3.1 To approve the Internal Audit Charter.

3.2 To approve the Annual Internal Audit (Risk-Based) Plan.

3.3 To consider the Internal Audit Client Manager's Annual Report and Internal Audit Opinion.

3.4 To consider the current Internal Audit Plan and summaries of internal audit activity by Service Area and consider the level of assurance this can give concerning the effectiveness of the Council's corporate governance arrangements.

3.5 To consider internal audit reports detailing recommendations not implemented within the specified timescale and to agree appropriate action, including requesting a report from any Head of Service relating to an outstanding internal audit recommendation issue.

3.6 To commission work from the Internal Audit Service.

3.7 To monitor the progress of any specific internal audit projects not included in the Audit Plan.

3.8 To consider reports dealing with the appointment, management and performance of the providers of internal audit services.

3.9 To comment on the scope and depth of internal audit work and to ensure that it gives value for money, especially with regard to reports dealing with risk management and performance matters.

8.04 Composition of Audit Committee

(a) Membership and Meetings

The Audit Committee will

- be composed of eight councillors, with no members from the Executive;
- meet four times per year, as set out in the Calendar of Meetings, and on an ad hoc basis when necessary.

(b) Quorum

The quorum for meetings will be three Councillors.

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

25 SEPTEMBER 2018

Title:

AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2017/18

Summary and Purpose

This report details the work undertaken by the Audit Committee over the municipal year 2017/18. The purpose of this annual appraisal of the work of the Committee is to help Members review the previous year's work and plan for the coming year.

The Committee met four times in July, September and November 2017 and March 2018. Additional informal briefing sessions were held throughout the year and are detailed at section 9 of this report. The membership of the Committee was as follows:

Cllr John Gray (Chairman)	Cllr Nicholas Holder
Cllr Richard Seaborne (Vice-Chairman)	Cllr Jerry Hyman
Cllr Mike Band	Cllr Anna James
Cllr Christiaan Hesse [until September 2017]	Cllr Pat Frost [from September 2017]

At the Council meeting on 17 October 2017, it was agreed that the size of the Audit Committee be increased from seven to eight members. Subsequently, from its November meeting the membership of the Committee was:

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

1. INTRODUCTION AND TERMS OF REFERENCE

- 1.1 At its meeting on 26 September 2017, the Committee reviewed its terms of reference. It agreed that a number of amendments were required in order to clarify some of the wording, and to confirm the Committee's remit in relation to that of the Standards Panel. Officers therefore were asked to review the wording of the Terms of Reference to ensure that it accurately reflected the Committee's responsibilities.
- 1.2 The updated Terms of Reference were received by the Committee at its meeting on 20 November 2017 and approved by Council on 20 February 2018.
- 1.3 The Audit Committee reviews its terms of reference on an Annual basis, and these are included at this meeting as a separate agenda item.

1.4 Details of Members' attendance at Audit Committee meetings during 2017/18 are given at Annexe 1.

1.5 The Audit Committee Chairman Role Description is given at Annexe 2 and the Audit Committee Member Role Description is given at Annexe 3.

Standing items

1.6 The Audit Committee has a recurrent work programme, with the following items received at each meeting:

- Updates on the progress in the implementation of Internal Audit Recommendations
- Updates on the progress in achieving the Internal Audit Plan
- Updates from Grant Thornton on the progress made with the External Audit
- Updates on work undertaken as part of the Counter Fraud Initiative.

A summary of the work undertaken by the Committee in 2017/18 is set out in the following table:

July 2017	September 2017	November 2017	March 2018
Review the progress of the Internal Audit Plans for 2016/17 and 2017/18	Review the progress of the Internal Audit Plan for 2017/18	Review the progress of the Internal Audit Plan for 2017/18	Review the progress of the Internal Audit Plan for 2017/18
Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations
Review Contract Procurement Rules and Recommend adoption to Council	Update on the work being completed as part of the Surrey Counter Fraud Partnership	Update on the work being completed as part of the Surrey Counter Fraud Partnership	Update on the work being completed on Housing Tenancy Fraud – SCF Partnership
Review the External Audit Findings Report	Review of the Corporate Risk Register	Review of the Corporate Risk Register	Comment on the proposal of internal Audit service delivery form April 2019.
Consider and approve the Statement of Accounts for year ended 31 March 2017	Review and revision of the Internal Audit Charter	Review Financial Regulations and Recommend adoption to Council	Approve proposed Internal Audit Plan for 2018/19
Consider and approve the Letter of Representation for 2016/17	Note the appointment of External Auditor	Receive the External Audit Annual Audit Letter	Receive the External Audit Grants and Returns Certification Report
Review and approve the Annual Governance Statement for 2016/17	Review of the Audit Committee Terms of Reference	Review and recommend amendments to the Audit Committee Terms of Reference	Review External Audit proposed External Audit Plan for 2018/19
Review the Annual Internal Audit Report	Note Audit Committee Activity Report	Interim consideration of Annual Governance Statement issues	Note updated Financial Reporting Standards for Statement of Accounts

A more detailed breakdown of items considered at each meeting is shown below.

2. REVIEW OF PROGRESS IN IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

2.1 At each meeting the Audit Committee is provided with an update on Senior Management's progress in implementing the recommendations raised by Internal Audit following a review in their services area. The Committee considers what action is required in respect of those recommendations that are overdue or appear likely to be implemented later than the target date.

2.2 24 July 2017

2.2.1 Officers provided an update on the three overdue recommendations relating to Information Security Governance; they explained that the Information Security Group had now met, however it had become apparent that the current resourcing for this role was not sufficient to do it justice. Some catch-up work would be required and there was a need to maintain good policies and procedures. A new Information Governance Board had now been established and would be chaired by the Strategic Director – Finance and Resources.

2.2.2 Officers emphasised that the Council did manage its data well, and had passed all government requirements such as PSN compliance. However, the existing resource didn't have sufficient capacity to satisfy the growing demands and new legislation, and there was a need to invest more in order to move forward. The Committee felt it was important that the Council was seen to be prioritising information governance and therefore agreed to forward their concerns over this matter to Executive, endorsing any requests for additional resource/growth that may be required in order to take this forward.

2.2.3 In relation to the recommendation regarding Financial Regulations and CPRs, it was explained that a lot of work had already been completed by the Procurement Officer, but that the Financial Regulations also required updating. The Audit Committee would be involved in this process, with a briefing to be scheduled in due course. The updated Financial Regulations would be presented to the Audit Committee in November and Council in December 2017. The Committee agreed, that given the fact that the new Financial Regulations would be approved in December 2017 and the implementation of the enhanced Agresso functionality would be in place by the end of January 2018, the deadline for this recommendation (IA16/12.001) be extended to 31 January 2018.

2.3 26 September 2017

2.3.1 At this meeting, the Committee received a request for a time extension for three recommendations relating to data protection and information governance. Members expressed concern over the continuing delay in relation to these actions, noting that the issues appeared to be resource-

driven, and felt that the Committee needed assurance that adequate resources would be deployed in order to meet the proposed date before agreeing to it. The Chairman agreed, stating that more details and a plan for implementation was required before the Committee could agree to the extension.

2.3.2 Graeme Clark explained that this was being treated as a high priority and that a report would be submitted to the Executive in October seeking approval to procure a new resource in the form of an external specialist. The specialist would work alongside an internal project manager to ensure that the council met its GDPR requirements in time.

2.3.3 The Committee reiterated that this was an essential piece of work as the council had a statutory deadline to comply with. It felt that it was unable to agree to an extension to the deadlines without having some evidence that a plan was in place. Members therefore asked that a detailed update be provided at the Committee's November meeting and that if this was unsatisfactory they would escalate the issue to full Council.

2.4 20 November 2017

2.4.1 At its last meeting the Committee had expressed concern in relation to the amount of progress that had been made towards three recommendations regarding data protection. Officers provided an update that since the last meeting the Executive had approved £50,000 of resource to support GDPR implementation and an external consultant been appointed to complete an information audit. Additionally, an action plan was in place, GDPR 'champions' had been appointed across the organisation and briefings had been held for all staff. The Council would also be working in partnership with East Hampshire on technical issues.

2.4.2 The Committee thanked officers for the update and asked whether any further resources were required to progress this. Graeme Clark responded that the internal project manager and external specialist were working well, however in the long term there would be the requirement to appoint an Information Manager and this would be put forward as a growth bid from Robin Taylor, Head of Policy and Governance.

2.4.3 The Committee was generally pleased with the progress that had been made, but felt that the situation needed to be closely monitored going forward and asked that officers bring an update to the next meeting on the progress made relating to the implementation of GDPR requirements.

2.5 27 March 2018

2.5.1 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.

- 2.5.2 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.

3. INTERNAL AUDIT PLAN

- 3.1 The Audit Committee's terms of reference include provision for the Committee to comment on the progress made in the Audit Plan. At each meeting the Committee receives an update on the current position of the reviews within the plan.

3.2 24 July 2017

- 3.2.1 Gail Beaton updated the Committee on progress with the 2016/17 and 2017/18 Audit Plans. There were only two reviews outstanding from the 2016/17 plan; the approval of invoices on Agresso had been carried forward to the 2017/18 plan, and the report on data protection was now available.

- 3.2.2 In regard to the 2017/18 plan, Members noted that the review of petty cash was considered to be a high priority. Gail Beaton explained that it had been given this rating was because it was an area that had not been reviewed for some time, rather than being an area of specific concern. It was also queried why the Agresso review, which had been deferred from the previous year had been scheduled for Quarter 4 rather than earlier in the year. Peter Vickers explained the Finance Service was currently implementing a programme of improvements with the financial systems, and that as the integration with the housing 'Orchard' system was not yet up and running, it would therefore be more appropriate to conduct the review in Quarter 4 when the integration was in place.

- 3.2.3 The Committee noted the proposed inclusion of a review of Fire Safety Assessment Checks. Gail Beaton explained that there was ongoing reporting of Fire Safety Assessments to Management Board, however the Head of Housing Operations had sought further assurance by requesting an audit opinion. The Committee therefore suggested that the auditor's report draw out the fact that several measures were already in place, and the purpose of the review was more for assurance purposes.

3.3 13 September 2016

- 3.3.1 The Committee received a report outlining the latest position on the reviews included within the 2017/18 Audit Plan. Gail Beaton advised the Committee of some changes that would be made to the agreed schedule, namely; the tree management review that was scheduled for Q1/2 would now be completed in October; similarly the responsive repairs and voids review would also be completed in Q3 rather than Q1/2.

3.4 20 November 2017

3.4.1 A change to the 2017/18 Audit Plan was proposed that would defer the Agresso review to the 2018/19 Audit Plan, and use the days allocated to review income streams instead. Gail Beaton, Internal Audit Client Manager, also reported that the contractor was making good progress and that some reports which were shown to be at draft stage were now final.

3.4.2 Cllr Frost expressed concern about the roll-out of Universal Credit and the effect this could have on rent collection. Members suggested that this could be included as a review in the 2018/19 Audit Plan and Gail agreed to meet with Hugh Wagstaff, Head of Housing Operations, and Nicky Harvey, Benefit Manager to discuss this further. Cllr Gray advised that the Value for Money and Customer Service O&S Committee was also looking into the impact of Universal Credit.

3.5 27 March 2018

3.5.1 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, 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.

3.5.1 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.

3.6 Proposed Audit Plan for 2018/19 – 27 March 2018

3.6.1 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.

3.6.2 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.

- 3.6.3 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.

4. REPORTS BY EXTERNAL AUDITORS

4.1 External Audit 2016/17 Audit Findings Report – 24 July 2017

- 4.1.1 Sophia Brown, Grant Thornton Engagement Manager, presented the 2016/17 Audit Findings Report to the Committee. She explained that since its publication, some of the areas shown as outstanding in the report had now been completed; these included work on plant, property and equipment; and work on financial instruments. The key messages of the report were that the draft financial statements had been prepared to a very high standard and that a minimal level of issues had been identified. Sophia added that Waverley was well placed to meet the earlier statutory accounts deadlines from next year.
- 4.1.2 It was queried whether from next year some areas would be able to remain outstanding as they did in this report. Sophia Brown clarified that this would be acceptable at this stage next year, as there were certain pieces of work that could only be completed at the end of the process. Iain Murray, Grant Thornton Engagement Lead, added that the County Council had been signing off their accounts at the end of July for the last two years, so there were no problems anticipated in respect of linking up with the County.
- 4.1.3 The Committee was informed that the Grant certification work on the Council's Housing Benefit subsidy on behalf of the DWP would be completed by the end of November and that time had been allocated in October to undertake this. Iain Murray added that Grant certification work had not been included within the recent procurement process for the Council's auditors and therefore this would need to be undertaken separately.
- 4.1.4 There had been no significant issues identified in regard to the risks as set out in the report, additionally Sophia Brown updated the Committee that there were no significant issues identified in relation to valuation of plant, property

and equipment; or valuation of pension fund net liability as this work was shown as still outstanding at the time of producing the report.

- 4.1.5 One internal control issue had been identified regarding to related party transactions. At the time of drafting the report, eight declarations from councillors had been outstanding, however they had since all been received. Sophia Brown explained that this was still an issue as they should have been received before the financial statements were drafted, however, now that all declarations been received, there was no longer a need to include a specific reference to this in the letter of representation. Graeme Clark added that there had been a change to the way the information had been collected this year, using an online survey method. The response to this had been very good overall however inevitably there were some members who needed to be reminded. An ideal opportunity would have been to remind councillors at the April Council meeting, and this would be done in future years. It was also agreed that next year Graeme Clark and Cllr Gray would write a joint email to all councillors emphasising the importance of completing the declaration promptly.
- 4.1.6 The report set out the impact of one uncorrected misstatement from the prior year. This had been in relation to assets that had been incorrectly included in the Housing Revenue Account asset register. Cllr Holder queried how the new properties at Ockford Ridge were being recorded on the asset register. Graeme Clark explained that these were considered 'assets under construction' and he confirmed that any demolished properties had been removed from the register. Graeme added that the housing accountant worked very closely with the development team to ensure that everything was correctly recorded at year end.
- 4.1.7 In regard to Value for Money, two key risks had been set out in the audit plan, and the key findings in relation to these were set out in the report. The overall conclusion was that the council had proper consideration for Value for Money.
- 4.1.8 In conclusion, Graeme Clark stated that working to the new timetable had been a challenge, but that the Council had maintained a good relationship with the external auditors and he was pleased with the overall outcome. Iain Murray added that the accounts were of a high quality, and he had no concerns going forward. He complimented the Council on its ability to present the accounts in a clear and reader-friendly manner, which was particularly challenging given the frequently changing requirements for disclosure.

4.2 External Audit Annual Audit Letter – 20 November 2017

- 4.2.1 Iain Murray from Grant Thornton presented the Annual Audit Letter 2016/17 to the Committee. The Letter provided a summary of the messages that the Committee had received at its meeting in July and didn't include any new information. The key areas to draw out were that the Council had successfully delivered its final accounts in accordance with the earlier timetable and that Grant Thornton had issued an unqualified Value for Money conclusion.

- 4.2.2 Members noted that the level of materiality was £1,629k, which was 2% of the Council's gross revenue expenditure, and felt that this was quite high. Iain Murray responded that Grant Thornton used a number of thresholds to drive their audit work and this included setting a materiality benchmark. 2% was the highest level of materiality they set and this reflected the Council's good track record. Anything above the lower threshold of £81k would be reported to the Audit Committee in the Audit Findings Report; and anything below this would be considered trivial. Cllr Hyman asked how the lower threshold was calculated and Iain responded that this was 5% of the materiality figure.
- 4.2.3 Cllr Hyman queried whether the ongoing audit into Waverley's Air Quality reporting would affect the Letter. Graeme Clark responded that if any governance issues were identified in the investigation then these would be reported through the Annual Governance Statement process. The audit was being undertaken by an independent auditor and the findings would be shared with Grant Thornton in due course. They would then decide whether this needed to be taken into account when preparing their Annual Audit Letter for 2017/18.
- 4.2.4 The Committee also noted that Homes and Communities Agency Compliance Audit was new for 2017/18 and queried how this had come about. Graeme Clark responded that the Council had received a financial contribution from the HCA for the development at Wey Court and a requirement of this was that the Council commission a third party audit. Iain Murray added that the low fee for this work was indicative of the minimal work involved.
- 4.2.5 Iain Murray also presented a progress report which updated the Audit Committee with the most recent progress on the 2016/17 and 2017/18 audits. The Trust Accounts Audit was complete, as was the HCA Audit. The Audit of Housing Receipts was ongoing, and a delay had been caused due to awaiting the terms of reference from DCLG. The Certification of Housing Benefits was on track to be delivered by the end of November. Grant Thornton was just starting to plan for the 2017/18 Audit and an initial timetable was set out in the report. The rest of the document signposted the Committee to useful publications for information.

4.3 External Audit 2016/17 Certification Letter – 27 March 2018

- 4.3.1 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.
- 4.3.2 The Committee 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.

4.4 External Audit Progress Report – 27 March 2018

4.4.1 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.

4.4.2 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 to the attention of the Audit Committee.

4.4.3 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.

4.5 External Audit Plan 2017/18 – 27 March 2018

4.5.1 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.

4.5.2 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.

5. ANNUAL GOVERNANCE STATEMENT

5.1 The Audit Committee has taken the view that the Annual Governance Statement should be a living document, and therefore took an opportunity to review potential governance issues at its meetings throughout the year.

5.2 Annual Governance Statement – 24 July 2017

- 5.2.1 Peter Vickers, Head of Finance, presented the updated Annual Governance Statement to the Committee. A briefing on the AGS had been held for the Committee on 20 June, and at this session members of the Committee had raised several issues to test against the principles set out in the AGS. Peter Vickers reported that he had met with the Robin Taylor, Head of Policy and Governance, to review this list and identify any governance issues that should be identified in the AGS according to the statutory guidance.
- 5.2.2 The first issue related to planning inquiries and judicial reviews. Significant public interest had been generated by this and a minor change to the constitution had been required, however this was now resolved. The Committee felt that it was important to acknowledge that there had been a constitutional issue and to show that it had been dealt with. Peter Vickers concluded that ultimately it was for the Committee to decide whether or not this was a significant governance issue.
- 5.2.3 Several other issues raised by members of the Committee at the briefing had been reviewed by officers and found to not meet the requirements to be included in the AGS as set out in the Code of Practice.
- 5.2.4 Cllr Gray reminded the Committee that the Council didn't have to be infallible and that as these issues were in the public domain it was important to show that they had been acknowledged and dealt with. While Peter Vickers agreed that it was important to respond to these issues, they weren't all necessarily governance issues.
- 5.2.5 The Committee felt that it would be useful to review potential governance issues at Audit Committee meetings throughout the year so that they could inform the AGS next year; Cllr Gray also felt that it would be useful for Robin Taylor to attend the meeting to discuss the potential issues. Iain Murray added, from an external audit perspective, that the bar of what needed to be included in the AGS was set very high so there was no specific requirement to include the issues that had been discussed by the Committee, however this didn't prevent the Committee from reviewing such areas. He also reminded the Committee that their remit was risk and assurance, and therefore these were the areas that needed to be focused on when reviewing issues. He also added that it was very positive that the Council was viewing the AGS as a working document, not just a year end task.

5.3 Annual Governance Statement 2017/18 – 20 November 2017

- 5.3.1 The Committee received a report inviting members to comment on any emerging internal governance issues that they felt should be taken into account in the preparation of the Annual Governance Statement for 2017/18.
- 5.3.2 One area raised by Members was the Air Quality Audit and any governance issues that may be identified following that. Cllr Gray also suggested that the

number of planning appeals could be included. However officers suggested that this would be considered as more of a risk rather than a governance issue. Members also noted that Environment O&S was monitoring this situation and making appropriate recommendations.

- 5.3.3 A further area was raised in relation to a potential safeguarding issue at one of the Council's properties. In view of the recently published Safeguarding policy, Cllr Seaborne felt that this could be a good opportunity to show that the governance procedures were working well. He also felt that it was important to know that policies in relation to Health and Safety reporting were working effectively. Members felt that the most effective way to measure this would be by way of a KPI to O&S and asked officers to look into the best way of monitoring and reporting this.
- 5.3.4 The Committee concluded that the AGS was a useful tool for promoting the good work of the Council and assuring members of the public that governance issues were being taken seriously. Members also agreed that there should be an opportunity at every meeting for the Committee to review emerging governance issues.

5.4 Annual Governance Statement 2017/18 – 27 March 2018

- 5.4.1 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.
- 5.4.2 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.

6. COUNTER FRAUD

6.1 Fraud Investigation Summary – 26 September 2017

- 6.1.1 The committee received a report that summarised the work that had been undertaken in relation to housing fraud during Quarter 1 of 2017/18. The Committee noted that the financial value for this quarter was £72,990 and that the total for the previous year had been £688,866. Officers explained that so far this year there had been no right to buy cases determined, and these were where the biggest returns were. Additionally, the notional figures in the report did not represent the real value to the council as the cost to build a new house was approximately £200,000.
- 6.1.2 The Committee thanked Gail Beaton and her colleagues for the work they had done in investigating cases of housing fraud. Cllr Hyman added that the

council had a social responsibility to undertake this work and that it was positive that the costs in officer time were greatly outweighed by the returns.

6.2 Fraud Investigation Summary – 20 November 2017

6.2.1 The Committee received a report setting out the progress being made on fraud investigations, mostly relating to housing. The Committee noted that the financial value of the outcomes had increased in Quarter 2, and now included seven properties that had been relinquished and were now available to be re-let to tenants on the waiting list.

6.2.2 Cllr Hyman asked how long it took from being alerted to a potential fraud case to actually getting the keys to the property back. Gail Beaton responded that this had been approximately two years, but that new controls and procedures had been put in place to reduce this time. This would be achieved by working more closely with other teams within the organisation and ensuring that reporting mechanisms were easily accessible and straightforward to use.

6.2.3 The Committee was very pleased with the ongoing success of the work and felt that it was important that all opportunities for positive publicity were taken.

6.3 Fraud Investigation Summary – 27 March 2018

6.3.1 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.

6.3.2 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.

6.3.3 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.

6.3.4 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.

7. REVIEW OF OTHER ITEMS CONSIDERED BY THE AUDIT COMMITTEE IN OPEN SESSION 2017/18

7.1 Revision of the Contract Procurement Rules

7.1.1 Patrick Tuite, Procurement Officer, presented the updated Contract Procurement Rules to the Committee at its meeting on 24 July 2017. The Committee was informed that the Contract Procurement Rules (previously the Contract Procedure Rules) were last updated in 2015. A re-write was therefore required to incorporate:

1. updated thresholds with regards to our internal value bands and the European Union regulation thresholds;
2. new procedures as permitted in the Public Contract Regulations 2015 that allow us to vary our route to market dependant on what we are purchasing;
3. a new approach to the opening of tenders;
4. the councils responsibility to incorporate the Social Value Act 2012 in our tenders; and
5. a comprehensive glossary to reflect the members requirement for an accessible and useable document.

7.1.2 The Committee queried whether Britain's withdrawal from the EU would affect the CPRs, however officers assured members that at present there were unlikely to be any changes as a result of Brexit as the European regulations were predominantly based on WTO guidelines which would remain unaffected.

7.1.3 On the recommendation of the Audit Committee, the revised Contract Procurement Rules were approved by Council on 17 October 2017.

7.2 Statement of Accounts 2016/17

7.2.1 The Audit Committee received the report on the Statement of Accounts for 2016/17 at its meeting on 24 July 2017; the Committee had received a briefing on the accounts on 20 June which both members and officers agreed had been a very constructive session. Officers had taken on board members comments and had been able to incorporate many of these into the final version. The document had also been independently proof-read by a member of Council staff.

7.2.2 Cllr Hyman asked where the SANG funds were detailed in the accounts. It was explained that this did not have an individual entry, and was incorporated within the 'Section 106 Contributions' line. The Committee agreed that it would be useful to separate this out in future as it was a specific reserve. Graeme Clark added that projections indicated that the SANG reserves were sufficient although this could always be affected by the financial climate.

7.2.3 The Committee resolved to approve the Statement of Accounts for the financial year ended 31 March 2017 and the letter of representation for

2016/2017. The Committee also confirmed that the accounts had been prepared on a going concern basis.

7.3 Annual Internal Audit Report

- 7.3.1 Gail Beaton, Internal Audit Client Manager, presented the Annual Internal Audit Report to the Committee at its meeting on 24 July 2017. She informed members that she had taken on board their comments from previous years, and had revised the content and format of the report. She had made the report more accessible and provided as much information as possible, with clear links to the Audit Plan.
- 7.3.2 The Committee welcomed the updated format, and was pleased to note the good performance of the contractor. Cllr Holder queried whether it would be possible to reduce the target for the average number of days between Contractor exit meeting and the issue of the draft report, as this had been consistently over achieved for the past three years. Gail Beaton explained that this was a contractual target but that she could look to review it in the future.
- 7.3.3 Cllr Seaborne emphasised the importance of ensuring that where identified, remedial actions were embedded within the organisation. Gail Beaton explained that tests would be carried out by ongoing sampling.
- 7.3.4 The Committee expressed particular concern over IA17-17 – Procurement Arrangements, where five areas for improvement had been identified, including the fact that 75% payments to contractors had not been supported by a purchase order. Officers explained that a new purchase order system had recently been implemented which would force officers to follow correct procedures. Cllr Gray felt that this was a significant issue that should be brought to the attention of the Executive. Officers reported that they were already aware of this issue, and had sought to put mitigation in place, including the appointment of the new Procurement Officer. Cllr Hyman queried what, if any, financial impact there was of not following the correct procedures. Graeme Clark explained that it was difficult to quantify this, but the important thing was getting the proper controls in place going forward.

7.4 Internal Audit Charter

- 7.4.1 At its meeting on 26 September 2017, the Committee received an updated Internal Audit Charter which had been developed in accordance with the updated Public Sector Internal Auditing Standards (March 2016).
- 7.4.2 Cllr James queried whether it was usual practice for a council to contract out its audit service. Officers explained that it varied between organisations but that Waverley was part of a consortium that allowed it to make use of a more specialist team of auditors than if the service was run in-house. There were several advantages to this arrangement, and Gail Beaton, Internal Audit Client Manager, was still able to undertake reviews of the most sensitive work where necessary. Cllr Gray asked when the contract with RSM was due for renewal

and officers responded that this would be in 2019 and a report would come to the Committee on it in due course.

- 7.4.3 Cllr Hyman was unsure about wording for the 'mission' of internal audit however acknowledged that it did summarise the role fairly accurately. Other members agreed that it could potentially be re-phrased but noted that as the wording had come from the PSIAS it be left as written for the time being.

7.5 Appointment of External Auditor

- 7.5.1 At its meeting on 26 September 2017, Graeme Clark reminded the Committee that at its meeting in November 2016 and subsequent Council meeting in December 2016, Waverley had agreed to opt-in to the appointing person arrangements made by the Public Sector Audit Appointments for the appointment of external auditors from 2018/19. Following the PSAA's procurement exercise, the council had been informed that Grant Thornton had been appointed as its external auditor for a period of five years. The appointment would be finalised in December and a consultation on fees would be undertaken in due course; this would be followed by a cooling-off period.

- 7.5.2 Cllr Hyman expressed concern over Grant Thornton's handling of the fraud incident in 2014 and was wary of them continuing as the council's external auditor, however Cllr Gray assured members that he had confidence in Grant Thornton's policies and procedures and that he had no significant concerns going forward.

- 7.5.3 The Committee resolved that the PSAA's appointment of Grant Thornton (UK) LLP as the council's external auditor for a period of five years from 2018/19 be noted.

7.6 Financial Regulations Update

- 7.6.1 Peter Vickers, Head of Finance, introduced the revised Financial Regulations to the Committee at its meeting on 20 November 2017. The Financial Regulations had last been updated in April 2015 and had been rewritten in line with the Council's commitment to continual review within the Annual Governance Statement.

- 7.6.2 The objective of the revision was to ensure that the Financial Regulations reflect the full scope of the Council's required governance arrangements; to remain secure in relation to risk and statutory compliance whilst incorporating changes in technology, service delivery and corporate priorities.

- 7.6.3 The revised Financial Regulations were aligned to the Council's Constitution, Contract Procurement Rules and Scheme of Delegation, all of which had been updated within the 2017/18 financial year.

- 7.6.4 The layout and structure of the Financial Regulations had been revised to facilitate ease of reading and clarity of understanding. Use of headings and sub headings had been enhanced to aid navigation of the regulations.

7.6.5 The following changes had been made to content:

- a. New section: Purpose and key principles overarching the regulations;
- b. New section: Statutory requirements, compliance and responsibilities are described and explained;
- c. Content of the previous Financial Regulations has been reordered under a “financial framework” inclusive of updated and enhanced governance criteria. The regulations were previously grouped under five themes.
- d. The Scheme of Virement has been revised to enable services to self manage budgets with a greater degree of autonomy, in line with the changes to the Executive approval threshold of £100,000 and minimising Management Board intervention.

7.6.6 The Scheme of Virement had been redesigned to enable service managers to be more proactive in managing budgets with minimal bureaucracy. A new electronic purchase ordering facility would be going live in the new year that limits managers to only commit expenditure within a pre-existing budget provision. Using electronic workflow approval process, managers would be able to identify and effect a virement within the approval limits on their directly controllable budgets. Full details are set out in Annexe 1 of the Financial Regulations.

7.6.7 The Committee noted that the document was much more reader-friendly. Members felt that the regulations provided a robust framework, ensuring that all checks and balances are in place without imposing any unnecessary delays. The Committee also found the glossary to be a very useful addition.

7.6.8 Cllr Frost was concerned that the Agresso system update hadn't been fully implemented as there was still no link with the housing maintenance system. Peter Vickers responded that work was under way in the background, being led by Walter Stockdale, Financial Services Manager, and that the full roll-out would be complete in January 2018.

7.6.9 The Committee agreed that this was a very important piece of work and asked that it be brought to the attention of all members, in particular the Executive, and that it be suggested that they retain a copy of the document for easy reference. Officers would be arranging training sessions for managers on this in due course and Members suggested also inviting the Portfolio Holder to attend.

7.6.10 On the recommendation of the Audit Committee, the revised Financial Regulations were adopted by Council on 5 December 2017.

7.7 Statement of Accounts – Accounting Policies

7.7.1 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.

7.7.2 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.

8. RISK MANAGEMENT

8.1 The Audit Committee's detailed consideration of the Risk Registers is conducted in Exempt session. An overview of the Committee's work in open session relating to Risk Management is set out below.

8.2 Risk Management Update – 26 September 2017

8.2.1 The Committee received a report presenting the latest corporate risk register as refreshed by Heads of Service. Peter Vickers, Head of Finance, explained that since the Committee had last reviewed the risk register at the beginning of the year, it had been updated by officers along with a representative from Zurich and now included a change log and list of emerging risks. Peter also informed the Committee that the Risk Policy, which sits above the register, was being reviewed in consultation with Zurich and would be coming to the Committee at its November meeting.

8.2.2 Members noted that the mitigation measures relating to some of the risks appeared to be out of date, and did not reflect current mitigation work that had been identified or was under way. Officers agreed to review the mitigation text to ensure that it reflected the most up to date position. Cllr Hyman also requested that the axes on the risk matrix be labelled for clarification purposes.

8.2.3 The Committee welcomed the inclusion of the change log and list of emerging risks and looked forward to receiving the updated policy document at its next meeting.

8.3 Risk Management Update – 20 November 2017

8.3.1 The Committee received the latest version of the corporate risk register as refreshed by Heads of Service. The register set out 16 corporate risks, as well as a change log which highlighted the changes that had been made since the Committee last reviewed the register.

8.3.2 Peter Vickers informed the Committee that early next year officers would be working with representatives from Zurich to look at risk appetite, taking into account all emerging risks coming forward through the budget preparation process.

8.3.3 Cllr Frost suggested that the potential for a pandemic should be added as a risk; however officers advised that this was covered by the overarching business continuity risk set out in the report. The Committee also felt that the risk relating to property investment should be given a higher impact rating and officers agreed to review this.

9. BRIEFING SESSIONS

9.1 In addition to formal committee meetings, several briefing sessions were held for the Committee throughout the year, these included:

- 20 June 2017 – Briefing on Statement of Accounts
- 24 July 2017 – Briefing on Property Investments
- 26 September 2017 – Briefing on Risk
- 10 November 2017 – Briefing on Financial Regulations
- 21 March 2018 – Briefing on Annual Governance Statement and Risk.

9.2 Members of the Audit Committee, along with members of the Executive and Value for Money O&S Committee, were also invited to a presentation from consultants on Property Investments which took place on 22 January 2018.

Recommendation

It is recommended that the work carried out by the Audit Committee in 2017/18 be noted.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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ANNEXE 1

ATTENDANCE AT AUDIT COMMITTEE MEETINGS 2017/18

The Audit Committee met four times, on 24 July, 26 September and 20 November 2017, and 27 March 2018. The membership and attendance at meetings is detailed below:

	24 July 2017	26 Sept 2017	20 Nov 2017	27 March 2018
Cllr John Gray (Chairman)	✓	✓	✓	✓
Cllr Richard Seaborne (Vice Chairman)	✓	✓	✓	✓
Cllr Mike Band	Apols	✓	Apols	✓
Cllr Pat Frost		Apols	✓	Apols
Cllr Christiaan Hesse	Apols			
Cllr Nicholas Holder	✓	✓	Apols	✓
Cllr Jerry Hyman	✓	✓	✓	✓
Cllr Anna James	Apols	✓	✓	✓
Cllr Stephen Mulliner			Apols	✓

AUDIT COMMITTEE CHAIRMAN ROLE DESCRIPTION

Purpose

1. To provide leadership of and direction to the Committee
2. To demonstrate to the public that Waverley is committed to high standards of Corporate Governance
3. To ensure that adequate resources (financial and officer support) are identified and sought from the Council
4. To chair and manage Committee meetings and ensure the Committee achieves its terms of reference

Duties and responsibilities

1. To encourage Committee members to obtain necessary skills to contribute the work of the Committee and to work with officers to provide training if necessary
2. To endeavour to engage all members of the Committee in its activities
3. To lead the Committee, in consultation with officers, in prioritising its work
4. To develop a constructive relationship with the appropriate officers, their staff and where appropriate, with relevant portfolio holders
5. To be willing to learn about the professional disciplines and services relevant to the work of the Committee
6. To Chair the Committee in a fair and open manner and encourage members in their role of promoting and maintaining high standards of Corporate Governance.

AUDIT COMMITTEE CHAIRMAN PERSON SPECIFICATION

To fulfil his or her role as set out in the role description, an effective Audit Committee Chairman requires:

Providing leadership and direction:

- Commitment to highest standards of financial management
- Understanding of the Council's role in providing value for money
- Communication skills
- Knowledge of financial and governance issues
- Ability to manage the work of the committee
- Ability to support and develop necessary skills in fellow members of the committee

Promoting the role of the Audit Committee:

- Understanding and appreciation of the financial and governance framework
- Ability to inspire and enthuse Committee members for the work of the Committee
- Integrity and the ability to set aside own views and act impartially
- Knowledge and understanding of the relevant code(s) of conduct and protocols and the ability to champion them
- Reinforcing public confidence in the work of the Committee and the Council's commitment to value for money

Internal governance, ethical standards and relationships:

- Knowledge and understanding of the Corporate Governance processes and protocols
- Knowledge of and commitment to the values of the Council
- Knowledge of the basic financial framework of an Audit Committee.

AUDIT COMMITTEE MEMBER ROLE DESCRIPTION

Purpose

1. To participate in the proactive work of the Audit Committee in maintaining and improving high standards of financial governance and developing value for money.

Duties and responsibilities

1. To be aware of the particular nature of the work of the Audit Committee
2. To have sufficient knowledge to contribute to the function of the Committee
3. To promote and support good financial governance by the Council
4. To understand the respective roles of members, officers and external parties operating within the Audit Committee's area of responsibility
5. To have an interest in all areas of Waverley's activities
6. To be committed to promoting value for money.

AUDIT COMMITTEE MEMBER PERSON SPECIFICATION

To fulfil his or her role as laid out in the role description, an effective Member of an Audit Committee requires the following:

Understanding the nature of the Audit Committee:

- Commitment to high standards of Corporate Governance
- Knowledge of financial management and procedures
- Maintenance of knowledge
- Objectivity and judgement

Governance, ethical standards and relationships:

- Knowledge and understanding of the audit process, Code of Conduct(s) and protocols
- Knowledge of and a commitment to the values of the Council
- Commitment to transparency and high standards of conduct.

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WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

10 SEPTEMBER 2018

Title:

TAX STRATEGY

**[Portfolio Holder: Cllr Hall]
[Wards Affected: N/A]**

Summary and purpose:

The Council is required to have in place a Tax Strategy to fulfil its responsibilities under the Legislation in Criminal Finances Act 2017, and to undertake to respond appropriately to the Corporate Criminal Offence guidance from HMRC issued September 2017.

How this report relates to the Council's Corporate Priorities:

Equality and Diversity Implications:

The Tax Strategy supports the delivery of strategic objectives through the prevention of criminal activity from tax evasion.

Financial Implications:

The Council is accountable for the correct treatment of tax with regard to all financial transactions undertaken. It has to have in place appropriate policies and procedures to mitigate the risk of tax evasion.

Legal Implications:

The Council has to comply with the Legislation in Criminal Finances Act 2017 and to respond appropriately to the Corporate Criminal Offence guidance from HMRC issued in September 2017. These require the preparation of an annual Tax Strategy.

Background

1. The Government believes that relevant bodies should be criminally liable where they fail to prevent those who act for, or on their behalf, from criminally facilitating tax evasion. HM Revenue and Customs (HMRC) issued guidance in September 2017 on the legislation for corporate offences of failure to prevent the criminal facilitation of tax evasion. In order to demonstrate that the Council acknowledges its responsibilities with regard to tax it is required to prepare an annual Tax Strategy.
2. The guidance issued by HMRC focuses on the failure to prevent crimes with regard to tax of those who act for or on behalf of the Council and determines that it should be easier to hold to account and attribute criminal liability to the relevant body (The

Council) for the criminal acts of employees, agents or those that provide services for on its behalf.

3. The guidance has six principles to help relevant bodies understand the processes and procedures that can be put in place to prevent criminal activity with regard to tax. These principles are addressed in the Tax Strategy and are to be applied proportionately to the perceived risk of the offence.
4. The Tax Strategy details the perceived risk of tax irregularities and documents the Council's relevant the policies and procedures to be complied with, which are applicable to all those involved in financial transaction for the Council, to prevent offences occurring.

Recommendation

It is recommended that the Audit Committee recommends to the Council that the proposed Tax Strategy be approved.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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Waverley Borough Council

Tax Strategy 2018/19

1. Introduction

1.1. Waverley Borough Council is a Local Authority regulated by statute – largely the Local Government Act 1972 as amended. As a Local Authority, Waverley’s ability to generate income in competition with the Private Sector is very limited. As a consequence, its taxable activities are relatively few.

1.2. Nevertheless, as a designated ‘relevant body’ under the Legislation in Criminal Finances Act 2017, Waverley acknowledges its responsibilities under this legislation and undertakes to respond appropriately to the Corporate Criminal Offence guidance from HMRC in September 2017. The Legislation in Criminal Finances Act 2017 requires the annual preparation of a Tax Strategy demonstrating:

- Waverley’s tax motives
- its compliance with all legal requirements in respect of its tax activities
- its general approach to its tax activities
- its commitment to minimising opportunities for tax evasion within its activities

through six guiding principles:

- Risk assessment
- Proportionality of risk-based prevention procedures
- Top level commitment
- Due diligence
- Communication (including training)
- Monitoring and review

2. Waverley’s Tax Motives

2.1. As a Local Authority, Waverley is not a profit making organisation. Its tax motives are therefore to account properly, and in timely fashion, for all its taxable activities consistent with its primary responsibilities for the wellbeing of its community. Waverley is accountable through its elected Councillors and is committed to the transparency of its financial affairs including Freedom of Information (FOI), transparency disclosure and public inspection of its accounts. Waverley seeks to minimise the tax cost of conducting its business, for the benefit of its community, while ensuring that any such action is not contradictory to the intent of the legislation. Waverley avoids entering into artificial transactions designed entirely to evade tax consequences.

- 2.2. Waverley applies professional care and diligence in the management of its own tax risk and applies appropriate levels of diligence to the activities of its staff, partners and contractors. Waverley operates in an accurate, timely and transparent manner, in respect of its tax activities, and manages its contact with HMRC in an open and collaborative manner.
- 2.3. In respect of its responsibilities under the Legislation in Criminal Finances Act 2017 Waverley is committed to minimising the opportunity for tax fraud by itself, its staff, partners and contractors whether that fraud be:
- by way of evasion, false accounting, fraudulent charging or recovery of tax - whether corporate or personal, and
 - in a manner proportional to its level of tax risk and impact.
- 2.4. Waverley, therefore, has in place reasonable prevention measures to avoid tax evasion, and will prepare and publish its Tax Strategy annually to demonstrate its commitment.

3. Risk Assessment

- 3.1. As a Local Authority operating under statute, Waverley believes there is a low level of incentive or opportunity to perpetrate or facilitate tax fraud on a corporate basis. Similarly it believes there is little opportunity for its staff to perpetrate or facilitate tax fraud on a personal basis to a significant level due to its control framework including segregation of duties and robust internal and external audit arrangements. Generally there is a low level of complexity involved in Waverley's transactions, a high level of regulation and, consequently, a low level of opportunity for deliberate tax fraud.
- 3.2. Waverley is not affected by Corporation Tax, is a net receiver of VAT and its VATable activities typically represent as little as 0.5% (by value) of income. Waverley is involved in few Stamp Duty Land Tax (SDLT) transactions and operates no cash transactions. As an employer Waverley is involved in PAYE transactions, contractor payments and CIS transactions but does not regard itself as responsible for actively assessing the tax compliance of other bodies/individuals.
- 3.3. The likelihood of changes in legislation in respect of tax affecting Local Government on a scale to have any significant impact on Waverley's finances is seen as low, for example changes to tax rates would have virtually no financial impact on Waverley. Waverley maintains tax awareness through a retained external tax consultancy.
- 3.4. Waverley, therefore, regards itself as a 'low risk' organisation and, additionally, regards the potential impact of tax risks also as 'low'.

4. Proportionality or risk-based prevention procedures

- 4.1. Waverley considers the total elimination of tax risk is impossible. It believes its current level of risk management is reasonable and proportionate to the level of risk and scale. Waverley operates internal procedures and systems designed to mitigate risk – these most notably take the form of published Contract Procedure Rules (CPRs) and Financial Regulations (FRs). Its standard forms of contract include the requirement for contractor tax compliance.

5. Top Level Commitment

- 5.1. Section 151 of the Local Government Act 1972 requires that “the Council makes arrangements for the proper administration of its financial affairs. Financial regulations are the means by which the Council meets this requirement by setting out a clear regulatory and accountability framework for the use of its resources.
- 5.2. Section 114 of the Local Government Act 1988 requires “the Section 151 Officer to report to Full Council and external audit if the Council or one of its officers:
- has made or is about to make a decision which involves the Council incurring expenditure which is unlawful
 - has taken or is about to take an unlawful decision which has resulted or would result in a loss or deficiency to the Council; or
 - is about to make an unlawful entry in the Council’s accounts.
- 5.3. Waverley’s Tax Strategy is received annually by the Audit Committee.

6. Due Diligence

- 6.1. Waverley applies due diligence procedures, taking an appropriate risk based approach, to the mass of transactions it undertakes through its internal procedures and systems and in respect to persons who perform or will perform services on behalf of the Council with regard to tax.
- 6.2. Where transactions are planned which are significant in terms of financial and tax value, additional levels of diligence and scrutiny occur. This additional diligence may take the form of external professional advice, reports to Elected Members, external and/or internal audits etc.

7. Communication (including training)

- 7.1. Prevention policies and procedures are communicated, embedded and understood throughout the Council.
- 7.2. Financial transactions are conducted in accordance with the Financial Regulations and Contract Procurement Rules.

- 7.3. Waverley operates a Whistle blowing and Money Laundering policy and has a Money Laundering Officer.
- 7.4. Appropriate tax training and awareness is provided for staff and members.

8. Monitoring and Review

- 8.1. The Annual Strategy is subject periodic review by Officers and Audit Committee. Regular Internal and External Audits of all systems and policies takes place. Improvements to policies and procedures are made where necessary.

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE – 25 SEPTEMBER 2018

Title:**FINANCIAL REGULATIONS UPDATE**

[Wards Affected: N/A]

Summary and purpose:

The Audit Committee is asked to consider the update to the Financial Regulations and recommend them to the Council, in compliance with the Audit Committee Terms of Reference under Article 8 of the Constitution. Specifically, the Audit Committee is required to maintain an overview of the Council's Constitution in respect of financial regulations.

How this report relates to the Council's Corporate Priorities

The Financial Regulations directly underpin the financial governance arrangements for the Council and affect the way services deliver on corporate priorities.

Equality and Diversity Implications:

There are no implications arising from this report.

Resource and legal implications:

There are no direct resource implications.

Introduction

1. The Financial Regulations were last updated in November 2017. In line with the commitment of continual review within the Annual Governance Statement the Financial Regulations have been reviewed and two changes are proposed.
2. The objective of the update to the Financial Regulations is to enhance the Council's governance arrangements to remain secure in relation to risk and statutory compliance and to propose changes that lead to improvements in process and efficiency.
3. The update relates to the following areas which are detailed in Annexe 1:
 - a) Large contracts
 - I. Contracts involving stage payments
 - II. Final Payments
 - b) Debts Write-off

Recommendation

It is recommended that the Committee recommends the update to the Financial Regulations to the Council for adoption.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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Financial Regulations – proposed updates

It is proposed to update the Financial Regulations 2017 in the following two areas:

- Large contracts
- Debt write off

The following regulations on large contracts are proposed to be inserted into section 5 of the Financial Regulations 2017.

5. Purchase orders, goods receipting and payment of invoices

Large contracts

For contracts that fall into threshold 4 in the CPR's (>£100,000) and where stage payments are made due to the length or type of the contract (ie construction), officers shall ensure that:

5.9 Contracts involving stage payments

- The contract documentation is prepared with the agreement of the Borough Solicitor.
- The contract must be recorded in the Contract Register.
- A final account is prepared.

5.10 Final Payments

- Supporting documentation must be checked to ensure that all the items invoiced have been used on the project and that the figures are correctly calculated throughout each stage of the project payment process.
- Where a retention is held, the retention value and retention period must be recorded so that it can be released when the defect liability period has ended.
- The project manager is responsible for collating and checking the final account before the final payment is made.
- The final payment must be signed off by the relevant Head of Service to confirm the accuracy and integrity of the final payment.
- The Head of Service approval should be emailed to AccountancyTeam@Waverley.gov.uk to be put with the invoice in the Finance system.

Debt Write off

It is proposed that the Section 151 Officer approve all debt write off without the need to take individual debt write off over £7,500 to Executive for approval.

Whilst the debt will not go to Executive for approval it will follow the same write off procedures and scrutiny but will allow for a more streamlined and efficient process. However, there will be no financial impact as the impairment allowances provide for the debt write off.

This supports the work to be undertaken in the Finance Service Plan for the corporate review of debt. It also addresses some of the concerns made by external audit about the level and age of debt.

To ensure transparency of debt write off it is proposed to bring summary reports of debts written off to the Executive as part of the financial monitoring.

Current regulation:

Debts Write-off

- 7.12 The write off levels for individual debt that is uneconomic to collect, where there is no prospect of collection or legally restricted are:
- Up to £7,500 – Section 151 Officer; and
 - Over £7,500 Executive.
- 7.13 Write-off schedules of uncollectable debt shall be taken to the Executive for noting or approval as appropriate.

Proposed regulation:

Debts Write-off

- 7.12 Where debt is uneconomic to collect or there is no prospect of collection or is legally restricted the debt will be written off by the Section 151 Officer.
- 7.13 Write-off schedules of uncollectable debt shall be taken to the Executive for noting.

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE 25 SEPTEMBER 2018

Title:

CONTRACT PROCUREMENT RULES UPDATE SEPTEMBER 2018

**[Portfolio Holder: Cllr Ged Hall]
[Wards Affected: All]**

Summary and purpose:

The Contract Procurement Rules form part of the Council's Constitutional framework. They should be maintained and updated as and when required to adopt legislative changes, reflect best practice in the industry and support the Council's corporate objectives.

How this report relates to the Council's Corporate Priorities:

The Contract Procurement Rules supports the delivery of strategic objectives through the process of procuring contracts for the council to utilise.

Financial Implications:

No direct financial implications, implementation of the new CPR's will be achieved using current resources. Services' following the CPR's help to ensure value for money is achieved with the public funds.

Legal Implications:

The Council must comply with national and European legislation governing public procurement. These include the Public Contracts Regulations 2015, the EU Public Contracts Directive 2014 and the Concession Contracts Regulations 2016.

Background

The Contract Procurement Rules (CPRs) were updated in July 2017 and approved by full Council in October 2017. While the CPRs are still fit for purpose there are a small number of recommendations which have come about either from the Council's internal auditors, the Council's senior leadership team or the Council's Legal Services team.

Recommendation

It is recommended that the Audit Committee recommends to the Council that the proposed amendments to the Contract Procurement Rules be approved.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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Contract Procurement Rules - Proposed amendments

It is proposed to update the CPRs (current version 2.3) in the following five areas, as well as any ongoing administrative amendments (such as job titles).

- A.** Turnover sign off
- B.** Large contracts – stage / final payments
- C.** Contract sign off levels / sealing
- D.** Contract extensions
- E.** Waivers

A. Turnover sign off

The Council conducts thorough financial checks on companies prior to awarding any contract in excess of £25,000. There is a requirement in the CPRs that no contract can be awarded if it will account for 50% of a supplier's turnover unless sign off has been given. It is proposed that this responsibility is delegated from Management Board to the S151 Officer; this will align with the desire to make Management Board more focused on strategic matters and sits very much in line with the statutory responsibilities of the S151 Officer.

Section 4.9 - Current

4.9 With regards to non OJEU Tenders, no supplier may be awarded a Contract if this would result in 50% or more of that supplier's turnover being generated from the council's Contracts, unless the prior written approval of the Management Board has been obtained.

Section 4.9 - Proposed

4.9 With regards to non-OJEU Tenders, no supplier may be awarded a Contract if this would result in 50% or more of that supplier's turnover being generated from the Council's Contracts, unless the prior written approval of the S151 Officer has been obtained.

B. To include the below as Section 23

23. *Contracts involving stage payments*

*Where any contract that falls into Threshold 4 (£100,000+) will involve stage payments a final account shall be prepared and presented for examination by the relevant Head of Service **before** final payment is made. The Financial Regulations should be consulted for more details on Final Payments and Retention monies.*

C. Contract sign off levels / sealing

We are proposing to reduce the authority level required for a contract sign off to empower Heads of Services and reduce the requirement of sealing for high value contracts where it is not appropriate. Sections impacted – 4.4, 15.7, 15.8, table on Page 11, sections 19.1 and 21.3.

Current

Threshold	Required Contract type	Who signs Contract/ approves order?
Threshold 3 - £25,000 - £99,999	Written, copy to be stored on the councils electronic procurement portal	Signed by S151 Officer or Deputy S151 Officer
Threshold 4 - £100,000+	Written - agreed by Legal Services & under seal, copy to be stored on the councils electronic procurement portal	Seal witnessed in accordance with Schedule of Authorisations to the Scheme of Delegation

Proposed

Threshold	Required Contract type	Who signs Contract/ approves order?
Threshold 3 - £25,000 - £99,999	Written, copy to be stored on the councils electronic procurement portal	HoS or above
Threshold 4 - £100,000+	Written - agreed by Legal Services & under seal if required, copy to be stored on the councils electronic procurement portal	Legal Services to advise if a Seal is required. If Seal is required it must be witnessed in accordance with Schedule of Authorisations to the Scheme of Delegation. Signed by S151 Officer or Deputy S151 Officer where Seal is not required.

D. Contract extensions

The current requirements around contract extensions are disproportionate. It is proposed that the S151 Officer be given the powers to extend contracts which fall outside of the EU Directives but ensure that any contract which is in scope or by way of the extension will fall in scope of the Directives is approved by the Executive. Sections affected – 9.2.1, 20, 24.1. It is also proposed to remove section 20 in its entirety as this duplicates the wording in section 9.2.1 but does not have the same controls in place (S151 Officer sign off).

Section 9.2.1 - Current

9.1 The CPRs will not apply in the circumstances set out in CPRs 9.2 (Exceptions) 9.3 (Waivers), or 9.4 (Joint Commissioning) provided that the S151 Officer has given his prior approval to the exception, waiver or joint commissioning before the Contract is entered into.

9.2 Exceptions - there may be an exception to the CPRs where:

9.2.1 there is an extension to the duration and/or value of an existing Contract provided that the extension is (i) on the same terms as the original Contract, (ii) is for a maximum period of 2 years (iii) is less than 20% in value of the original Contract value, and (iv) adequate budgetary provision has been made. If the sum of the proposed extension and any previous extension(s) is more than 2 years or more than 20% in value of the original Contract value,

- (a) For Contracts where the original Contract value was within Threshold 3 or below, the prior written approval of the S151 Officer is required to award the proposed extension; or
- (b) For Contracts where the original Contract value was within Threshold 4 or above, the prior written approval of the Executive is required to award the proposed extension.

Section 9.2.1 - Proposed

9.1 The CPRs will not apply in the circumstances set out in CPRs 9.2 (Exceptions) 9.3 (Waivers), or 9.4 (Joint Commissioning) provided that the S151 Officer has given his prior approval to the exception, waiver or joint commissioning before the Contract is entered into.

9.2 Exceptions - there may be an exception to the CPRs where:

9.2.1 there is an extension to the duration and/or value of an existing Contract that does not contain a provision for extension provided that the extension is (i) on the same terms as the original Contract and (ii) adequate budgetary provision has been made. Where an extension concerns an OJEU contract or where an extension would lead to a contract falling within the relevant OJEU threshold the prior written approval of the Executive is required to award the proposed extension.

Section 20 – Current – to be removed

20. CONTRACT EXTENSIONS AND VARIATIONS

20.1 Subject to the circumstances set out in CPR 20.2, a Contract may only be extended or varied (where no such terms currently exist in the Contract) as follows:

20.1.1 the extension is on the same terms and conditions as the original Contract;

20.1.2 the extension may only be for a maximum of 2 years;

20.1.3 there is adequate budgetary provision to meet the cost of the extension in any financial year covered by the extension; and

20.1.4 the prior written approval of the Executive has been obtained where the proposed extension and cumulatively with any previous extension(s) is more than 2 years or 20% in value of the original Contract value.

20.2 Any Contract awarded under 9.2 (Exceptions) or 9.3 (Waivers) may not be extended or varied without the prior written approval of the S151 Officer.

E. Waivers

It is proposed the wording in 9.3.3 be amended as it is currently confusing in its meaning. Section 9.3.2 states that the S151 officer can sign off on a waiver providing the value is sub-OJEU but section 9.3.3 states anything above Threshold 4. This is confusing as OJEU and Threshold 4 do not align.

Section 9.3.3 – Current

3.1.1 if the estimated value of the Contract falls within Threshold 4 or above the S151 Officer has obtained the prior written approval of the Executive.

Section 9.3.3 – Proposed

3.1.2 if the estimated value of the Contract falls within the relevant EU threshold the S151 Officer has obtained the prior written approval of the Executive.

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WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE – 25 SEPTEMBER 2018

Title:**INTERNAL AUDIT CHARTER****[Wards Affected: All]**

Summary and purpose:

The report provides an update to the Committee on the updated Internal Audit Charter that has been developed in accordance with the Public Sector Internal Auditing Standards. The standards apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS (Attribute Standard 1000) requires organisations to have an Internal Audit Charter that formally defines the purpose, authority and responsibility of the internal audit activity, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

How this report relates to the Council's Corporate Priorities:**Resource/Value for Money implications:**

There is are no Value for Money implications.

Legal Implications:

There are no legal implications.

Introduction

1. Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013, and have now been updated in March 2017, all internal audit services across the public sector are governed by these standards.
2. CIPFA has also produced an Application Note as the sector-specific requirements for local government organisations. The PSIAS and the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK.
3. The objectives of PSIAS are to:
 - Define the nature of internal auditing within the UK Public Sector
 - Set basic principles for carrying out internal audit in the UK public sector
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
4. The foundations of PSIAS are not fundamentally different to those adhered to under the CIPFA Code of practice and require an internal audit charter (similar to the previous internal audit strategy) that defines the purpose,

authority and responsibility of the internal audit activity, with clear definitions of those fulfilling responsibilities of the 'board' (The Audit Committee) and 'senior management' (Management Board). The proposed Internal Audit Charter, which meets the requirements set out in PSIAS, is attached at Annexe 1 for consideration.

5. The Internal Audit Charter must be reviewed periodically (as a minimum annually) by the 'Chief Audit Executive' (Internal Audit Manager) and presented to the Audit Committee.
6. In line with the Standards, external assessment will also be conducted at least once every five years by an external, qualified, independent assessor or assessment team.

Conclusion

1. This report provides the Audit Committee with an overview of the Internal Audit Charter in accordance with the Public Sector Internal Auditing Standards.

Recommendation

It is recommended that the Audit Committee approves the Internal Audit Charter.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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INTERNAL AUDIT CHARTER

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Version	Endorsed by	Date
V 1	Audit Committee	17/09/2013
V 2	Audit Committee	21/06/2016
V 3	Audit Committee	26/09/2017
<u>V 4</u>	<u>Present to Audit Committee</u>	<u>25/09/2018</u>

1. Introduction

~~The purpose of the Internal Audit Charter is to formally define the internal audit's activity's purpose, authority and responsibility in accordance with the UK Public Sector Internal Audit Standards (PSIAS). It establishes internal audit's position within the council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities. took effect from the 1 April 2013 now revised in March 2016, to provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency. The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.~~

2. Definitions

For the purposes of this charter the following definitions shall apply:

2.1 The definition of Internal Audit as set out in the PSIAS:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Mission of Internal Audit is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'

2.2 The 'Board'

The board is defined as:

'the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting'.

Within this Council the role of the 'Board' will be fulfilled by the Audit Committee.

2.3 Senior Management

Senior Management is defined as:

‘those charged with responsibility for the leadership and direction of the Council’.

Within this council the role of ‘Senior Management will be fulfilled by the **Corporate Management Team** Board made up of the **Chief Executive Director** and **two Strategic Directors**.

2.4 Chief Audit Executive

The Chief Audit Executive is described as:

‘a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive or others reporting to the Chief Audit Executive will have appropriate professional certifications and qualifications’.

Within this Council the role of the Chief Audit Executive will be fulfilled by the Internal Audit **Client** Manager.

3. Purpose of Internal Audit

The Accounts and Audit Regulations 2015 (Regulation 5 (1)) require that local authorities to which this regulation applies must ensure that it has a sound system of internal control which:-

- a. Facilitates the effective exercise of its functions and the achievement of its aims and objectives
- b. Ensures that the financial and operational management of the authority is effective and
- c. Includes effective arrangements for the management of risk.

As an independent appraisal function, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls across the entire control environment of the council.

4. Professionalism

The internal audit activity will govern itself by adherence to the Public sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The service, and individual staff, will be governed by the Code of Ethics of the relevant professional bodies of which they are a member, and all codes and policies operated by the Council.

5. Authority of Internal Audit

The powers and duties authority of Internal Audit is set out in the Council's Financial Regulations, paragraph 14.3 details the authority Internal Audit has to perform their duty. The Strategic Director (S151 Officer Director of Finance and Resources has nominated these right to the a head of internal audit (the Internal Audit Client Manager) who has the right to direct access to the Head of Paid Service, and the Audit Committee, where necessary.

Internal audit staff have access to all Council property and assets at any reasonable time and have the authority to apply any test or check they deem necessary to the accounts, cash securities or other properties or records which relate in any way to the operations of the Council and can require and receive such explanations from any Officers or Member as deemed appropriate. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

6. Organisation

The Internal Audit function sits within the Internal Audit Service Audit and Fraud Investigation Team that forms part of the Strategic Director of Finance and Resources responsibilities, who fulfils the role of the Council's Section 151 Officer. This role is responsible for maintaining an adequate and effective internal audit function and the nomination of an officer to act as the (Chief Audit Executive) Internal Audit Client Manager. The Internal Audit Client Manager is the nominated Head of Internal Audit and is responsible for the day to day management of the Internal Audit function. The Internal Audit Client Manager has free and unfettered access to the Chief Executive Director, Section 151 Officer, Monitoring Officer and the Chair of the Audit Committee. The Internal Audit Client Manager will communicate and interact directly with the Audit Committee, including in and between Audit Committee meetings as appropriate.

7. Responsibility of the Internal Audit Service

The key responsibilities of the Internal Audit Service are as laid out in the Council's Financial Regulations:

- The Strategic Director (151 Officer) of Finance and Resources is responsible for maintaining an adequate and effective internal audit function.
- The internal audit function will operate in accordance with the Public Sector Internal Audit Standards

- The internal audit function is responsible for providing assurance on the Council's system of internal control. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- In fulfilling their responsibilities Internal audit staff will undertake effective reviews of systems and procedures on a regular basis.

8. Scope of Internal Audit

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or ~~Corporate~~ Management Board Team, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee or ~~Corporate~~ Management Board Team, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

9. Independence and Objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit the maintenance of an ~~necessary~~ independent and objective attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Internal Audit ~~Client~~-Manager will confirm to the Audit Committee (Board), at least annually, the organisational independence of the internal audit activity.

The independence of the Internal Audit Manager is safeguarded by the Chief Executive ~~Director~~ reviewing and countersigning the performance reviews of the Internal Audit ~~Client~~-Manager.

10. Internal Audit Plan

At least annually, the Internal Audit ~~Client~~-Manager will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Internal Audit ~~Client~~-Manager will communicate the impact of resource limitations and significant interim changes to ~~Corporate~~-Management Board Team, Senior Management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of Service Manager, ~~Corporate~~-Management Board Team and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan will be discussed with senior manager and ~~Corporate~~-Management Board Team. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

11. Internal Audit Resources

The Internal Audit ~~Client~~ Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and be suitably have extensive internal audit experienced.

The Strategic Director (S151 Officer) —of Finance and Resources is responsible for providing the Internal Audit ~~Client~~ Manager with the appropriate resources to maintain an adequate and effective internal audit service.

The Internal Audit ~~Client~~ Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit plan.

12. Reporting and Monitoring

A written report will be prepared and issued by the Internal Audit ~~Client~~ Manager after receipt from the contractor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The final version of the internal audit report will include management's response and corrective action taken to be taken in regard to the specific findings and recommendations. Management's response ~~is required to~~ includes a timetable for anticipated completion of the action to be taken and an explanation for any corrective action that will not be implemented. Where an agreed timeframe ~~has~~ not been met these will be reported to the Audit Committee. This allows a decision to be made on whether a change in the agreed timeframe is necessary or whether the action is still applicable if control enhancements have been implemented elsewhere that negates the need for the action.

The internal audit activity will be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain on the outstanding recommendations record until cleared or approved to be removed by the Audit Committee if a justifiable reason is provided to support the request.

The Internal Audit ~~Client~~ Manager presents the ~~is responsible for the delivery of an Annual~~ Internal audit opinion as part of the Annual Internal Audit report and report that can be used by ~~to Management~~ Board which is then included to in inform the Annual Governance statement that supports the Annual Accounts. The Internal Audit annual audit opinion ~~will~~ includes an assessment of the overall adequacy and effectiveness of the organisations' framework of governance, risk management and control. ~~The annual opinion will be formed as part of the Annual Audit Report prepared by the Internal Audit Contractor who fulfils the role of completing the Internal Audit Plan.~~

13. Role of Internal Audit in Fraud Related Work

The role of Internal Audit in fraud related work is set out in the following Council documents:

- Financial Regulations
- Anti – Fraud, Corruption, and Bribery Strategy
- Whistleblowing Policy
- Prosecution Policy
- Fraud Response Plan
- Housing Tenancy Fraud Policy

The primary responsibility for maintaining sound systems of internal control including arrangements to prevent and detect fraud and corruption lies with management. Completion of planned audit work assists this process by highlighting areas where controls are inadequate or are not operating as intended.

The Internal Audit ~~Client~~ Manager also facilitates the authority's participation in the National Fraud Initiative (NFI) in which specified data is matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

14. Performance of Non-Audit Activities

The Internal Audit ~~Client~~ Manager has line management responsibility for the Council's Fraud Investigation ~~Officer~~ Team which forms part of the Internal Audit ~~Service~~ and Fraud Investigation Team. To maintain independence and avoid conflict of interest any internal audits of these functions will be undertaken by an externally procured resource.

Where individual internal auditors undertake non – audit activities, for example in participating in corporate projects in a non – audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.

15. Periodic Assessment

The Internal Audit ~~Client~~ Manager is responsible for periodically providing a self assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Internal Audit ~~Client~~ Manager will communicate to Management Board and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years. However, as some of the majority of Waverley's work is completed by

an external contractor Waverley requires them to have an external assessment as well as the inhouse team, completed at least every 5 years and this is confirmed and included in the Annual Audit Report each year. The evidence of the eseis assessments -is checked by the External Auditors as part of their assessment of the internal control framework in place within Waverley Borough Council as part of the work completed for the External Audit findings report.

16. Review of the Internal Audit Charter

This charter will be reviewed annually by the Internal Audit ~~Client~~ Manager and where changes are required presented at least every 2nd year to ~~Management Board and~~ the Audit Committee for approval.

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE – 25 SEPTEMBER 2018

Title:

PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2018/19

[Wards Affected: All]

Summary and purpose:

The Committee's Terms of Reference include provision for the Committee to comment on the progress made in the achievement of the Audit Plan. An update on the current position of the reviews in 2018-19 is presented.

How this report relates to the Council's Corporate Priorities:

The work of the Internal Audit service can have an impact upon all the Council's priorities as its work involves exposure to all service areas.

Financial Implications:

There are no specific financial implications from this report, however the delivery of the Audit Plan will contribute towards the Council's sound financial and management processes and help ensure sound probity and governance arrangements are in place.

Legal Implications:

The Council must have an operational plan that must cover a period of no more than a year in order to fully comply with the requirements of the Code of Practice issued by CIPFA, which is given mandatory status by the Accounts and Audit Regulations.

Introduction

1. The progress on the completion of the Internal Audit Plan for 2018-19 is shown as attached at Annexe 1. Each review has an indicative quarter for when the work will be completed and the planned start dates as agreed by the relevant Head of Service.

Conclusion

2. The Committee is asked to note the current position of the 2018-19 Internal Audit Plan. There are many reviews to be completed in the 3rd and 4th quarters as these were the preferred dates for the service areas as provided by the heads of service before the June 2018 Audit Committee. Minor changes have been made to add new review areas (shown in the blue) and revisions to planned quarters where requested by Head of Services, the contractor has confirmed that these will be completed in the following months and many of the reviews have been allocated indicative start dates agreed with the service areas.

Recommendation

It is recommended that the Committee notes the status of the 2018-19 Audit Plan as attached in Annexe 1.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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AUDIT PLAN AGREED BY AUDIT
COMMITTEE ON 27 MARCH 2018

Key
Awaiting Draft Report
Completed
New Review
Deferred
Cancelled

Report No. Ref	AUDIT PLAN AS AT 14/09/2018	2018-19 Priority	Proposed No. of Plan Days	Variations	Revised Plan (a) + (b)	Actual Total to date	Days Planned to end March '19	Total expected time ((d)+(e) to match (c))	Progress	Details	Planned QTR	Head of Service & Manager Responsible for Area	Contact Details
			2018/19	(b)	(c)	(d)	(e)						
	Systems and Services Audit												
	IT SERVICES												
IA19-00	Reviews still to be ascertained		0.00	0.00	0.00	0.00	0.00	0.00				Head of Customer, IT and Office Services - David Allum, Linda Frame - IT Development Manager	01483 523221 - 01483 523157
	Contingency		15.00	0.00	15.00	0.00	15.00	0.00					
	IT Total		15.00	0.00	15.00	0.00	15.00	0.00					
	GENERAL SYSTEM REVIEWS												
	Key Financial Systems												
IA19-00	Car Parking	High	7.00	0.00	7.00	7.00	0.00	0.00	Awaiting Draft Report	Revenue expenditure re Car park maintenance, low value accumulates to high value CPF.	Q1/2	Head of Environment - Richard Homewood	01483 523411
IA19-00	Creditors	High	7.00	0.00	7.00	0.00	7.00	0.00	W/C 17 September 2018	KFS testing. Review processes for identifying procurement route, and for issue and control of orders and agreeing payment of invoices. P2P.	Q2/3	Head of Finance - Peter Vickers	01483-523539
IA19-00	Housing Benefit and Council Tax Reduction Scheme	High	10.00	0.00	10.00	0.00	10.00	0.00		Key systems tests. Review of access to accounts on-line, Systems Thinking Outputs.	Q4 (Jan 2019)	Head of Finance - Peter Vickers	01483-523539
IA19-00	Business Rates (NNDR)	Medium	10.00	0.00	10.00	0.00	10.00	0.00		Review of on-line access to accounts, and revaluation implementation.	Q4 (Jan 2019)	Head of Finance - Peter Vickers	01483-523539
IA19-00	Housing Rent Collection	High	7.00	0.00	7.00	0.00	7.00	0.00		KFS testing. Review the implementation of universal credit planned October 2018.	Q3	Head of Housing Operations Hugh Wagstaff	01483 523363
	Sub total for Key Financial Systems		41.00	0.00	41.00	7.00	34.00	0.00					
IA19-00	Environmental Street Cleaning	Medium	7.00	0.00	7.00	0.00	7.00	0.00	W/C 3 December 2018	Management contract terms and non compliance.	Q3	Head of Environment - Richard Homewood	01483 523411
IA19-00	Leisure - Share profits arrangement	High	7.00	0.00	7.00	0.00	7.00	0.00		Communities O/S working group re Leisure contract Early January 2017.	Q4	Head of Communities and Special Projects - Kelvin Mills	01483 523432
IA19-00	Ground Maintenance	High	10.00	0.00	10.00	0.00	10.00	0.00	W/C 01 October 2018	Management contract terms and non compliance. (Note work completed re O&S Report 2017/18)	Q3	Head of Communities and Special Projects - Kelvin Mills	01483 523432
IA19-00	Memorial Hall	High	10.00	0.00	10.00	0.00	10.00	0.00		Project management re quality and cost delivery, upgrade Project	Q3	Head of Communities and Special Projects - Kelvin Mills	01483 523432
IA19-00	Waverley Training Services	Medium	10.00	0.00	10.00	0.00	10.00	0.00		Operational review re growth in business impact on council, business plan, contractor relationship, governance arrangements, remoteness of service.	Q4	Head of Communities and Special Projects - Kelvin Mills	01483 523432
IA19-00	Community Infrastructure Levy	High	7.00	0.00	7.00	0.00	7.00	0.00		Assurance that new system is working at intended	Q4	Head of Planning - Elizabeth Sims	01483 523292
IA19-00	Deposit Guarantee Scheme	High	7.00	0.00	7.00	0.00	7.00	0.00		Recovery of costs re deposit/bond from tenant re Deposit Guarantee Scheme (Deposit Bond)	Q3 Oct 18	Head of Strategic Housing Andrew Smith	01483 323096

AUDIT PLAN AGREED BY AUDIT
COMMITTEE ON 27 MARCH 2018

Key
Awaiting Draft Report
Completed
New Review
Deferred
Cancelled

Report No. Ref	AUDIT PLAN AS AT 14/09/2018	2018-19 Priority	Proposed No. of Plan Days	Variations	Revised Plan (a) + (b)	Actual Total to date	Days Planned to end March '19	Total expected time ((d)+(e) to match (c))	Progress	Details	Planned QTR	Head of Service & Manager Responsible for Area	Contact Details
			2018/19	(b)	(c)	(d)	(e)						
IA19-00	Safeguarding	High	7.00	0.00	7.00	7.00	0.00	0.00	Awaiting Draft Report	Assurance that awareness is embedded and actions recorded appropriately	Q2 Sept 18	Head of Strategic Housing Andrew Smith	01483 323096
IA19-00	Local Land Charges	Medium	7.00	0.00	7.00	0.00	7.00	0.00		Assurance that system is operating as intended	Q1 now Q3 re HOS	Head of Policy and Governance - Robin Taylor	01483 523108
IA19-00	Flexi-Time - Consistency of Application	High	7.00	0.00	7.00	0.00	7.00	0.00	W/C 29 October 2018	Assurance that Consistency is applied	Q3	Head of Policy and Governance - Robin Taylor	01483 523108
IA19-00	Staff Expenses and Allowances (Itrent)	High	10.00	0.00	10.00	0.00	10.00	0.00		Accuracy of claims	Q4	Head of Policy and Governance - Robin Taylor	01483 523108
IA19-00	Risk Management	Medium	10.00	0.00	10.00	0.00	10.00	0.00	W/C 15 October 2018	Effective and impact of the system in operation	Q3	Head of Finance - Peter Vickers	01483-523539
IA19-01	Housing Approval of invoices on Agresso	High	10.00	0.00	10.00	10.00	0.00	0.00	Final Report on Pentana	Re authorisation process on Orchard through to Agresso	Q1	Head of Housing Operations Hugh Wagstaff	01483 523363
IA19-00	Management of Flexible Tenancy	High	5.00	0.00	5.00	5.00	0.00	0.00	Awaiting Draft Report	Preparedness re 5 years since 1st awarded - What happens next? - Assurance on preparation	Q1/2	Head of Housing Operations Hugh Wagstaff	01483 523363
IA19-02	Right to Buy Process	High	7.00	0.00	7.00	7.00	0.00	0.00	Final Report on Pentana	Review process in operation	Q1/2	Head of Housing Operations Hugh Wagstaff	01483 523363
IA19-00	On Line Forms	High		3.00	3.00	0.00	3.00	0.00	24th September 2018	Assurance that forms are meeting the requirements re collection of income	Q3	Corporate	01483-523333
IA19-00	Building Control Process	High		7.00	7.00	0.00	7.00	0.00	1st October 2018	Assurance on the system in operation to monitor and control income collection for works completed	Q3	Head of Planning - Elizabeth Sims	01483-523292
	Governance and Risk Reviews												
IA19-00	Investment Board and Commercial Investment Venture	High	10.00	0.00	10.00	0.00	10.00	0.00	To be rearranged	Assurance on the Governance arrangements, initiation and reporting arrangements	Q1/2* now Q3	Graeme Clark - Strategy Director - Finance And Resources	01483 523099
IA19-00	Brightwells	High	10.00	0.00	10.00	0.00	10.00	0.00		Assurance on the controls re risk of loss, legal obligations etc.	Q3/4	Head of Communities and Special Projects - Kelvin Mills	01483 523432
IA19-00	Corporate Complaints Policy, Procedures and IT System functionality	High	7.00	0.00	7.00	0.00	7.00	0.00	Awaiting Draft Report	Accuracy of reporting information and output management	Q2	Head of Policy and Governance - Robin Taylor	01483 523108
	Management Contract Liaison Meetings		6.00	0.00	6.00	1.00	5.00	0.00					
	Contingency		30.00	-10.00	20.00	0.00	20.00	0.00					
	Sub Total for Operational Reviews (Inc Cont)		184.00	0.00	184.00	30.00	154.00	0.00					
	Subtotal Financial Systems Reviews		41.00	0.00	41.00	7.00	34.00	0.00					
	Subtotal of IT Reviews		15.00	0.00	15.00	0.00	15.00	0.00					
	Total Contractor Plan Review Days		240.00	0.00	240.00	37.00	203.00	0.00					
	In-house Service												
	Total In-house Internal Audit Reviews				0	0	0	0					
	Total Days Plan		240.00	0.00	240.00	37.00	203.00	0.00					

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

25 SEPTEMBER 2018

Title:

PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

[Wards Affected: ALL]

Summary and purpose:

To inform the Audit Committee of Senior Management's progress in implementing the recommendations raised by Internal Audit following a review in their service areas. This report will enable the Committee to consider what action is required in respect of those that are overdue or appear likely to be implemented later than the target date.

How this report relates to the Council's Corporate Priorities:

Internal Audit work contributes to the safeguarding of assets against loss and waste and for identifying other value or money issues.

Financial Implications:

Internal audit work helps management in achieving good value for money and, individual recommendations may have value for money implications.

Legal Implications:

There are no direct legal implications, although good governance is strengthened by attention to the matters raised in audit recommendations.

Introduction

1. This report provides the Audit Committee with the latest position regarding the implementation of Internal Audit recommendations.

There are no outstanding recommendations due for completion at the end of the month after the date of the Audit Committee.

Recommendation

It is recommended that the Committee notes the current position.

Background Papers

There are no background papers (as defined by Section 100D (5) of the Local Government Act 1972) relating to this report.

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Agenda Item 15.

AUDIT COMMITTEE RECURRENT ANNUAL WORK PROGRAMME

Meeting	Item	Action	Responsibility
November 2018	Risk Management	Approve	Head of Finance, Peter Vickers
	Annual Governance Statement – Interim Review	Comment and instruct	Head of Finance, Peter Vickers
March 2019	External Audit Plan	Note	External Audit
	Certification Report	Note	External Audit
	Internal Audit Plan	Approve	Internal Audit Client Manager, Gail Beaton
	Risk Management	Approve	Head of Finance, Peter Vickers
July 2019	External Audit Findings Report	Note	External audit
	Annual Governance Report	Endorse	External Audit
	Statement of Accounts (Deadline 31/07/2019)	Approve	Head of Finance, Peter Vickers
	Annual Governance Statement (Deadline 31/07/2019)	Approve	Head of Policy and Governance, Robin Taylor
	Annual Internal Audit Report (Activity of previous financial year)	Comment and Note	Internal Audit Client Manager, Gail Beaton
September 2019	Risk Management	Approve	Head of Finance, Peter Vickers
	Review Audit Committee's Terms of Reference	Rec to Council, if necessary	Committee Services
	Audit Committee Annual Report	Note	Committee Services
	Internal Audit Charter	Endorse	Internal Audit Client Manager, Gail Beaton
	External Audit Annual Audit Letter	Note	External Audit

Please Note: At every meeting the Committee will receive the following reports:

Review of progress in the implementation of Internal Audit Recommendations [To note and instruct];

Review of the progress in achieving the Audit Plan [To note and instruct]; and

Fraud Investigation Summary [To note].

The Work Programme details regular items, but other items can be submitted to each meeting on an ad hoc basis or at the request of the Committee.

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