

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

When calling please ask for:

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Date: 21 February 2020

**Membership of the Audit Committee**

Cllr Peter Marriott (Chairman)  
Cllr Jerome Davidson (Vice Chairman)  
Cllr Richard Cole  
Cllr Simon Dear

Cllr Jan Floyd-Douglass  
Cllr Michaela Gray  
Cllr Richard Seaborne  
Cllr George Wilson

Dear Councillors

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

DATE: MONDAY, 2 MARCH 2020

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 26 November 2019 (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 Monday 24<sup>th</sup> February 2020.

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 Monday 24<sup>th</sup> February 2020.

6. **AIR QUALITY MANAGEMENT INVESTIGATION OUTCOME AND FINDINGS**  
(Pages 6 - 37)

This report details the outcome of the process carried out by Waverley Borough Council and the subsequent action taken by the Police and the Crown

Prosecution Service, which resulted in the criminal conviction of a former member of Waverley Borough Council staff.

### **Recommendation**

It is recommended that :

The strengthened governance arrangements are considered and endorsed by Audit Committee.

7. EXTERNAL AUDIT PLAN FOR 2019/20 (Pages 38 - 60)

To receive the 2019/20 External Audit Plan from Grant Thornton.

8. ACCOUNTING POLICIES FOR 2020/21 (Pages 61 - 63)

The report provides an update on Waverley Accounting Policies in line with changes to the CIPFA Code of Practice.

### **Recommendation**

**It is recommended that the Audit Committee notes the proposed changes in accounting policy.**

9. ANNUAL GOVERNANCE STATEMENT - CONSIDERATION OF POTENTIAL GOVERNANCE ISSUES (Pages 64 - 73)

Peter Vickers to report on the Annual Governance Statement.

To enable the Committee to raise any potential emerging governance issues that may need to be addressed.

### **Recommendation**

**The Committee is invited to raise any potential emerging governance issues for consideration.**

10. INTERNAL AUDIT PLAN PROGRESS 2019-20 (Pages 74 - 90)

The Committee's Terms of Reference include provision for the Committee to approve, monitor and comment on the progress made in the achievement of the Internal Audit Plan. An update on the current position of the Internal Audit Plan for 2019-20 is presented for the Audit Committee to note progress being made.

### **Recommendation**

**It is recommended that the Audit Committee notes the contents of the Internal Audit Plan progress report as attached in Annexe 1.**

11. PROPOSED INTERNAL AUDIT PLAN FOR 2020-21 (Pages 91 - 104)

The Committee's terms of reference include provision for the Committee to approve the proposed Internal Audit Plan for 2020-21. This report presents the

Draft Internal Audit Plan for 2020-21 and the Committee is invited to comment before the Plan can be adopted. The plan has been drawn up by the Internal Audit Manager through consultation with Senior Management Team and completing a risk assessment of the audit universe of the council's activities.

### **Recommendation**

**It is recommended that the Audit Committee comments and approves the proposed Internal Audit Plan for 2020-21 as attached in Annexe 1.**

12. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Pages 105 - 116)

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 original agreed implementation date.

### **Recommendation**

**It is recommended that the Committee considers the information contained in Annexe 1 and, following discussion at the Audit Committee meeting identifies any action it wishes to be taken.**

**It is recommended that the Committee considers the Head of Service(s) justification for a change in the due date for the recommendations listed in Annexe 2 and agree an appropriate implementation date(s).**

13. FRAUD INVESTIGATION (Pages 117 - 120)

The report provides an update to the Committee on the work being completed in investigating fraud, primarily focusing on Housing Tenancy fraud. The report also includes the current outputs in relation to the National Fraud Initiative (NFI)

### **Recommendation**

**It is recommended that the Audit Committee notes the results of the fraud investigation activity, attached in Annexe 1 up to and including quarter 3 covering the period 01 April 2019 to 31 December 2019.**

14. AUDIT COMMITTEE RECURRENT WORK PROGRAMME (Page 121)

The Committee's annual recurrent work programme is attached. 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.

### **Recommendation**

**The Audit Committee is invited to note its recurrent annual work programme.**

15. 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).

16. 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  
Kimberly Soane, Democratic Services Officer, on 01483 523258 or by  
email at [Kimberly.soane@waverley.gov.uk](mailto:Kimberly.soane@waverley.gov.uk)**

# Agenda Item 6.

## WAVERLEY BOROUGH COUNCIL

### AUDIT COMMITTEE

2 MARCH 2020

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**Title:**

**AIR QUALITY MANAGEMENT INVESTIGATION OUTCOME AND FINDINGS**

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**Head of Service:** Richard Homewood Head of Environment and Regulatory Services

**Key decision:** No

**Access:** Public / Part Exempt

Note pursuant to Section 100B (5) of the Local Government Act 1972.

An annexe to this report contains exempt information by virtue of which the public is likely to be excluded during the item to which the report relates, as specified in paragraphs 1 and 3 of Part I of Schedule 12A to the Local Government Act 1972, namely:

1. Information relating to any individual.
  2. Information relating to the financial or business affairs of any particular person (including the authority holding that information).
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#### **1. Purpose and summary**

- 1.1 Waverley Borough Council has, like all other Boroughs and Districts, a statutory duty under part 4 of the Environment Act 1995 to review and assess air quality in the area against prescribed standards.
- 1.2 In 2017, during the course of responding to a request for information on the Council's approach to recording air quality information, anomalies in recording practises were noticed by a member of the public who has professional expertise in air quality matters and raised in August 2017 with the-then Interim Managing Director (now Chief Executive). An initial management investigation identified problems with the reported diffusion tube data results for the 2016 calendar year, which had been publically reported via the Annual Air Quality Status Report in 2017.
- 1.3 As a result of these identified problems an independent audit was commissioned immediately. The audit report was received in January 2018 and a redacted version can be found at Annex 1. Redactions have been made for legal reasons. A full copy of the report can be found at (Exempt) Annex 2. During the course of the reports production, potential criminal activity was identified involving falsifying air quality monitoring and results. As a result, officers promptly informed Surrey Police of the findings. This resulted in the Police carrying out a full criminal investigation of their

own.

- 1.4 This report details the outcome of that process and the subsequent action taken by the Police and the Crown Prosecution Service, which resulted in the criminal conviction of a former member of Waverley Borough Council staff.

## **2. Recommendation**

- 2.1 It is recommended that :  
The strengthened governance arrangements are considered and endorsed by Audit Committee.

## **3. Reason for the recommendation**

- 3.1 To ensure that members of the Audit Committee have had the opportunity to consider the adequacy of the governance arrangements put in place following the air quality incident described in this report and to confirm their endorsement of these arrangements.

## **4. Background**

- 4.1 The independent audit report at Annexe 1 outlines the investigation into these air quality anomalies and its findings in some detail. Following this investigation the Council consulted with Surrey Police as it appeared that offences had been committed. They subsequently carried out an investigation, with Waverley Borough Council's full cooperation.

In August 2019, the former Environmental Health Officer responsible for this area of the service, Ann-Marie Wade, was charged with 3 counts of fraud

- Count 1: Fraud in relation to the air quality figures for March to December 2015;
- Count 2: Fraud in relation to the air quality figures for 2016;
- Count 3: Fraud in relation to mileage claimed for collecting diffusion tubes in 2016.

- 4.2 This subsequently resulted in consultation between Surrey Police, Waverley Borough Council and the Crown Prosecution Service (CPS). On 4 November 2019 the defendant pleaded guilty at Guildford Crown Court to Counts 1 and 2. The defendant pleaded not guilty to Count 3 and the CPS decided not to proceed with Count 3. This is common practice where a defendant has pleaded guilty to other counts on an indictment.

- 4.3 On 12<sup>th</sup> December 2019, at a hearing in Guildford Crown Court, His Honour Judge Taylor sentenced Ms Wade to 12 months imprisonment suspended for 18 months and 150 hours of unpaid work. Ms Wade was ordered to pay prosecution costs of £1,500.

- 4.4 Since the initial investigation several changes have been made within the Environmental and Regulatory Service. Management capacity has been

addressed to ensure that general supervision is, in future, at a sufficiently operational level of detail.

To strengthen the controls around the way the data is produced by Waverley Borough Council two separate air quality contracts have been instigated relating to monitoring and reporting of data.

The separation of these functions to two contracts further ensures the independent verification of data integrity going forward. In addition to these controls, the month by month data that is produced is published on the web to provide further public accountability.

- 4.5 The circumstances outlined above are extremely unusual. The fictitious results did not show any trend: i.e. were neither consistently higher than predicted nor were they consistently lower. No motive is clear and the defendant did not appear to gain personally from the fraud. Nevertheless, the independent audit report and the court hearings made clear that the provision of false air quality was clearly the responsibility of the individual perpetrator. In describing the “extremely important function” carried out by the post-holder, His Honour Judge Taylor said: “Part of your job was to collect and replace the tubes, send them for laboratory analysis and then receive and collect the results, and then use those results to prepare the annual statutory air quality status report, which would be sent to Defra and published. And it’s that failure that I have to sentence you for.”

## **5. Relationship to the Corporate Strategy and Service Plan**

- 5.1 The Corporate Strategy describes Waverley Borough Council as an authority, which promotes and sustains a sense of responsibility for the environment, promoting biodiversity and protecting our planet. We are also committed to taking action on air quality issues.

To honour these commitments we need to ensure that the air quality data that we produce is accurate and that we have strong governance around it.

## **6. Implications of decision**

### **6.1 Resource (Finance, procurement, staffing, IT)**

There are no additional financial requirements because of this report as it seeks to update the Audit Committee on the current situation. Changes to the way data is collected and reported were implemented within existing budgets.

### **6.2 Risk management**

The management actions taken following this case have sought to reduce the risk to the authority. However, in this case reputational damage was done to Waverley by the criminal actions of an individual.

### **6.3 Legal**

The strengthened governance arrangements ensure the Council can comply with its obligations under Part 4 of the Environment Act 1995.



The legal issues within this case have been numerous and complex, with the Council having needed throughout to give careful consideration to sensitivities surrounding employment law matters, the Police's criminal investigation and the Council's obligation to keep the public as informed as could be permitted regarding the matter. This has meant the Council needing to release information only at appropriate junctures through the lives of the Council's investigation, the Police's investigation and the criminal prosecution. Legal advice has been sought throughout from the Council's Legal Services team.

#### **6.4 Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

#### **6.5 Climate emergency declaration**

Understanding air quality in the Borough is a critical component of the Climate Emergency Declaration. Our local environmental quality data needs to be robust and accurate to enable us to assess the impact on public health and the environment.

### **7. Consultation and engagement**

7.1 Consultation is not appropriate for this action.

### **8. Other options considered**

8.1 As an update report no other options are appropriate however we welcome comments on any matter.

### **9. Governance journey**

9.1 Regular updates have been provided to the Overview and Scrutiny Committees throughout the progress of the investigation and court proceedings during and the matter is listed and discussed within the Annual Governance Statement and through the Air Quality Steering Group.

9.2 The reports in Annex 1 and 2 are published in their original form. It should be noted that -

Para 2.5 should read December 2017

Para 3.7, 3.8 and 3.9 are miss numbered and should read 3.5, 3.6 and 3.7.

### **Annexes:**

Annexe 1 – Southern Internal Audit Partnership - Waverley Borough Council Investigation report Air Quality Management (2017/18): (redacted)

**Background Papers**

**Various Press releases**  
**Annual Governance Statements**

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Agreed and signed off by:

Legal Services: date  
Head of Finance: date  
Strategic Director: date  
Portfolio Holder: date

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

# **Southern Internal Audit Partnership**

Assurance through excellence  
and innovation

**CONFIDENTIAL**

Waverley Borough Council  
Investigation report

Air Quality Management (2017/18)

10 January 2018

Prepared by: [REDACTED]

**Circulation list:**

Tom Horwood, Interim Managing Director  
Annie Righton, Interim Strategic Director, Front Line  
Services  
Richard Homewood, Head of Environmental  
Services

## **1 Introduction**

- 1.1 Following concerns raised with regard the collection and administration of air quality management data, the Southern Internal Audit Partnership were commissioned to undertake an independent investigation into the operational processes and procedures for air quality management at Waverley Borough Council (WBC). This report sets out the results of the investigation.

## **2 Details of irregularity**

- 2.1 During the course of responding to a freedom of information request, management identified anomalies regarding the reported diffusion tube data results for the 2016 calendar year, as reported in the 2017 Annual Status Report (ASR).
- 2.2 This matter came to light when management were attempting to trace a specific months data for 2016, which was needed to complete the freedom of information request. Management intervention was required due to the Environmental Health Officer responsible for air quality monitoring being on leave at the time it was identified that a months worth of data was omitted in the release of information.
- 2.3 In trying to trace this data, management identified that for the 2016 calendar year no diffusion tube monitoring had been undertaken and the results as presented in the 2017 ASR report had been fabricated.
- 2.4 Additionally, the member of public who had submitted the freedom of information request, was also contesting the bias factor used in the 2016 ASR.
- 2.5 As a result of these two issues being identified the responsible Environmental Health Officer was suspended on the 18<sup>th</sup> September 2017 whilst these issues were investigated. The EHO subsequently resigned and left the employment of WBC on the 8<sup>th</sup> December 2016 .
- 2.6 WBC have separately commissioned two independent air quality consultants to review the bias factor applied in the 2016 ASR report. At this time, WBC have withdrawn the published 2016 ASR report and the 2017 ASR report has not been signed off by DEFRA.

## **3 Scope of investigation**

- 3.1 As agreed with management the scope of this investigation was focused on the operational processes for air quality management to establish where and how the opportunities to fabricate diffusion tube data results were facilitated.

3.2 The agreed detailed scope for the review covered the following:

*Management and supervision*

- Roles and responsibilities for all staff involved in the process, including management & supervision of the activity have been clearly defined, documented and followed;
- Management control arrangements in place for the review and approval of air quality monitoring data prior to submission or publication; and
- Review of relevant activity logs, electronic file history or other associated documentation in regards to version control of air quality data used for publication.

*Procurement of laboratory services*

- Procurement and selection of the laboratory has been done in accordance with financial regulations and based on a sound business case.

*Operational processes for air quality monitoring*

- Review of the operational communication procedures between WBC and ESG Didcot for the issue of new diffusion tubes and the receipt of diffusion tubes for analysis;
- Review of the process that should be completed regarding timeframes, collection, recording, analysis and reporting of the data collected. Establish whether the processes in place at WBC met these requirements; and
- Review of the receipt and retention arrangement for diffusion tubes supplied by the laboratory, their installation and return, the management of results returned from the laboratory.

3.3 During the course of our investigation we identified the following additional areas that were subsequently incorporated into our investigation:

- Undeclared second employment held by the Environmental Health Officer and how this may have affected operational efficiency for the Council;
- Diffusion tube results for 2015 as reported in the 2016 ASR had also been fabricated; and
- Co-located diffusion data required to be submitted to DEFRA as part of the national bias adjustment calculations have not been submitted since 2011.

3.4 As part of this investigation we have interviewed the following people:

- [REDACTED], Head of Environmental Services;
- [REDACTED] Environmental Services Manager; and
- [REDACTED], Deputy Environmental Health Manager

We have also met with [REDACTED], Financial Administrator and [REDACTED], Service Accountant.

3.7 We were precluded from interviewing the Environmental Health Officer (EHO) responsible for air quality monitoring. [REDACTED]

[REDACTED] secondly, we were advised by the police not to progress an interview until such time as they had undertaken their enquiries, following WBC's referral of this matter to them.

3.8 For the purposes of this investigation we were supplied with a complete 'blind' electronic copy of the EHO's Windows desktop file contents, 'myspace' file contents and email account. We were also given 'read only' access to the Environmental Services section of 'Sharepoint' (the Council's document management system).

3.9 We also undertook, in conjunction with the Deputy Environmental Health Manager, a search of the EHO's storage areas to retrieve any source documentation that may be relevant to this investigation.

## 4 Findings

### *Contextual background*

4.1 WBC has in place a detailed Staff Code of Conduct, which amongst other requirements states that all staff are expected to comply with the Seven Principles of Public Life (the Nolan Principles). These being – selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

4.2 Internal control systems are designed to ensure the effective operations of processes as well as to provide the checks and balances to ensure that procedures are adhered to. Poorly designed controls as well as an absence of routine management check provides an opportunity for an individual performing to less than expected standards to go undetected and unchallenged.

4.3 The routine operational processes for air quality monitoring are relatively simple and account for approximately 30% of the role of the assigned EHO. However, the subject area itself is very much in the public interest and the results of monitoring can be influential in the decisions made on planning applications.

4.4 The EHO was appointed in February 2013, and a specific part of the role appointed to was air quality monitoring. [REDACTED] that they had previous experience with air quality monitoring.

- 4.5 The EHO post responsible for air quality monitoring falls within the line management of the Deputy Environmental Health Manager post, which up until May 2016, had been held by a long standing manager whom we are informed had extensive knowledge of air quality monitoring processes.
- 4.6 Between May – December 2016, following the departure of the existing Deputy Environmental Health Manager and 3 unsuccessful attempts to recruit a replacement, line management was covered by the Environmental Health Manager until such time as a new permanent appointment to the post could be made. Line management arrangements reverted back to the Deputy Environmental Health Manager post when the new appointee took up position in December 2016.

### ***Management and supervision***

- 4.7 We established that a clear and documented management and reporting structure chart is in place covering the Environmental Health Section.
- 4.8 However, at an operational level there is an absence of a single clearly defined and documented operational procedure that sets out the process for air quality monitoring tasks, including supervision and quality review.
- 4.9 We have been presented with a procedure that has been developed by Regulatory Information and Management Systems (RIAMS) and is used by WBC as the basis for the administration of diffusion tubes. However this only explains in general principles how diffusion tubes should be handled. We have also found on Sharepoint two versions of some informal procedural guidance on how diffusion tubes are administered at WBC, but these do not cover the complete process.
- 4.10 Although there is no formally documented management review procedure for the ASR and supporting data, we are informed by management that these reports are scrutinised at both a management and committee level. However, it is acknowledged that in hindsight the focus of scrutiny at an operational level has not been sufficiently detailed .
- 4.11 Although no evidence of management review and check of source data results can be found we have confirmed that diffusion tube data results as reported in annual reports for the period 2012 – 2015 (based on diffusion tube results for the calendar years 2011 – 2014) are those as received from Lambeth Scientific Services.
- 4.12 As WBC were unable to successfully recruit for a period of months to the vacant Deputy Environmental Health Manager post, interim management arrangements were put in place. Responsibilities were covered by the Environmental Health Manager, increasing their span of control to 13 officers, consequently there was less routine supervision and management of the EHO. Additionally, the loss of experience regarding air quality at a management level resulted in the reduced capacity to scrutinise air quality monitoring tasks.



- 4.13 However, if detailed operational procedures had been in place these would have provided a mechanism for scrutiny, although it is acknowledged that in this instance may not necessarily have uncovered the problem. However, we believe that more robust procedures may have deterred the EHO from taking this course of action and provided the Environmental Health Manager greater transparency of the role and expectations of the EHO.
- 4.14 It is WBC policy that all work related documentation should be stored on Sharepoint. We have reviewed the Environmental Services Sharepoint records and for the 2016 and 2017 annual reports the only record we have been able to find is a cumulative spreadsheet summarising the diffusion tube data results from 2003 – 2016.
- 4.15 Therefore there were no records readily available for management to review if needed.
- 4.16 Our search of the EHO's Windows desktop found the following bona fide air quality records:
- Multiple versions of the ASR reports; and
  - Automatic analyser information.
- 4.17 During our search of the EHO's Windows desktop we also found the following records:
- Fabricated LSS results for diffusion tubes analysis for 2015; and
  - Fabricated ESG Didcot (ESG) results for diffusion tubes analysis for 2016.
- 4.18 For the LSS fabricated results we found a partially constructed template designed to replicate the format of the bona fide LSS reports. The file properties show that this document was created by the EHO on the 3<sup>rd</sup> August 2017 at 10.06 am. Although not completed or used, points of note on this document are:
- This document has been constructed from fresh i.e. no obvious copying in from another template/PDF file;
  - It reflects the correct current address of LSS;
  - It reflects the typographical error that an original LSS report contains; and
  - The font and column layout is different to a bona fide LSS report.
- 4.19 We also found on the EHO's Windows desktop, contained in an electronic folder entitled 'Lambeth data 15', a full set of fabricated results for 2015 using a second template created by the EHO on the 3<sup>rd</sup> August 2017 at 14.19 pm. The initial template created was used to populate fabricated results for January 2015 and has then apparently been copied 11 times to create fabricated data for the remaining months for 2015. This was done over a period of 2 days, with the final December 2015 template being completed on the 4 August 2017 at 19.31 pm. Points of note on this template:

- The document appears to have been constructed by copying in from an electronic version of an original LSS report as all fields within the document appear in 'boxes';
- It resembles more closely the style and font of the bona fide LSS document;
- It replicates the typographical errors in the bona fide LSS document;
- It contains the incorrect address for LSS as it shows their previous address;
- One of the chemical symbols has not been replicated correctly;
- The document for December 2015 is exactly the same as that for January 2015; and
- The template contains a falsified electronic signature for the Director at LSS.

4.20 It is this second template that has been used to populate fabricated results for 2015 that we have verified have been used in the 2016 ASR. It is not known why these results were fabricated for 2015 as a full set of results had been supplied for the year by LSS. For LSS to be able to have provided the 2015 results they would of had to have been supplied each month with the diffusion tubes for analysis. Therefore the monthly process of replacing and sending off for analysis the diffusion tubes had been followed by the EHO.

4.21 From the commencement of 2016, the Council switched to ESG for the supply and analysis of diffusion tubes. As had already been established by management prior to our investigation ESG had confirmed that they had received no diffusion tubes for analysis since their appointment. Additionally, ESG had already confirmed that the documents that had been put forward as their results for 2016 were fictitious.

4.22 During our search of the EHO's Windows desktop we identified an electronic folder entitled 'ESG data'. Contained within this folder are 12 Word documents, each purporting to be one months data results for the period January – December 2016 from ESG. These documents have all been created on the 8<sup>th</sup> September 2017.

4.23 During our search we also found contained under the main desktop folder a spreadsheet entitled 'ESG Didcot tubes' that had also been created by the EHO on the 8<sup>th</sup> September 2017. This spreadsheet contains 12 work sheets one for each month of 2016 that contains fabricated results. The format for this spreadsheet we believe comes from a copy of the London Borough of Redbridge results for 2015 which is also stored on the EHO's Windows desktop.

- 4.24 The Gradko laboratory logo as used on the London Borough of Redbridge results has been substituted for an ESG logo for the fabricated 2016 results for Waverley. It has already been established by ESG that this is an out of date logo. We believe that the EHO has copied in this logo from an earlier electronic invoice (combined invoice for the supply and analysis of diffusion tubes) submitted by ESG prior to the logo change.
- 4.25 It is from this spreadsheet that we believe that the 12 individual Word documents were created and saved under the 'ESG data' folder. We also note that the results as copied in for both January and December 2016 are the same. The January 2016 results on the spreadsheet differ to those copied in to the Word document. We believe the December 2016 results have been copied in twice in error.
- 4.26 We have found no evidence that suggests that the EHO was acting other than on their own in fabricating these results. Although the results themselves had already been fabricated for the ASR's, the timing of the creation of the falsified laboratory reports fits in with the pressure WBC were under to release the source data as part of a Freedom of Information request.
- 4.27 During the course of our investigation it was brought to our attention by management that they had just been made aware that the EHO had a second employment.
- 4.28 We have investigated this issue and have confirmed:
- The EHO has been working a second employment since June 2014; and
  - [REDACTED]
- 4.29 In investigating this issue we have, for the period December 2016 – November 2017 obtained confirmation of the hours being worked for this second employment. During the course of the normal working week, where second employment hours have been worked these have been very early morning shifts (usually 4am- 8am).
- 4.30 These hours are being routinely worked on a Wednesday and Thursday morning, although there are occasions on the remaining 3 days per week where these hours are also being worked. Additionally, shifts on a Saturday and Sunday were also being routinely worked.
- 4.31 As [REDACTED] we are unable to determine whether there has been any overlap in these working hours. However, anecdotally, we are aware that the EHO was regularly not in before 9.30 – 10am. Therefore, it is likely that these additional hours were worked without any conflict. (note: a full set of timesheets for the period December 2013 – June 2016 had been maintained in line with the flexi time policy).

- 4.32 However, consideration needs to be given to the likely impact that this additional employment has had on the EHO's ability to undertake their role for WBC. For example, allowing for travel time, the EHO would have been up and working for at least 8 hours, before beginning work for WBC.
- 4.33 Additionally, we have identified that since being suspended on the 18<sup>th</sup> September [REDACTED], the EHO has been working full time in the second employment.


*Procurement of laboratory services*

- 4.34 Currently, WBC has 52 diffusion tubes in use. 46 across a number of locations within the borough and 3 co-located at each of the 2 automatic analysers (Farnham and Godalming)..
- 4.35 At the instigation of the EHO, the laboratory that WBC used for the issue and analysis of diffusion tubes was changed with effect from February 2016. From this point WBC contracted with ESG, having previously used LSS for a considerable number of years (from at least 2011).
- 4.36 We have confirmed that WBC Financial Regulations and procurement procedures were complied with in changing over to ESG. The contract has an annual value of around £2.5k. Additionally, from the supporting information supplied by the EHO there is evidence that a sound business case was put forward for this decision. ESG were contracted to supply all 52 diffusion tubes required.
- 4.37 The EHO gave notice to LSS in November 2015; therefore the last diffusion tube analysis to be done by LSS would be for December 2015.
- 4.38 From the correspondence available, we have established that the final approval to change laboratories was given early in January 2016. Therefore, for January 2016 there was technically no contract in place for the issue and analysis of distribution tubes.
- 4.39 In January 2016 the EHO emailed LSS to obtain a quote for the provision of tubes (and analysis) for January 2016 as well as the ongoing provision of 3 tubes per month for the period February – December 2016.
- 4.40 LSS have confirmed that they supplied the tubes for January and for the period February – November 2016 they also supplied the 3 tubes per month. We reviewed the payments system and have established that LSS have not invoiced for these tubes.
- 4.41 Although we are not aware of why LSS have not invoiced, had they done so then this may have acted as a trigger for management when authorising any payments to LSS, as they would not have expected any invoices from LSS as they were by this time authorising ESG invoices for the supply and analysis of diffusion tubes We also identified that LSS have not invoiced for the entire 2015 calendar year for the services they provided.

- 4.42 Whilst we can see some email discussion (November 2015) between Air Quality Officers in Surrey, regarding the possible merits in using a separate lab for co-located tubes in order to provide comparisons, these emails indicate that the EHO was not considering this as an option for WBC.
- 4.43 We are assuming that despite correspondence to the contrary, the EHO was intending to use LSS for the co-located tubes. However, guidance available on the use of diffusion tubes recommends that all tubes in use should be analysed by the same laboratory as there can be significant differential between laboratories in terms of analysis results.
- 4.44 Furthermore, there is no apparent discussion or agreement with management on record for this change in process (albeit a moot point as no tubes were sent for analysis during 2016).

*Operational processes*

- 4.45 As far as we have been able to determine, the EHO was the sole contact provided to ESG at the time of arranging the contract. There is no obvious communications with management that they required to be copied in on any correspondence or that their details were to be provided for contact/information purposes.
- 4.46 As we have previously identified, there are no fully documented procedures in place for air quality monitoring. Through reading best practice guidance and anecdotal evidence from those interviewed we have determined that the basic process in place should have been:
- Diffusion tubes received in advance of the month from the laboratory and stored in a sealed bag in a refrigerator until required;
  - Used tubes removed and replaced monthly;
  - Details of dates of change and location recorded on the tube documentation form sent by the laboratory (each tube has a reference number which can then be traced back to location as written up on the sheet supplied);
  - Any missing tubes, notated on the sheet;
  - Tubes and sheet sent back to the laboratory in sealed bag; and
  - Results subsequently returned from the laboratory
- 4.47 The form that the laboratory sends each month with the diffusion tubes, is the single point of reference for being able to check whether the time frames for the collection and recording of diffusion tubes meets requirements. We have been unable to evidence that any copies of these documents have been retained. We are therefore unable to provide an opinion as to whether the processes followed met expected requirements.

- 4.48 We have not contacted LSS to ascertain whether they have copies of these documents. ESG have already confirmed that they have not been sent any tubes for analysis between February 2016 – September 2017 so no records will exist.
- 4.49 In order to get air quality monitoring back up and running, all diffusion tubes were replaced in September 2017. In conducting this exercise, the majority of the used tubes removed were found to have been in place since July 2016, with 2 being September 2016. There is indication that up until July 2016 tubes were being replaced, although to what extent this is unknown, but not being sent for analysis. As previously referred to, no diffusion tubes have been sent for analysis since December 2015.
- 4.50 
- 4.51 Additionally, on those days that the EHO was recorded as being out replacing diffusion tubes, we conclude that they were absent without leave as clearly the recorded purpose for being out was not being conducted.
- 4.52 Diffusion tube analysis results as undertaken by LSS were always posted out as hard copy reports. We have only been able to locate original copies of these documents for 2011 and 2012. These were found when undertaking the search of the EHO's storage areas. As these predate the EHO being in post we assume that these were handed over when taking up appointment. Copies of reports for 2013 – 2015 have subsequently been obtained by management directly from LSS.
- 4.53 There is no evidence through reviewing 1:1 records or available emails that diffusion tube results were reviewed or discussed with management in any level of detail.
- 4.54 We have obtained and reviewed a copy of the corporate Document Retention Policy. The Policy states that reports/returns to central government should be retained for 7 years. The Policy is not specific in detailing whether any supporting documentation used to compile these reports should also be kept.
- 4.55 We have traced all reports submitted to DEFRA going back to 2011 so can confirm that in strict terms the Document Retention Policy has been adhered to.
- 4.56 However, whether detailed specifically within the Document Retention Policy or not, we would have expected to be able to trace the original laboratory reports used in the compilation of the main report to DEFRA. As indicated earlier, the original documentation for diffusion tube results for the period 2013 – 2015 could not be located. Although we did find during this review original LSS reports for 2011 and 2012 diffusion tube results, management were unaware these reports existed.

- 4.57 Although not part of the scope of this review, during the course of our investigation we did identify that the National Physics Laboratory, on behalf of DEFRA, maintain a national bias adjustment spreadsheet. As we were aware that one of the concerns identified with the 2016 ASR was in relation to the application of a local bias factor rather than a national bias factor we looked at this issue further.
- 4.58 Through contacting DEFRA we confirmed that local authorities should be submitting diffusion tube data results for co-located tubes in order for this to be populated into the spreadsheet. We identified that no such data for WBC has been submitted since 2011.
- 4.59 We acknowledge that there is a degree of contention over the validity of using the national bias factors published, due to apparent limited number of studies used to compile this figure, as not all authorities appear to be submitting the required data. However, it is still currently a requirement that authorities submit this information. We have seen no evidence to suggest that management were aware of or had made a decision that co-located tube data results were not to be submitted.
- 4.60 Although not originally part of this review, we have undertaken a desk top review of the data submitted for the automatic analysers and have confirmed that no apparent manipulation of this data has occurred. This exercise was done in conjunction with the Deputy Environmental Health Manager.

## 5 Conclusion.

- 5.1 The EHO has abused the position of trust that they were in by undertaking the following actions:
- Fabricating diffusion tube data results for the 2015 and 2016 calendar years, and creating falsified laboratory reports in an attempt to disguise this, including the falsification of a signature on the LSS documentation created;;
  - Failing to administer the correct process for diffusion tubes throughout the 2016 calendar year and also through the 2017 calendar year (up to their suspension in September 2017);
  - Fraudulent claiming of mileage, from at least August 2016, for diffusion tube changes that were not undertaken;

[REDACTED]

[REDACTED]

5.2 However, this investigation has also identified a number of factors that have afforded the opportunity for the EHO to have abused this position. These are:

- General line management and supervision has not been at a sufficiently operational level of detail;
- Too much reliance was placed on one person, without sufficient safeguards within the process;
- An absence of detailed operational procedures has contributed, in a time of staff turnover, to the inability to effectively manage air quality processes; and
- Time recording has not been undertaken or managed in line with the flexi time policy





# External Audit Plan

*Year ending 31 March 2020*



# Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Waverley Borough Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Waverley Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

## Group Accounts

The Authority is required to prepare group financial statements that consolidate the financial information of Shottermill Recreation Ground Trust and the Bequest of Joseph Ewart.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £1.911m (PY £1.8m) for the group and £1.905m (PY £1.795m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £96k (PY £90k).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk:

- Financial sustainability
- Commercial property portfolio

## Audit logistics

Our interim visit will take place in March and our final visit is currently scheduled take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £48,994 (PY: £48,694) for the Authority, subject to the Authority meeting our requirements set out on page 14.

## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

## 2. Key matters impacting our audit

### Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Waverley Borough Council has set a balanced budget for 2020/21, which includes savings of £1.9m. Your 2020/21 to 2023/24 Medium Term Financial Plan sets out a cumulative shortfall of £5.4m over that period.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Authority until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### Implementation of IFRS 16 - Leases

The new standard for leases, IFRS 16, is being implemented in the public sector for accounting periods beginning on or after 1 April 2020. However, disclosures will be required in the 2019/20 financial statements on the expected impact of the new standard.

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will consider how the Authority is planning for potential impacts from the UK's withdrawal from the EU.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further on pages 14 and 15 and is subject to PSAA agreement.

We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020.

### 3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component                                  | Individually Significant? | Audit Scope          | Risks identified  | Planned audit approach   |
|--|---------------------------|----------------------|---|--|
| <b>Waverley Borough Council</b>            | Yes                       | <b>Comprehensive</b> | <ul style="list-style-type: none"> <li>See pages 6-8</li> </ul>   | Full scope UK statutory audit performed by Grant Thornton UK LLP         |
| <b>Shottermill Recreation Ground Trust</b> | No                        | <b>Targeted</b>      | <ul style="list-style-type: none"> <li>Property, Plant and equipment revaluation measures not correct</li> <li>Recorded cash at bank not valid</li> </ul> | Specific (targeted) procedures to be performed by Grant Thornton UK LLP. |
| <b>The Bequest of Joseph Ewart</b>         | No                        | <b>Targeted</b>      | <ul style="list-style-type: none"> <li>Recorded cash at bank not valid</li> </ul>   | Specific (targeted) procedures to be performed by Grant Thornton UK LLP. |

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#### Key changes within the group:

- None noted

#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk   | Reason for risk identification   | Key aspects of our proposed response to the risk   |
|--|--|--|
| <b>The revenue cycle includes fraudulent transactions (rebutted)</b> | <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Waverley Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> | Therefore we do not consider this to be a significant risk for Waverley Borough Council.   |
| <b>Management over-ride of controls</b>                              | <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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>  | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> |

# Significant risks identified

| Risk   | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|--|--|---|
| <b>Valuation of land and buildings (Rolling revaluation)</b> | <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£512 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Authority's valuer's report and the assumptions that underpin the valuation.</li> <li>• test revaluations made during the year to see if they had been input correctly into the Authority's/group's asset register</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> |



# Significant risks identified

| Risk  | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|---|--|---|
| <p><b>Valuation of the pension fund net liability</b></p> | <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£68 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Surry Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> |

## 5. Other risks identified

| Risk   | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|--|--|---|
| <p><b>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</b></p> | <p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority’s 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.</li> <li>• Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC <a href="#">Local Authority Leasing Briefings</a>.</li> </ul> |

## 6. Other matters

### Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

### Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

# 7. Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

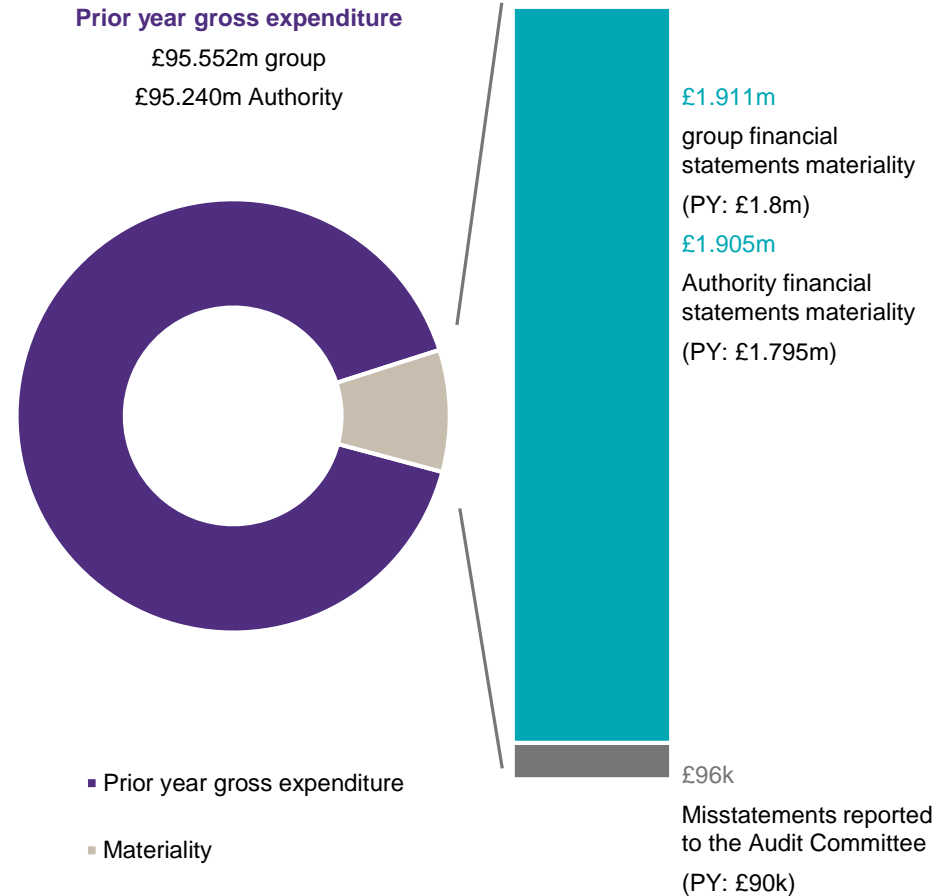
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.911m (PY £1.8m) for the group and £1.905m (PY £1.795m) for the Authority, which equates to 2% of your [forecast/prior year] gross expenditure for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £96k (PY £90k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# 8. Value for Money arrangements

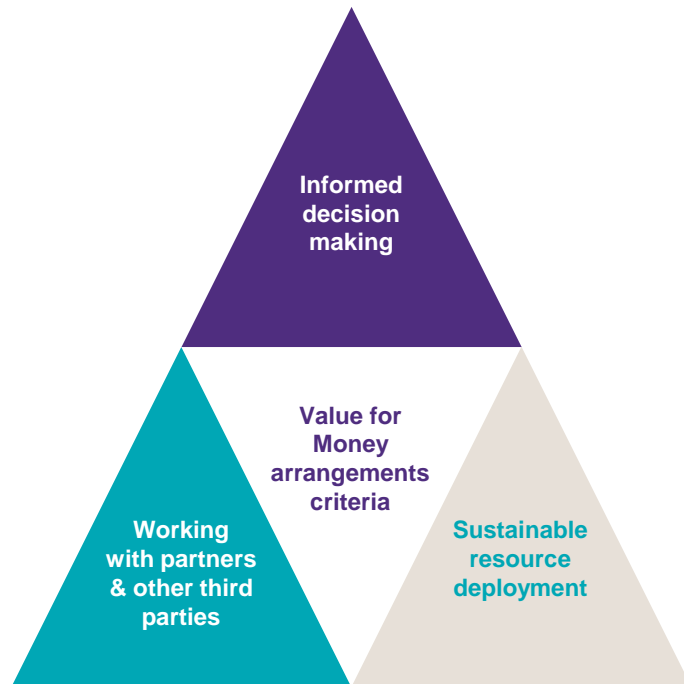
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single 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.”*

This is supported by three sub-criteria, as set out below:



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## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



### Financial sustainability

The Authority has set a balanced budget for 2020/21, which includes a challenging savings target of £1.9m. The Medium Term Financial Plan shows a cumulative projected budget shortfall of £5.4m over the 2020/21 to 2023/24 period.

We will review the Authority's latest Medium Term Financial Plan and the 2019/20 budget, considering the supporting information and assumptions that underpin the figures within them.

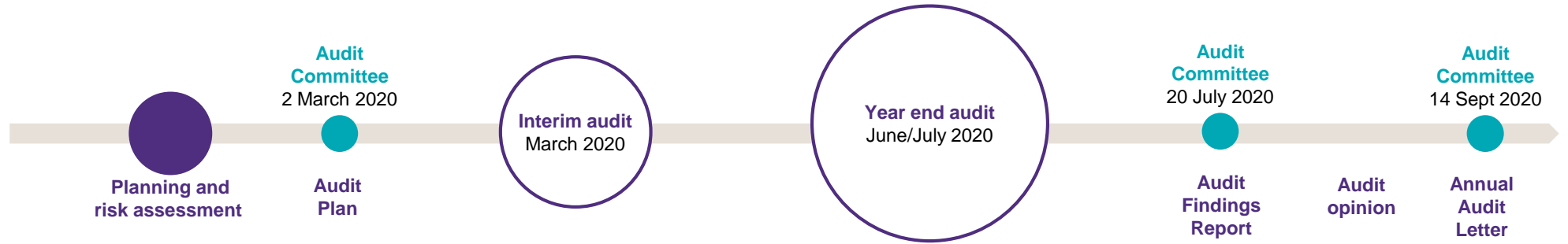


### Commercial Property Portfolio

The Authority are looking to invest further in property beyond its Local Enterprise Partnership (LEP) area into what it defines as its “area of economic opportunity” to provide a source of revenue to support the delivery of its Corporate Strategy. This is a developing area of activity for local government as highlighted by the recent NAO report “Local authority investment in commercial property”. The Authority needs to ensure that such investments do not expose it to unnecessary risks within the commercial property sector.

We will review the arrangements that the Authority have put in place when considering its commercial property investments, including due diligence and scenario planning undertaken. We will also review the legal advice obtained by the Authority, considering the Prudential Code and the Authority's statutory powers.

# 9. Audit logistics & team



## Jon Roberts, Key Audit Partner

Jon is responsible for overall quality control of the audit, issuing of accounts opinions, final authorisation of reports, and liaison with the Audit Committee.

## Mark Bartlett, Audit Manager

Tom is responsible for overall and day-to-day audit management, quality assurance of audit work and output, and liaison with management and the Audit Committee throughout the audit.

## William Howard, Audit Incharge

William is responsible for the on-site delivery of the audit work. She assigns activities across the team and ensures it is completed satisfactorily.

## Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# 10. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf and is subject to PSAA agreement.

|   | Actual Fee 2017/18 | Actual Fee 2018/19 | Proposed fee 2019/20 |
|---|--------------------|--------------------|----------------------|
| <b>Council Audit</b>                              | £53,888            | £41,494            | £41,494              |
| <b>Fee variations (subject to PSAA agreement)</b> | -                  | £7,200             | £7,500               |
| <b>Total audit fees (excluding VAT)</b>           | <b>£53,888</b>     | <b>£48,694</b>     | <b>£48,994</b>       |

### Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

| Audit area  | £             | Rationale for fee variation   |
|---|---------------|---|
| <b>Scale fee</b>  | 41,494        |   |
| <b>Raising the bar</b>  | 2,500         | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.     |
| <b>Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19</b> | 1,750         | We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.   |
| <b>PPE Valuation – work of experts</b>  | 1,750         | We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.   |
| <b>New standards/developments</b>   | 1,500         | New standards have been introduced since PSAA's original scale fee was set in March 2018. We did not raise fees in 2018/19 but we are no longer able to sustain this position for 2019/20.  |
| <b>Additional disbursements for out of area team</b>  | TBD           | The audit has had to be delivered by an out of area team following the elections in May 2019, which results in additional travel and accommodation costs to deliver the audit. No additional fees were raised in 2018/19 in respect of this but we will consider the level of additional disbursements incurred in the delivery of the 2019/20 audit. |
| <b>Revised scale fee (to be approved by PSAA)</b>   | <b>48,994</b> |   |



# 11. Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

| Service   | £      | Threats   | Safeguards   |
|---|--------|---|--|
| <b>Audit related:</b>   |        |   |  |
| Certification of Housing benefits grant   | 21,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £21,500 in comparison to the total fee for the audit of £48,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| <b>Non-audit related:</b>   |        |   |  |
| Certification of Housing capital receipts grant   | 3,000  | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £48,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  |
| Independent examinations of Shottermill Recreation Ground Trust and the Bequest of Joseph Ewart | 6,000  | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £48,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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# Appendices

## A. Audit Quality – national context

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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Graeme Clark  
Strategic Director  
Waverley Borough Council  
The Burys  
Godalming  
Surrey  
GU7 1HR

14 February 2020

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**Grant Thornton UK LLP**  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL

Dear Graeme

## Audit scope and additional work 2019/20

In recent conversations, including at Waverley Borough Council's Audit Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond and most recently you have updated us on the Surrey Treasurers' ongoing discussions with PSAA. You will have also recently received a letter via email from Tony Crawley of PSAA explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: *"significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations."*

I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Council's audit.

### Increased challenge and depth of work – raising the quality bar

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

| Score   | Description                                   |
|---------|---|
| 1 or 2a | Acceptable with Limited Improvements Required |
| 2b      | Improvements Required                         |
| 3       | Significant Improvements Required             |

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

### Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.

### Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority.

- checking the value of the Pension Fund Assets at 31 March per the Council's financial statements against the share of assets in the Pension Fund statements
- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers.
- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process).

### Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.

We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

### Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

| Area  | Cost £                         |               |               |
|---|--------------------------------|---------------|---------------|
|   | 2019/20                        | 2018/19       | 2017/18       |
| Scale fee                                     | 41,494                         | 41,494        | 53,888        |
| Increased challenge and depth of work         | 2,500                          | -             | -             |
| PPE   | 1,750                          | 4,000*        | -             |
| Pensions                                      | 1,750                          | 1,600*        | -             |
| Assessment of McCloud impact                  | -                              | 1,600*        | -             |
| New standards/ developments                   | 1,500                          | -             | -             |
| Additional disbursements for out of area team | TBD based on expenses incurred |               |               |
| <b>Total</b>                                  | <b>48,994</b>                  | <b>48,694</b> | <b>53,888</b> |

\* Subject to PSAA approval

This would give a scale fee for the statutory accounts audit for 2019/20 of £41,494 plus VAT plus a variation of £7,500.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 31 July 2020. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit but at this stage I am pleased that your audit remains planned to be delivered by 31 July 2020.

### Future changes to audit scope

As I have previously mentioned in meetings and at the audit and risk committee, the National Audit Office is currently consulting on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

Until the consultation is finalised and more details emerge of what is expected of auditors, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year.

Yours sincerely



**Jon Roberts**  
**Engagement Lead and Key Audit Partner**

For and on behalf of Grant Thornton UK LLP



**WAVERLEY BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**2 MARCH 2020**

---

**Title:**

**Update on Statement of Accounts - Accounting Policies**

---

**Portfolio Holder:** Councillor Mark Merryweather

**Head of Service:** Peter Vickers

**Key decision:** No

**Access:** Public

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**1. Purpose and summary**

- 1.1 The report provides an update on Waverley Accounting Policies in line with changes to the CIPFA Code of Practice.

**2. Recommendation**

It is recommended that the Audit Committee notes the proposed changes in accounting policy.

**3. Reason for the recommendation**

To enable the Audit Committee to be informed of the statutory guidelines that the Statement of Accounts has to be prepared within.

**4. Background**

- 4.1 Local authorities in the United Kingdom are required to prepare their accounts in compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is developed each year by CIPFA/LASAAC (Local Authority Scotland Accounts Advisory Committee) and has effect for financial years commencing on or after 1 April each year.
- 4.2 The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority.
- 4.3 **2019/2020 Statement of Accounts**

As reported to the Audit Committee on 4 March 2019, the 2019/2020 Code introduced no new substantial reporting requirements due in 2019/2020.

#### 4.4 2020/2021 Statement of Accounts – the year ahead

There is one substantial new financial reporting standard to be implemented for the financial year 2020/2021. International Financial Reporting Standard (IFRS) 16 Lease accounting is applicable from 1 April 2020. This changes how leases are accounted for to represent the value of assets and liabilities relating to leases in the balance sheet.

| Change  | Area affected   | Impact  |
|---|---|---|
| <p><b>IFRS 16 Lease accounting</b></p> <p>This applies to the Council as lessor. It requires 'right of use' assets within leases and contracts to be identified. It will change how leases are recognised, measured and presented in the accounts depending on the length and value of the lease.</p> | <ul style="list-style-type: none"> <li>- 'Right of use' assets will come onto the balance sheet and lease liabilities will be measured and recognised</li> <li>- Peppercorn Leases will be valued at fair value</li> <li>- Leases built into contracts where Waverley has substantive rights to assets will need to be identified and assessed</li> </ul> | <p>The risk is considered 'low' as:</p> <ul style="list-style-type: none"> <li>- Work is underway to assess the impact of IFRS16 ahead of the implementation date</li> <li>- The Council has a well maintained, complete lease register</li> <li>- Transitional arrangements in place allow for current leases within contracts to be carried forward as per the previous lease regulations. Only new contracts will need to be assessed as per IFRS16.</li> <li>- Short term leases are exempt</li> <li>- Low value assets are exempt</li> </ul> |

#### 5. Relationship to the Corporate Strategy and Service Plan

5.1 A financially sound Waverley, with infrastructure and services fit for the future.

#### 6. Implications of decision

##### 6.1 Resource (Finance, procurement, staffing, IT)

The accounts will be completed within current agreed budgets and staffing resource.

##### 6.2 Risk management

There is a risk that if the accounts are non compliant with statutory regulations, the Council's Statement of Accounts will receive recommendations, may not be signed off by the councils independent auditors in line with statutory deadlines. This will have reputational risk and require additional resources to rectify issues as appropriate.

##### 6.3 Legal

There are no direct legal implications.

## **6.4 Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

## **6.5 Climate emergency declaration**

There are no direct implications in this report.

## **7. Consultation and engagement**

7.1 N/A

## **8. Other options considered**

8.1 N/A

## **9. Governance journey**

9.1 The minutes of the meeting will be included on the Council agenda.

## **Annexes:**

N/A

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## **Background Papers**

**There are no** background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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## **CONTACT OFFICER:**

Name: Rosie Plaistowe-Melham  
Position: Accountant Manager  
Telephone: 01483 523255  
Email: rosie.plaistowe@waverley.gov.uk

Agreed and signed off by:

Legal Services: date

Head of Finance: date

Strategic Director: date

Portfolio Holder: date

# Annual Governance Statement 2019/2020

## 1. Introduction

Waverley Borough Council (the Council) is committed to improving governance on a continuing basis through a process of evaluation and review in accordance with the Council's governance framework.

The Council's Chief Executive and the Leader of the Council acknowledge responsibility for ensuring that there is a sound system of governance and internal control when managing and delivering the vision set out in the Corporate Strategy.

Each year the Council is required to produce an Annual Governance Statement (AGS) under the Accounts & Audit (England) Regulations 2015, to be published alongside the Statement of Accounts. The AGS is published in accordance with *Delivering Good Governance in Local Government: Framework (2016)* issued by CIPFA/SOLACE. There were no changes to the legal framework or CIPFA guidance for 2019/2020.

The AGS describes how the corporate governance arrangements have been working and the effectiveness of the systems of internal control during the year. It also documents key changes and developments within the Council's governance framework during the financial year up to the date of approval of the Annual Financial Report.

This AGS will be considered by the Audit Committee at its meeting on 20 July 2020.

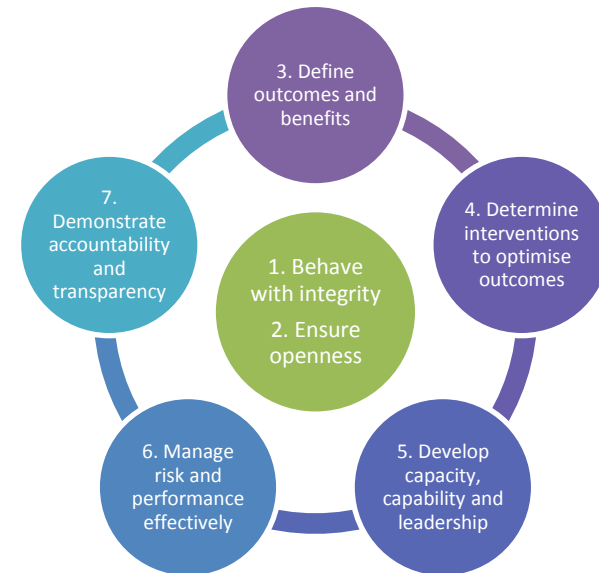
## 2. What is Corporate Governance?

Corporate governance generally refers to the systems and processes by which organisations are directed, controlled, led and held to account. The Council's governance framework aims to ensure that in conducting its business it:

- operates in a lawful, open, inclusive and transparent manner;
- makes sure public money is safeguarded, properly accounted for and used economically, efficiently and effectively;
- has effective arrangements for the management of risk; and
- secures continuous improvements in its governance.

The Council's framework brings together legislative requirements, good practice principles and management processes.

The Council's Corporate Governance is consistent with the principles set out in the Delivering Good Governance Framework. The principles are summarised below. Principles 1. and 2. have an overarching effect on the outcome of all other principles.



# Annual Governance Statement 2019/2020

## 3. The Principles – A Summary

|  |
|--|
| <b>The Council aims to achieve good standards of governance by:</b>  |
| <b>Principle 1 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</b>   |
| <ul style="list-style-type: none"><li>• Having codes of conduct which define standards of behaviour for Councillors and all staff, supported by more detailed policies for ethical values such as whistleblowing and conflicts of interest.</li><li>• Ensuring compliance with relevant laws and regulations, internal codes, policies and procedures.</li><li>• Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function.</li></ul>        |
| <b>Principle 2 - Ensuring openness and comprehensive stakeholder engagement.</b>   |
| <ul style="list-style-type: none"><li>• Demonstrating, documenting and communicating the Council's commitment to openness and accountability in acting in the public interest.</li><li>• Establishing clear channels of communication with the community and other stakeholders, and encouraging open consultation.</li><li>• Ensuring an effective scrutiny function is in place.</li></ul>   |
| <b>Principle 3 - Defining outcomes in terms of sustainable economic, social and environmental benefits.</b>  |
| <ul style="list-style-type: none"><li>• Developing and communicating a vision which specifies intended outcomes for residents and service users and is used as a basis for planning.</li></ul>   |
| <b>Principle 4 - Determining the interventions necessary to optimise the achievement of the intended outcomes.</b>   |
| <ul style="list-style-type: none"><li>• Translating the vision into courses of action for the Council, its partnerships and collaborations.</li><li>• Reviewing the effectiveness of the decision-making framework, including delegation arrangements and robustness of information.</li><li>• Quarterly performance monitoring of services and projects to ensure the Council achieves its agreed vision as planned.</li></ul>  |
| <b>Principle 5 - Developing the Council's capacity, including the capability of its leadership and the individuals within it.</b>  |
| <ul style="list-style-type: none"><li>• Defining clearly the roles and responsibilities of Councillors and Officers, with protocols to ensure shared understanding of roles.</li><li>• Providing inductions, training and development to give all the appropriate skills, knowledge, and support to fulfil their roles and responsibilities.</li><li>• Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function.</li></ul>                |
| <b>Principle 6 - Managing risks and performance through robust internal control and strong public financial management.</b>  |
| <ul style="list-style-type: none"><li>• Risk Management is an integral part of all activity and is considered in decision making in accordance with the Council's Risk Appetite Statement.</li><li>• Service delivery is monitored through financial management review and quarterly reporting to ensure service plan delivery is on target.</li><li>• Internal controls are independently reviewed by Internal Audit when carrying out assessments of key activity areas.</li></ul> |
| <b>Principle 7 - Implementing good practices in transparency, reporting and audit to deliver effective accountability.</b>   |
| <ul style="list-style-type: none"><li>• Meetings and decisions are available on the Council's website along with other information such as quarterly performance reviews.</li><li>• Undertaking the core functions of an Audit Committee to provide good governance.</li><li>• The Council provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.</li></ul>  |

## 4. How do we know our arrangements are working?

### Corporate Governance requires providing assurances on:

- Delivery of Corporate Strategy priorities
- Services being delivered economically, efficiently and effectively
- Management of risk
- Financial planning and performance
- Effectiveness of internal controls
- Community engagement and public accountability
- Shared service governance
- Project management and project delivery
- Procurement processes
- Roles and responsibilities of Councillors and Officers
- Standards of conduct and behaviour
- Training and development of Councillors and Officers
- Compliance with laws and regulations, internal policies and procedures
- Secure and comprehensive record keeping

### The Council gains assurance through having:

- Constitution (including Scheme of Delegation to Officers)
- Democratic arrangements – Council, Executive, Overview & Scrutiny Committees, Audit Committee and Standards Committee
- Head of Paid Service, Monitoring Officer and Chief Finance Officer
- Management Board and Senior Management Team
- Corporate Strategy and service plans
- Medium Term Financial Strategy
- Financial Regulations
- Contract Procurement Rules
- Capital Strategy
- Performance management framework (regular reporting)
- Risk management framework
- Project management methodology
- Customer Service Strategy
- Complaints system
- HR policies and procedures
- Whistleblowing and other countering fraud arrangements
- Member and Officer training and development
- Internal and External audit scrutiny
- Ongoing review of governance
- External reviews and inspectorate reports
- Customer feedback
- Staff surveys
- Community consultations

# Annual Governance Statement 2019/2020

## 5. The Council: How it works

All Councillors meet together as the Full Council six times a year. All meetings are open to public but occasionally some items subject to confidentiality rules are held in exempt session.

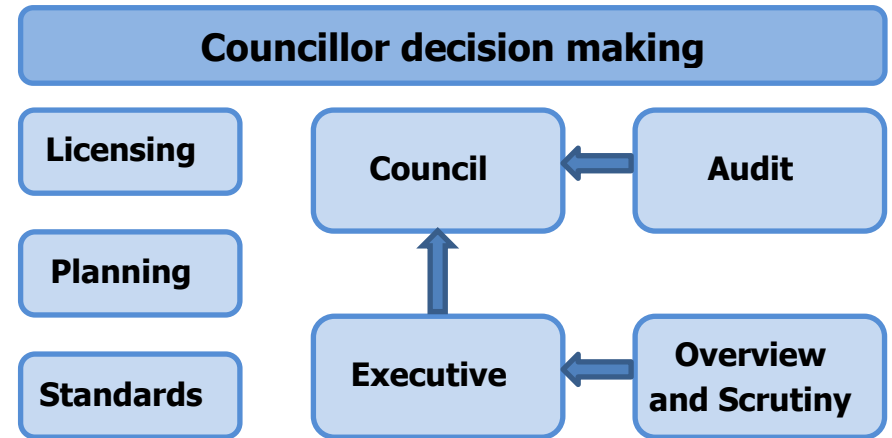
The conduct of the Council's business is defined by formal procedures and rules, which are set out in the Constitution. The Constitution also explains the roles and responsibilities of the Executive, Audit, Overview & Scrutiny and Officer functions.

The 'Scheme of Delegation to Officers' sets out the basis on which Officers may take decisions under delegated authority. The Council also follows codes of Financial Management and Procurement and maintains codes of conduct for Councillors and Officers.

The Chief Executive is the Council's Head of Paid Service and is responsible for how the Council operates. The Chief Executive is assisted by the Management Board. The Council is required to appoint a Monitoring Officer whose role includes ensuring that decision making is lawful and fair.

The Council and its decisions are open and accessible. All reports requiring a decision are considered by appropriately qualified legal and finance staff before being considered by relevant decision-making forums.

In meeting the requirements of the Local Government Transparency Code 2015 the Council has also published on its website a wide range of open data and information.



- Licensing – considers issues relating to taxis, entertainment, alcohol, food premises and miscellaneous licensing functions.
- Planning – makes decisions on development control issues, including applications for planning permission.
- Standards – independent committee responsible for member conduct and the constitution.
- Audit – independent committee responsible for issues of audit, risk and governance.
- Overview and Scrutiny – intended to help develop and review policy and holding the Executive to account publicly by calling-in and scrutinising decisions made by the Executive.
- Executive - appointed by the Leader, responsible for proposing new policy, putting the budget to the Council and implementing and delivering the agreed policy framework and budget.
- Council - 57 elected Councillors, covering 29 wards. Appoints the Overview & Scrutiny and other committees. Approves the policy and strategic framework and budget.

# Annual Governance Statement 2019/2020

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## *5.1 Changes in governance during the year*

At the Annual Full Council meeting on 21 May 2019, The Council elected a new Leader of the Council, Mayor and Deputy Mayor and agreed the nominations to the principal committees and area planning committees for the 2019/2020 year. The new Leader of the Council made eight appointments to the Executive, including a Deputy Leader. Following the death of one councillor and the resignation of one councillor from the conservative group, Council reviewed the allocation of seats again at the meeting of Full Council on 10 December 2019 and will be reviewed again in light of By-Election result.

The Council has initiated a project to review its governance arrangements, with the aim of ensuring these are transparent, accountable inclusive and efficient.

## **Corporate Strategy**

The Council adopted a new Corporate Strategy for 2019-2023 in September 2019. The Corporate Strategy provides the Council with direction, priorities and key objectives. Objectives are being delivered through annual service reviews agreed with Members and monitored and reported regularly.

## *5.2 Resolution of significant governance issues in 2018/2019*

**Statutory Challenges** – In October 2018, two linked High Court Challenges against the Council’s Local Plan and a further challenge against the Secretary of State’s decision to grant planning permission for a settlement of 1,800 homes at Dunsfold Aerodrome were successfully defended by the Council. The High Court dismissed all claims in November 2018. That decision, insofar as it relates to the Local Plan, was appealed by the Claimants in the Court of Appeal. An appeal hearing took place in the in June 2019 and the Court of Appeal dismissed the appeals in a decision handed down in October 2019. There was no appeal against the High Court’s decision regarding the Dunsfold Aerodrome planning permission.



# Annual Governance Statement 2019/2020

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## *5.3 Significant operational events in 2019/2020*

**Capital Strategy** – the Council strengthened its Capital Strategy in February 2020 with the adoption of the Property Investment Strategy as set out below. The Capital Strategy provides a framework for planning and decision making to ensure capital expenditure and investment decisions are affordable, prudent and sustainable. It brings together detailed policies, procedures and plans relating to cash investments and property assets.

**Property Investment Strategy** – the Council adopted a Property Investment Strategy in February 2020 for the General Fund. This sets out the basis the Council intends to:

Make property investments (through purchase or development)

Provide on-going management of the investment property portfolio

Report portfolio performance to Officers and Councillors

**Risk Management** – through in-house training and facilitated workshops members of the Executive, Audit Committee and senior management received practical guidance to develop the Council’s Risk Management Strategy. This built on work done in 2018/2019 to adopt a Risk Appetite Statement.

## *5.4 Other governance issues arising during 2019/2020 include:*

**Statutory Challenges** – None arising during the year.

**Other issues** – At each Audit Committee the officers and the Audit Committee members have reviewed the governance arrangements and no further significant governance issues were identified.

# Annual Governance Statement 2019/2020

## 6. Audit Committee seeking assurance

The Audit Committee has responsibility for requesting and receiving reports that deal with issues that are key to good governance. It met four times in 2019/2020, considering a wide range of governance issues.

| Audit Committee Work Programme for 2019/2020                                |   |   |   |
|---|---|---|---|
| July 2019   | September 2019  | November 2019   | March 2020  |
| Review the progress of the Internal Audit Plans for 2018/19 and 2019/20     | Review the progress of the Internal Audit Plan for 2019/20                    | Review the progress of the Internal Audit Plan for 2019/20  | Review the progress of the Internal Audit Plan for 2019/20                  |
| 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 the External Audit Findings Report (including Value for Money)       | Received an update on the work being done in investigating fraud              | Received an update on the work being done in investigating fraud  | Received an update on the work being done in investigating fraud            |
| Consider and approve the Statement of Accounts 2018/19                      | Received and commented on Annual Audit Letter for 2018/19 from Grant Thornton | Recommend the adoption of the update to the Financial Regulations and any changes to the scheme of delegation | Draft Annual Governance Statement for 2019/20                               |
| Consider and approve the Annual Governance Statement for 2018/19            | Received a verbal update on risk management                                   | Recommend amendments to the Contract Procurement Rules  | Approve proposed Internal Audit Plan for 2020/21                            |
| Consider and approve the Letter of Representation for 2018/19               |   | Received a Brexit briefing note   | Receive the External Audit Grants and Returns Certification Report          |
|   |   | Recommends to Council that the Tax Strategy be approved.  | Review External Audit proposed External Audit Plan for 2020/21              |
|   |   | Received a verbal update on debt recovery   |   |
| Considered any significant governance issues                                | Considered any significant governance issues                                  | Considered any significant governance issues  | Considered any significant governance issues                                |
| Review the recurrent work programme   | Review the recurrent work programme   | Review the recurrent work programme   | Review the recurrent work programme   |
|   |   |   |   |

The Audit Committee considers each year how effective it has been in overseeing the Council's governance arrangements and submits an annual report to Council that summarises its work and allows the Council to take comfort that key governance processes are being reviewed.

## **7. Managing key risks**

All Councillors and Officers are responsible for ensuring that risk implications are considered in the decisions they take in accordance with the Council's 'risk appetite' as detailed in the Risk Appetite Statement.

The successful delivery of the Corporate Strategy Objectives depends on the Council's ability to manage and tolerate risk where it cannot be eliminated altogether. Significant risks that may be potentially damaging to the achievement of the objectives are recorded in the Corporate Risk Register.

The Senior Management Team regularly reviews and updates the Corporate Risk Register and is required to state positively the level of assurance they can place upon the controls that mitigate risks. If the residual risk exceeds the 'risk appetite', managers are required to consider whether cost effective actions that will reduce the likelihood and/or impact of the risk occurring can be introduced. The Risk Register is reviewed by the Audit Committee and used to inform the Internal Audit Plan for annual audit planning.

The Audit Committee will continue to review the governance arrangements to ensure they are fit for purpose in managing key risks.

## **8. Managing the risk of fraud**

The Anti-fraud, Bribery and Corruption Policy, Prosecution Policy, Whistleblowing Policy and Anti-Money Laundering Policy were all reviewed, updated and agreed by the Audit Committee. Any issues

raised relating to these policies are dealt with by the appropriate responsible Officers in accordance with the requirements of each policy. The policies are available on the Council's website and intranet.

The Council has in place a resource to investigate and deter fraud, in particular in relation to housing tenancy fraud where used for personal gain by the tenant. This work results in freeing-up properties to be made available for others on the waiting list for social housing.

## **9. Anti-Fraud and Corruption Statement**

The Council is committed to the highest possible standards of honesty, openness and accountability.

It will ensure that internal procedures are in place to identify, deter and prevent the risk of fraud and corruption and maintain clear and well publicised arrangements for receiving and investigating issues raised through its governance policies.

The Council will pursue appropriate action, including the recovery of any losses it has suffered, where fraud and corruption has been identified.

## **10. Responsible Chief Financial Officer**

A Strategic Director is the Chief Financial Officer (CFO) (the 'Section 151 Officer'). The CFO has responsibility for delivering and overseeing the Council's financial management arrangements and has responsibility for the Finance Team and Internal Audit. The role conforms to the good practice requirements in the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government*.

# Annual Governance Statement 2019/2020

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The CFO has been involved in reviewing the governance framework and preparing this Statement and is satisfied with the arrangements that are in place for managing finances, considers the system of internal control works effectively and that no matters of significance have been omitted from this Statement.

## **11. Internal and External Audit assurance**

The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit Service and External Auditors (Grant Thornton LLP).

## **12. Internal Audit**

The Council considers its Internal Audit team to be a key component of its governance framework that:

- Provides independent, risk-based and objective assurance, advice and insight to the Council on its operations
- enhances and protects value, by assisting management improve the delivery of the Council's objectives and operations through evaluating and challenging the effectiveness of risk management, control and governance processes.

Each year the Audit Committee reviews the Internal Audit Charter, which sets out the internal audit role and its responsibilities and clarifies its independence, and aligns it to the *Public Sector Internal Audit Standards (PSIAS)*.

The Internal Audit Manager reports to the Strategic Director (Section 151 Officer) but to maintain independence and objectivity of the Internal Audit service also has direct access to the Chief Executive, the Audit Committee and its Chairman.

The Internal Audit Manager has stated in their Internal Audit Annual report that there were no constraints placed upon them in respect of determining overall audit coverage, audit methodology, the delivery of the audit plan or proposing actions for improvement or forming opinions on individual audit reports issued.

One of the key assurance statements the Council receives is the annual Internal Audit report. This report includes the opinion of the Internal Audit Manager on the Council's control environment based on the work that has been completed throughout the 2019/2020 year.

The opinion for the 12-month period ending March 2020 is shown below:

- The organisation has an adequate and effective framework for risk management, governance and internal control.
- The internal audit work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

The Internal Audit Manager is not aware of any significant changes having occurred across the Council's internal control environment between April 2019 and the approval of this Statement.

## **13. External Audit**

The Council's external auditors are appointed by Public Sector Audit Appointments Limited (PSAA). Grant Thornton LLP were appointed by PSAA to undertake the Council's external audit.

The external auditor has issued an unqualified opinion on the Council's arrangements for securing economy, efficiency and effectiveness (value for money) and in the use of its resources.

# Annual Governance Statement 2019/2020

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Signed

Leader of the Council

Dated

Signed

Chief Executive

Dated

## ***14. Level of Assurance***

This AGS demonstrates that the systems and processes continue to provide a comprehensive level of assurance to the Council in its governance arrangements during 2019/2020.

## ***15. Certification***

The Council's framework of governance comprises all the detailed strategies, policies and procedures that are in place to achieve good governance. These are used in delivering the objectives set out in the Corporate Strategy and to which Officers work to in carrying out their responsibilities on behalf of the Council. This AGS has been prepared by those with knowledge of the key governance issues who are satisfied that the Council's framework complies with the principles set out in the Delivering Good Governance Framework.

We therefore commend the Governance Statement to the Audit Committee for approval.

Councillor John Ward

Tom Horwood

# Agenda Item 10.

## WAVERLEY BOROUGH COUNCIL

### AUDIT COMMITTEE

2<sup>ND</sup> MARCH 2020

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**Title:**

**PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2019-20**

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**Lead Councillor: Councillor Peter Marriott, Chairman of the Audit Committee**

**Strategic Director: Graeme Clark**

**Key decision: Yes**

**Access: Public**

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#### **1. Purpose and summary**

1.1 Purpose and summary of the report.

1.2 The Committee's Terms of Reference include provision for the Committee to approve, monitor and comment on the progress made in the achievement of the Internal Audit Plan. An update on the current position of the Internal Audit Plan for 2019-20 is presented for the Audit Committee to note progress being made.

#### **2. Recommendation**

It is recommended that the Audit Committee notes the contents of the Internal Audit Plan progress report as attached in Annexe 1.

#### **3. Reason for the recommendation**

To enable the Audit Committee to be informed of the work that has been completed to date to provide them with assurance that the control environment is working as intended.

#### **4. Background**

4.1 As a result of the vacant in-house auditor position not being filled changes were made to the original Internal Audit Plan which were approved at the March 2019 Audit Committee. At the November 2019 Audit Committee the committee received an action plan that included the reassessment of the audit coverage for 2019/20, including revising and rescheduling of the plan according to priorities. This resulted in the decision to procure an additional 37 days from our current provider of Internal Audit services, Southern Internal Audit Partnership (SIAP) as agreed with the Chair

and Vice-Chair of the Audit Committee. The Committee is to note that an additional review relating to Ethics and Culture has been deferred to 2020-21 as the Governance review being completed by Members has not been finalised and it was deemed more effective to await the outcomes before any value can be obtained from an Internal Audit review of the governance arrangements around ethics.

4.2 This means that a total of 141 days is to be provided by the SIAP. Each review initially allocated to SIAP in April 2019 is marked by a single asterisk and those indicating new additional revisions after April allocation are marked by two.

4.3 The remaining reviews currently shown in Annexe 1 in Para 6 (Adjustments to the Internal Audit Plan) will be included in next year's Internal Audit Plan for 2020/21.

## **5. Relationship to the Corporate Strategy and Service Plan**

5.1 A financially sound Waverley, with infrastructure and services fit for the future

## **6. Implications of decision**

### **6.1 Resource (Finance, procurement, staffing, IT)**

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.

### **6.2 Risk management**

The reviews included in this Plan have been risk assessed are being necessary to Provide management with assurance that the controls in place are sufficient to safeguard the authority's assets.

### **6.3 Legal**

The Council must have an operational Audit Plan that covers 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 2015.

### **6.4 Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

### **6.5 Climate emergency declaration**

There are no direct implications in this report

## **7. Consultation and engagement**

7.1 Heads of Service, Management Board and the Chairman and Vice-Chairman of the Audit Committee were consulted on the content of the proposed draft Audit Plan.

## **8. Other options considered**

8.1 N/A

## **9. Governance journey**

9.1 The minutes of the meeting will be included on the next Council agenda.

### **Annexes:**

Annexe 1 – Progress on the Internal Audit Plan for 2019-20

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### **Background Papers**

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

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### **CONTACT OFFICER:**

Name: Gail Beaton  
Position: Internal Audit Manager  
Telephone: 01483 523260  
Email: [gail.beaton@waverley.gov.uk](mailto:gail.beaton@waverley.gov.uk)

Agreed and signed off by:  
Legal Services: 6 February 2020  
Head of Finance: 05 February 2020  
Strategic Director: 06 February 2020  
Portfolio Holder: N/A





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## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

*‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’*

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisations’ 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’.*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.

## 2. Purpose of report

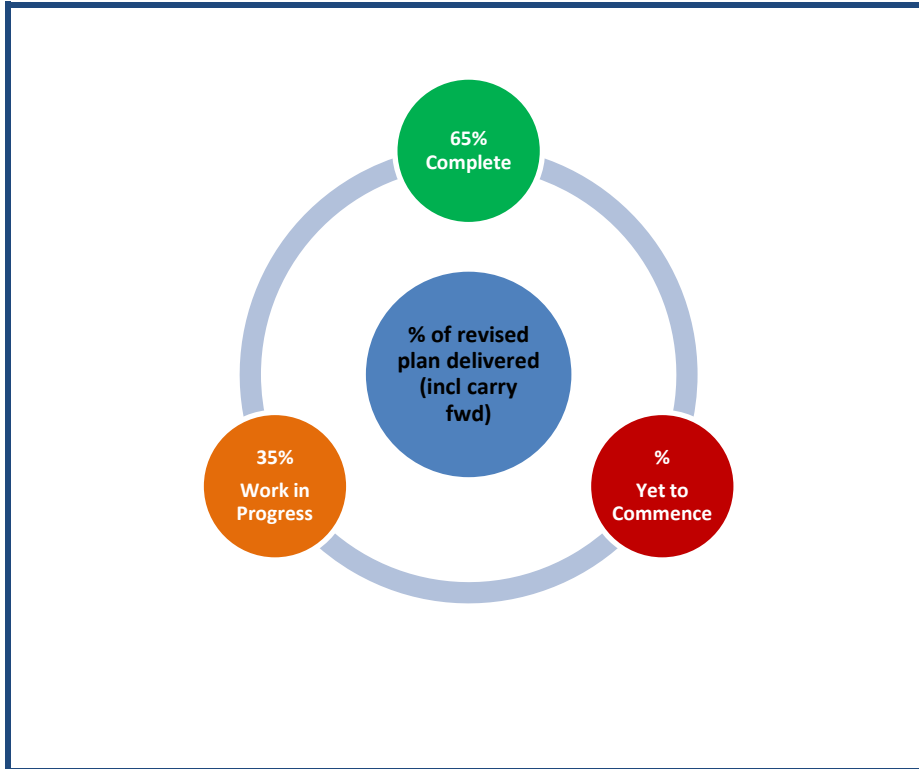
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Audit Executive is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Internal Audit Manager’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

- Substantial** A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
- Adequate** Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
- Limited** Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
- No** Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

### 3. Performance dashboard



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| Compliance with Public Sector Internal Audit Standards |  |
|--|--|
|  | An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken |



by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:

*'It is our view that the Southern Internal Audit Partnership 'generally conforms' to all of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LGAN).*

In accordance with PSIAS, a further self assessment was completed in April 2018 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

#### 4. Analysis of 'Completed' audit plan reviews

| Audit Review                                | Report Date | Audit Sponsor | Assurance Opinion | Management Actions   |              |             |          |         |   |   |
|---|-------------|---------------|-------------------|----------------------|--------------|-------------|----------|---------|---|---|
|   |             |               |                   | Total Rec's Reported | Not Accepted | Not Yet Due | Complete | Overdue |   |   |
|   |             |               |                   | Priority             |              |             |          |         |   |   |
|   |             |               |                   |                      |              |             |          | L       | M | H |
| Planning Service VFM Review                 | 18/07/2019  | HOP&ED        | Advisory          | N/A                  |              |             |          |         |   |   |
| Payroll Accuracy Report                     | 02/08/2019  | HOP&G         | Advisory          | 5                    |              | 1           | 4        |         |   |   |
| Management of water safety (Legionella)     | 08/08/2019  | HOHO          | Adequate          | 2                    | 0            | 1           | 1        |         |   |   |
| Gas Safety Checks                           | 08/08/2019  | HOHO          | Substantial       | 0                    | 0            | 0           | 0        |         |   |   |
| Management of Asbestos                      | 08/08/2019  | HOHO          | Limited           | 9                    | 0            | 1           | 8        |         |   |   |
| Reconciliations                             | 06/09/2019  | HOFPP         | Adequate          | 10                   | 0            | 2           | 8        |         |   |   |
| Responsive repairs and voids – new contract | 29/10/2019  | HOHO          | Adequate          | 1                    | 0            | 1           | 0        |         |   |   |
| Borough Hall                                | 14/01/2020  | HOCS &SP      | Adequate          | 12(1)                | 0            | 7           | 5        |         |   |   |
| Planning Enforcement                        | 22/01/2020  | HOP&ED        | Adequate          | 4(0)                 | 0(0)         | 3(0)        | 1(0)     |         |   |   |

| Audit Review    | Report Date | Audit Sponsor | Assurance Opinion | Management Actions   |              |             |          |         |   |   |
|-----------------|-------------|---------------|-------------------|----------------------|--------------|-------------|----------|---------|---|---|
|                 |             |               |                   | Total Rec's Reported | Not Accepted | Not Yet Due | Complete | Overdue |   |   |
|                 |             |               |                   |                      |              |             |          | L       | M | H |
|                 |             |               |                   |                      |              |             |          |         |   |   |
| Vending Machine | 24/01/2020  | HOBT          | Advisory          | 13(6)                | 0(0)         |             | 1(1)     |         | 7 | 5 |

| Audit Sponsor      |  |                      |  |
|--------------------|--|----------------------|--|
| <b>HOF&amp;P</b>   | <i>Head of Finance and Property - Peter Vickers</i>      | <b>HOBT</b>          | <i>Head of Business Transformation - David Allum</i>             |
| <b>HOP&amp;G</b>   | <i>Head of Policy and Governance - Robin Taylor</i>      | <b>HOHO</b>          | <i>Head of Housing Operations - Hugh Wagstaff</i>                |
| <b>HOCS&amp;SP</b> | <i>Head of Commercial Services - Kelvin Mills</i>        | <b>HOHD&amp;C</b>    | <i>Head of Housing Delivery &amp; Communities - Andrew Smith</i> |
| <b>HOES</b>        | <i>Head of Environmental Services - Richard Homewood</i> | <b>HOP&amp;ED</b>    | <i>Head of Planning and Economic Development – Zac Ellwood</i>   |
| <b>CEO</b>         | <i>Chief Executive - Tom Horwood</i>                     | <b>SD Director/s</b> | <i>Strategic Directors - Graeme Clark/Annie Righton</i>          |



## 5. Planning & Resourcing

The internal audit plan for 2019-20 was approved by the Audit Committee in March 2019.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Section 8 details the reviews that have been added to the original plan approved in March 2019. Progress against the plan is detailed below in section 6 for those reviews not already included in Para 4 above.

## 6. Rolling Work Programme

| IT programme / Audit Review                             | Audit Sponsor | Risk | Days  | Qtr. | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Comment |
|---|---------------|------|-------|------|---------|----------------------|-----------|---------------------|---------------------|-------------------|---------|
| <b>*Recovery of debts (including Write Offs) (SIAP)</b> | HOF&P         | H    | 7.00  | Q3   | ✓       | ✓                    | ✓         | ✓                   |                     |                   |         |
| <b>**Accounts Payable (SIAP)</b>                        | HOF&P         | H    | 10.00 | Q4   | ✓       | ✓                    | ✓         | ✓                   |                     | Adequate          |         |
| <b>Reconciliations( IA)</b>                             | HOF&P         | H    | 7.00  | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Adequate          |         |
| <b>**Construction Industry Scheme (CIS) (SIAP)</b>      | HOF&P         | H    | 7.00  | Q4   | ✓       | ✓                    |           |                     |                     |                   |         |
| <b>*IT Fraud Risk Assessment (SIAP)</b>                 | HOBT          | SR   | 5.00  | Q3   | ✓       | ✓                    | ✓         | ✓                   |                     | Advisory          |         |
| <b>*Firewalls/Cloud Security (SIAP)</b>                 | HOBT          | H    | 5.00  | Q4   | ✓       | ✓                    | ✓         | ✓                   |                     | Limited           |         |
| <b>*Agresso/Orchard Interface (SIAP)</b>                | HOF&P         | H    | 7.00  | Q3   | ✓       | ✓                    | ✓         |                     |                     |                   |         |

| IT programme / Audit Review   | Audit Sponsor | Risk | Days  | Qtr. | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Comment                           |
|---|---------------|------|-------|------|---------|----------------------|-----------|---------------------|---------------------|-------------------|-----------------------------------|
| <b>*Gas Maintenance in Waverley Properties (SIAP)</b>                 | HOHO          | H    | 7.00  | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Substantial       |                                   |
| <b>*Legionella checks re Waverley Property Ownership (SIAP)</b>       | HOHO          | H    | 7.00  | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Adequate          |                                   |
| <b>*Asbestos Exposure in Waverley Properties (HRA and GF) (SIAP)</b>  | HOHO          | H    | 7.00  | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Limited           |                                   |
| <b>Air Quality (IA)</b>   | HOES/SD       | H    | 10.00 | Q4   | ✓       | ✓                    |           |                     |                     |                   | Follow up review re action points |
| <b>**Housing Kitchen &amp; Bathrooms Replacement programme (SIAP)</b> | HOHO          | H    | 10.00 | Q4   | ✓       | ✓                    | ✓         |                     |                     |                   |                                   |
| <b>*Responsive repairs and voids – new contract (SIAP)</b>            | HOHO          | H    | 15.00 | Q4   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Adequate          |                                   |
| <b>Private Sector Housing (HMO) (IA)</b>                              | HOHD&C        | H    | 7.00  | Q3   | ✓       | ✓                    | ✓         |                     |                     |                   |                                   |
| <b>*Borough Hall (SIAP)</b>   | HOCS          | H    | 7.00  | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Adequate          |                                   |

| IT programme / Audit Review  | Audit Sponsor | Risk | Days  | Qtr. | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Comment |
|--|---------------|------|-------|------|---------|----------------------|-----------|---------------------|---------------------|-------------------|---------|
| <b>Vending Machines (IA)</b>   | HOBT          | SR   | 7.00  | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Advisory          |         |
| <b>Payroll Accuracy (IA)</b>   | SD            | SR   | 15.00 | Q2   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Advisory          |         |
| <b>Planning - Benchmarking exercise (IA)</b>   | SD            | SR   | 20.00 | Q1   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Advisory          |         |
| <b>*Planning Enforcement (SIAP)</b>  | HOP&ED        | H    | 10.00 | Q3   | ✓       | ✓                    | ✓         | ✓                   | ✓                   | Adequate          |         |
| <b>*Community Infrastructure Levy (SIAP)</b>   | HOP&ED        | H    | 10.00 | Q4   | ✓       | ✓                    | ✓         |                     |                     |                   |         |
| <b>**Management of Major Construction projects - lessons learned from Brightwells and Memorial Hall (SIAP)</b> | SD            | H    | 07.00 | Q4   | ✓       | ✓                    |           |                     |                     |                   |         |
| <b>**Planning Fee Income (SIAP)</b>  | SD            | H    | 17.00 | Q4   | ✓       | ✓                    |           |                     |                     |                   |         |
| <b>Total Plan Days</b>   |               |      | 204   |      |         |                      |           |                     |                     |                   |         |
| <b>Total Days Delivered</b><br>(Draft Report Stage onwards)  |               |      | 129   |      |         |                      |           |                     |                     |                   |         |

| IT programme / Audit Review             | Audit Sponsor | Risk | Days      | Qtr. | Scoping | Audit Outline Issued | Fieldwork | Draft Report Issued | Final Report Issued | Assurance Opinion | Comment |
|---|---------------|------|-----------|------|---------|----------------------|-----------|---------------------|---------------------|-------------------|---------|
| <b>Still to be delivered</b>            |               |      | <b>75</b> |      |         |                      |           |                     |                     |                   |         |
| <b>Fraud and/or Irregularities (IA)</b> | <b>SD</b>     |      | <b>35</b> |      |         |                      |           |                     |                     |                   |         |
| <b>Management</b>                       |               |      |           |      |         |                      |           |                     |                     |                   |         |

We use the following levels of assurance and prioritisations in our audit reports:

| Assurance Opinion  | Framework of governance, risk management and management control   |
|--------------------|---|
| <b>Substantial</b> | A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.  |
| <b>Adequate</b>    | Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified. |
| <b>Limited</b>     | Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.                                       |
| <b>No</b>          | Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.  |

| Management Actions     | Current risk  |
|------------------------|---|
| <b>High Priority</b>   | A significant risk of; failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by the organisation’s external auditors. Such risk could lead to adverse impact on the organisation or expose the organisation to criticism. |
| <b>Medium Priority</b> | A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.   |
| <b>Low Priority</b>    | Areas that individually have no major impact, but where management would benefit from improved risk management and / or have the opportunity to achieve greater efficiency and / or effectiveness.  |

## 7. Adjustment to the Internal Audit Plan

| <b>Audit reviews deferred from the 2019-20 Audit plan to be included in 2020-21 Audit Plan</b> |         |               |
|--|---------|---------------|
| <b>Main Accounting</b>   | 10 Days |               |
| <b>Payroll</b>   | 7 Days  |               |
| <b>Leasehold Service Charges</b>   | 10 Days |               |
| <b>Disability Facilities Grants</b>  | 10 Days |               |
| <b>Film and Events</b>   | 10 Days |               |
| <b>Property Investment</b>   | 10 Days |               |
| <b>Ethics and Culture</b>  | 7 Days  |               |
| <b>Planning Housing Delivery Monitoring Process</b>  | 15 Days |               |
|  |         | Total 79 Days |

| <b>Audit reviews Added to the 2019-20 Audit plan</b> |         |               |
|--|---------|---------------|
| <b>Planning Service VFM</b>                          | 20 Days |               |
| <b>Assurance on Payroll Accuracy</b>                 | 15 Days |               |
| <b>Accounts Payable</b>                              | 10 Days |               |
| <b>Planning system allocation to officers change</b> | 15 Days |               |
| <b>Special re Non Business related purchases</b>     | 20 Days |               |
| <b>Planning Fee Income</b>                           | 17 Days | Total 92 Days |

**WAVERLEY BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**02 MARCH 2019**

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**Title:**

**PROPOSED INTERNAL AUDIT PLAN FOR 2020-21**

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**Lead Councillor: Councillor Peter Marriott, Chairman of Audit Committee**

**Strategic Director: Graeme Clark**

**Key decision: Yes, affects the whole council.**

**Access: Public**

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**1. Purpose and summary**

- 1.1 The Committee's terms of reference include provision for the Committee to approve the proposed Internal Audit Plan for 2020-21. This report presents the Draft Internal Audit Plan for 2020-21 and the Committee is invited to comment before the plan is adopted. The plan has been drawn up by the Internal Audit Manager through consultation with Senior Management Team supported by a risk assessment of the audit universe of the council's activities.

**2. Recommendation**

It is recommended that the Audit Committee comments and approves the proposed Internal Audit Plan for 2020-21 as attached in Annexe 1.

**3. Reason for the recommendation**

In accordance and compliance with the Internal Audit Committees term of reference to approve the Annual Internal Audit Plan.

**4. Background**

- 4.1 The Internal Audit Plan is required to be prepared, agreed on an annual basis by the Audit Committee as the committee responsible for governance.

## **5. Relationship to the Corporate Strategy**

5.1 A financially sound Waverley, with infrastructure and services fit for the future.

## **6. Implications of decision**

### **6.1 Resource (Finance, procurement, staffing, IT)**

The provision of the Audit Plan will be delivered utilising the current budget allocation.

### **6.2 Risk management**

In the compilation of the Internal Audit Plan a risk assessment was completed by assessing the contents of the Risk Register and of our audit universe (auditable areas of the council). The contents of this report provides areas for review for 2020-21 to provide management with assurance that controls within the systems are operating as intended.

### **6.3 Legal**

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

### **6.4 Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

### **6.5 Climate emergency declaration**

There are no direct implications in the report.

## **7. Consultation and engagement**

7.1 Consultation with Management Board, Senior Management Team, Chair and Vice Chair of Audit Committee.

## **8. Other options considered**

8.1 None

## **9. Governance journey**

9.1 Minutes of the meeting will be provided to Council.



**Annexes:**

Annexe 1 – Proposed Internal Audit Plan for 2020-21

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**Background Papers**

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

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**CONTACT OFFICER:**

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Position: Internal Audit Manager  
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Email: [gail.beaton@waverley.gov.uk](mailto:gail.beaton@waverley.gov.uk)

Agreed and signed off by:  
Legal Services: 7 February 2020  
Head of Finance: 11 February 2020  
Strategic Director: 11 February 2020



## **Proposed Internal Audit Plan**

**2020-2021**

DRAFT

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Your Internal Audit Team

Conformance with Internal Audit Standards

Conflicts of Interest

Council Corporate Strategy

Council Risk

Developing the Internal Audit Plan 2020-21

Internal Audit Plan 2020-21

## Introduction

The role of internal audit is that of an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations 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’ (CIPFA and IIA).

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council and these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievements of the organisations objectives.

The aim of internal audit’s work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

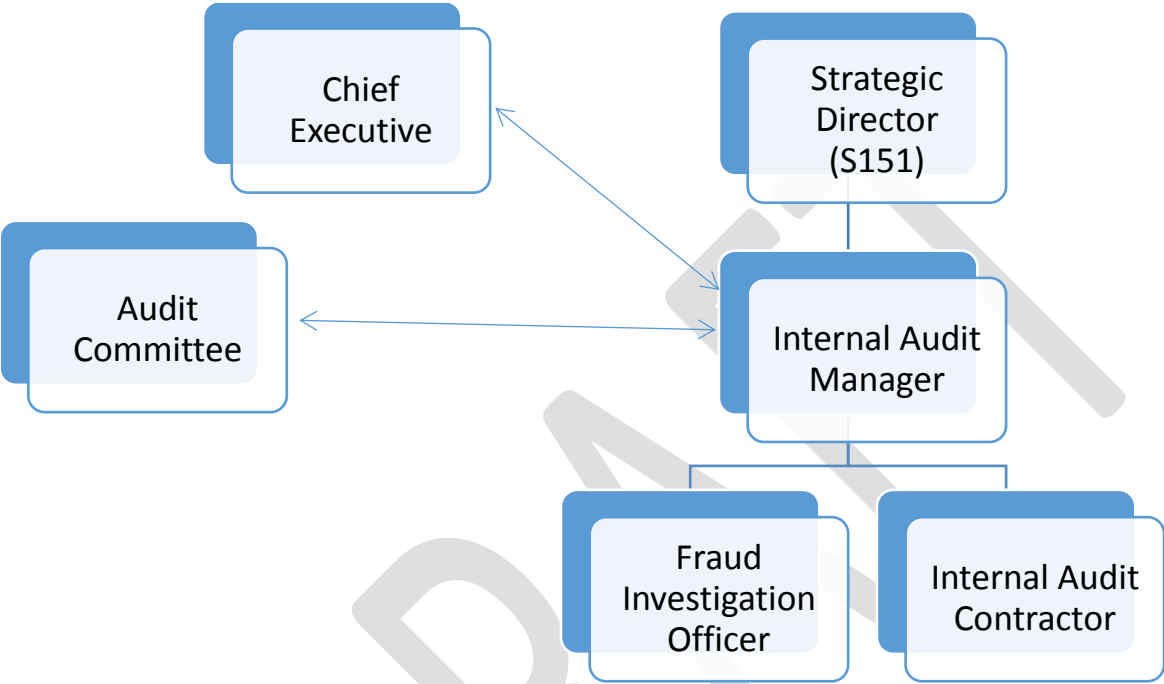
- The framework of internal control, risk management and governance is appropriate and operating effectively; and
- Risk to the achievement of the Council’s objectives is identified, assessed and managed to a defined acceptable level

The internal audit plan provides the mechanism through which the Chief Audit Executive (Internal Audit Manager at WBC) can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid subject to ongoing review and amendment, in consultation with the relevant Strategic Directors, and Audit sponsors, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Internal Audit Manager’s continued contact and liaison with those responsible for the governance of the Council and the Audit Committee as included in the Audit Committees Terms of Reference.

## Your Internal Audit and Investigation Team

Your internal audit service is provided by the in-house team and supported by the external resource of the Southern Internal Audit Partnership (SIAP). The in-house team is led by Gail Beaton, Internal Audit Manager and Jose Ribeiro, Housing Fraud Investigation Officer. The resourcing of the plan will be supported by the services of Southern Internal Audit Partnership (SIAP), setup and supported by Winchester City Council, led by Neil Pitman, Head of Southern Internal Audit Partnership. The in-house team will continue to work in partnership with the Surrey Counter Fraud Partnership, which includes all Surrey Authorities with an appetite to combat fraud, to share best practice and collaborate on the identification and investigative technics.



## Conformance with internal auditing standards

Under the conformance of the Public Sector Internal Audit Standards (PSIAS) there is a requirement for audit services to have an external quality assessment every 5 years. Our new contractors, SIAP, have undergone this assessment in 2015 which was completed by the credible source of the Institute of Internal Auditors the authors of the standards and the lead internal audit authority nationally and internationally the IIA were the ideal assessors. A new assessment will be completed in the next couple of years.

## Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

## Council's Corporate Strategy

As part of the Council's Corporate Strategy our vision is for the council to promote and sustain:

- Open, democratic and participative governance
- A financially sound Waverley, with infrastructure and services to fit for the future
- A value and worth of all residents, regardless of income, wealth, age, disability, race, religion, gender or sexual orientation
- High quality public services accessible for all, including sports, leisure, arts, culture and open spaces
- A thriving local economy, supporting local businesses and employment
- Housing to buy and rent, for those at all income levels
- Responsible planning and development, supporting place-shaping and local engagement in planning policy
- A sense of responsibility for our environment, promoting biodiversity and protecting our planet

The audit service will support the achievement of the vision through the work that will be completed to provide assurance that controls are in place to support and enhance the service outcomes contributing to the corporate vision.

## Council Risk

The council have a clear framework and approach to risk management which has involved members and officers working together to determine the authority's risk appetite. The strategic risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor the strategic risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

## Developing the Internal Audit Plan 2020/21

The plan has been developed by the Internal Audit Manager, by completing a risk assessment of the councils audit universe (auditable areas in the Council) in consultation with Senior Management Team and Management Board. Reference was also made to the Corporate Strategy and the council's Risk Register as part of developing and agreeing the Councils risk appetite. We have utilised various sources of information and discussed priorities for internal Audit with the Section 151 Officer (Strategic Director). The audit plan reflects the Council's vision and strategies.

The Council is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.



**Proposed Areas to be covered in the Internal Audit Plan 2020/21**

| Audit  | Risk   | Scope  |
|--|--|--|
| <b>Corporate/Cross Cutting</b>   |  |  |
| Ethics including Declaration of Interests, gifts and Hospitality (Deferred from 2019/20) | Failure to identify, declare relationships with third parties that may impede judgement.                             | Review of controls and process for the declaration and recording of interests with third parties.  |
| Safeguarding   | Failure to comply with statutory requirements  | Review the processes and control re the reporting of instances especially to other interested third parties such as Surrey County Council  |
| Health & Safety  | Failure to comply with statutory requirements  | Review the Health & Safety policies and procedures in operation throughout the council to ensure consistency is being applied in relation to council office buildings and those managed by Housing Services. |
| <b>Financial Management</b>  |  |  |
| Payroll (Deferred from 2019/20)  | Cyclical coverage of core financial systems to meet external audit/regulatory requirements, and management concerns. | Reviews will cover key controls  |
| Main Accounting (Deferred from 2019/20)  | Cyclical coverage of core financial systems to meet external audit/regulatory requirements, and management concerns. | Reviews will cover key controls  |
| Car Parking Income and PCN Write Offs  | Cyclical coverage of core financial systems to meet external audit/regulatory requirements, and                      | Review of the controls over the collection of income and the process of writing off PCN.   |

|   |  |  |
|---|--|--|
|   | management concerns.   |  |
| Rent Collection   | Failure to comply with Collection policy could be detrimental to tenants in particular with changes re universal credit. | Review will cover key control and application of the agreed collection policy                                |
| <b>Information Technology</b>   |  |  |
| Systems Administrator Activities  | Reputation/loss of data  | Review that controls in place to safeguard against fraudulent practices.                                     |
| IT Inventory Control and Licensing for Software                             | Reputation/loss of data  | Review the service setup against best practice requirements to maintain and safeguard the corporate network  |
| <b>Applications system in service areas</b>                                 |  |  |
| BACS Process  | Financial/reputational loss  | Review of the process in place   |
| <b>Service Areas</b>  |  |  |
| Service Charges - Leasehold Flats(Deferred from 2019/20)                    | Reputation and financial loss  | Review of the control processes in operation to ensure all appropriate charges are recharged to leaseholders |
| Disability Facilities Grants Private Sector Housing (Deferred from 2019/20) | Financial and reputational loss  | Review of the controls and processes for the awarding of grants to third parties.                            |

|  |  |  |
|--|--|--|
| Film and Events (Deferred from 2019/20)  | Reputation and financial loss                                    | Review of the control processes in place to ensure all opportunities and income generated is accurately accounted for.   |
| Property Investment (Deferred from 2019/20)<br><br>Proposal to replace with Compliance monitoring for council owned buildings. | Financial/reputational loss                                      | The property Investment review was deferred from 2019-20 due to the lack of property acquisitions activity. As no property acquisitions have taken place it is proposed to replace this review with an assessment of Waverley's compliance with new guidelines produced by CIPFA on the authority's statutory, regulatory and corporate responsibilities and duties for the management of buildings under our ownership. |
| Planning Housing Delivery Monitoring Process (Deferred from 2019/20)   | Reputation and financial loss                                    | Review the completeness and accuracy of the information prepared and provided to external third parties.   |
| Gas Servicing of boilers in council homes  | Safety of tenants and reputational/financial loss                | Review compliance of the servicing policy and documentary evidence is held to support results of the service completed.  |
| Repair Recharges for Void properties to vacating tenants   | Reputation and financial loss                                    | Review process in place re tenant awareness of their responsibilities, recharges are accurate and timely.  |
| Decant and Demolition of council homes - process   | Financial loss   | Review process in place to ensure that policy is accurately applied and notification of any change in property status is notified to all those with an interest including for example Finance (re council tax), utility provider (Gas and Electricity) etc.  |
| Other  |  |  |
| Fraud and Irregularities   | Ineffective procedures to detect/mitigate fraud and irregularity | To operate in line with best practice <ul style="list-style-type: none"> <li>• Proactive</li> </ul>  |

|             |   |  |
|-------------|---|--|
|             | and to promote a zero tolerance culture                               | <ul style="list-style-type: none"> <li>• Reactive</li> <li>• NFI</li> <li>• SCFP</li> <li>• Fraud Surveys</li> </ul> |
| Management  | Planning, Liaison, Reporting, Audit Committee, External Audit Advice. |  |
| Contingency |   |  |
|             |   |  |

DRAFT

**WAVERLEY BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**2<sup>ND</sup> MARCH 2020**

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**Title:**

**PROGRESS ON THE IMPLEMENTION INTERNAL AUDIT RECOMMENDATIONS**

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**Lead Councillor: Councillor Peter Marriott, Chairman of the Audit Committee**

**Head of Service: Graeme Clark, Strategic Director**

**Key decision: Yes**

**Access: Public**

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**1. Purpose and summary**

1.1 Purpose and summary of the report.

1.2 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 original agreed implementation date.

**2. Recommendation**

2.1 It is recommended that the Committee considers the information contained in Annexe 1 and, following discussion at the Audit Committee meeting identifies any action it wishes to be taken.

2.2 It is recommended that the Committee considers the Head of Service(s) justification for a change in the due date for the recommendations listed in Annexe 2 and agree an appropriate implementation date(s).

**3. Reason for the recommendation**

To enable the Audit Committee to be informed of the status of recommendations accepted by Heads of Service but not yet implemented or progress made to implement by the agreed implementation date.

#### **4. Background**

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

#### **5. Relationship to the Corporate Strategy and Service Plan**

5.1 A financially sound Waverley, with infrastructure and services fit for the future

#### **6. Implications of decision**

##### **6.1 Resource (Finance, procurement, staffing, IT)**

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

##### **6.2 Risk management**

There is a risk that where weakness or non-compliance identified as part of audit reviews, if not actioned to strengthen the controls will not assist to prevent the materialising of the risks identified.

##### **6.3 Legal**

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

##### **6.4 Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

##### **6.5 Climate emergency declaration**

There are no direct implications in this report

#### **7. Consultation and engagement**

7.1 Heads of Service

## **8. Other options considered**

8.1 N/A

## **9. Governance journey**

9.1 The minutes of the meeting will be included on the Council agenda.

### **Annexes:**

Annexe 1 – provides the current position on recommendations due for completion at the end of the month of the Audit Committee date.

Annexe 2 – provide a justification from the Heads of Service requesting an extension to the originally agreed implementation date.

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### **Background Papers**

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

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### **CONTACT OFFICER:**

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Agreed and signed off by:  
Legal Services: 10 February 2020  
Head of Finance: 11 February 2020  
Strategic Director: 11 February 2020  
Portfolio Holder: N/A

# ANNEXE 1

## Audit Recommendations overdue or due within the end of the month after the AC 31 March 2020



Generated on: 20 February 2020



| Action Status |                                    |
|---------------|------------------------------------|
|               | Cancelled                          |
|               | Overdue; Neglected                 |
|               | Unassigned; Check Progress         |
|               | Not Started; In Progress; Assigned |
|               | Completed                          |



### Head of Service Allum, David

| Action Code & Description  | IA20/05.001 Policies and Procedures   |                |          |     |                 |             |
|--|---|----------------|----------|-----|-----------------|-------------|
| No documented policies or procedures are in place to monitor and control the stocks and collection of income relating to the Restaurant or the Borough Hall Vending Machines | Exit Meeting Date   | 29-Nov-2019    |          |     |                 |             |
|  | Due Date  | 29-Feb-2020    |          |     |                 |             |
| Risk Level   | Medium Priority   | Risk RAG       |          |     |                 |             |
| Audit Report Code and Description  | IA20/05 Vending Machines  |                |          |     |                 |             |
| Agreed Action  | Documented procedures to be developed and cascaded to all members of staff involved in the process.<br>These should be held in an area so that they are readily available for all staff with responsibilities to enable them to be followed, particularly where a key members of staff are not available due to illness or annual leave, ensuring that consistency of operating process is applied. |                |          |     |                 |             |
| Status   |   | Check Progress | Progress | 10% | Head of Service | David Allum |
| All Notes  |   |                |          |     |                 |             |



| Action Code & Description  | IA20/05.002 Stock Records |             |  |  |  |  |
|--|---------------------------|-------------|--|--|--|--|
| Borough Hall vending machine is stocked by the Borough Hall Manager, who also collects and banks the income: - No records are maintained to record the stocks put into the vending machine as these are taken from the Borough Hall bar stock.<br>The Restaurant staff stock and collect the income from the vending Machine | Exit Meeting Date         | 29-Nov-2019 |  |  |  |  |
|  | Due Date                  | 29-Feb-2020 |  |  |  |  |





|  |   |                       |                 |                 |   |                    |
|--|---|-----------------------|-----------------|-----------------|---|--------------------|
|  | on the 1st floor link corridor. Although a "Vending Machine Balance sheet" is completed this is not accurately completed or reconciled. This sheet is not fully completed with no indication of the period it covers or who has been involved in the counting and collection of the cash. The accuracy of completeness cannot be relied upon re the audit observation completed as part of the review.  |                       |                 |                 |   |                    |
| <b>Risk Level</b>                        | <b>Medium Priority</b>  |                       |                 | <b>Risk RAG</b> |  |                    |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                       |                 |                 |   |                    |
| <b>Agreed Action</b>                     | <p>Forms will be enhanced to including evidence of who has completed them, with signatures of those involved in the process.<br/>DA-Agreed in stock terms however we will be looking to go cashless to avert issues in that area.</p> <p>Daily stock records will be maintained to accurately record the items put into any of the vending machines. This record will detail the number/s of items stocked into the machines, who completed the stocking of the vending machine and date.</p> <p>DA-Agreed.</p> |                       |                 |                 |   |                    |
| <b>Status</b>                            |    | <b>Check Progress</b> | <b>Progress</b> | 15%             | <b>Head of Service</b>  | <b>David Allum</b> |
| <b>All Notes</b>                         |   |                       |                 |                 |   |                    |



|  |   |                       |                 |                          |   |                    |
|--|---|-----------------------|-----------------|--------------------------|---|--------------------|
|  | <b>IA20/05.003 Safeguarding Cash and Stocks</b>   |                       |                 |                          |   |                    |
| <b>Action Code &amp; Description</b>     | At no point in the operation of the vending machine stocking up or collecting/counting the income, are there two people present when the vending machine is opened.   |                       |                 | <b>Exit Meeting Date</b> | 29-Nov-2019   |                    |
|  | Each member of staff independently completes their own part of the process, one dealing with stock and another collecting and counting the income. However, both have access to the machines cash collection box when completing their different tasks. |                       |                 | <b>Due Date</b>          | 29-Feb-2020   |                    |
| <b>Risk Level</b>                        | <b>High Priority</b>  |                       |                 | <b>Risk RAG</b>          |  |                    |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                       |                 |                          |   |                    |
| <b>Agreed Action</b>                     | We will need to address this. I am hoping that our stock procedures will be resilient enough to negate the need for this to be a two person job as this is not a good use of resources.   |                       |                 |                          |   |                    |
| <b>Status</b>                            |    | <b>Check Progress</b> | <b>Progress</b> | 25%                      | <b>Head of Service</b>  | <b>David Allum</b> |
| <b>All Notes</b>                         |   |                       |                 |                          |   |                    |



|                                      |  |  |  |                          |             |  |
|--------------------------------------|--|--|--|--------------------------|-------------|--|
|                                      | <b>IA20/05.004 Access to Vending machine Cash and Stocks</b>   |  |  |                          |             |  |
| <b>Action Code &amp; Description</b> | We were advised that one member of staff counts the cash collected and a member of staff from facilities counter signs to confirm the value being banked. However, this is after the person emptying the machine has had sole access to the vending machine income. This does not provide assurance that all income has been banked without the risk of appropriation occurring before |  |  | <b>Exit Meeting Date</b> | 29-Nov-2019 |  |
|                                      |  |  |  | <b>Due Date</b>          | 29-Feb-2020 |  |

|  |   |                       |                 |     |                        |   |
|--|---|-----------------------|-----------------|-----|------------------------|---|
|  | <p>the banking sheet is provided for the second signature from the facilities team.</p> <p>Testing was carried out on 10 Vending Machine Banking Sheets and we found that one had not been checked by a second person (usually facilities team) before being presented to exchequer services for banking. It was also noted that there is also no indication on the Banking sheet of the value of the float that remains in the Vending machine, although this is shown on the "Vending Machine Balance Sheet" although no signatures are retained of the officer/s completing this form or a second dependent check that this value is indeed the float of £15 contained in the Vending machine.</p> <p>Having the second independent check of the cash collected and the cash float retained in the machine at each cash emptying exercise protects staff against allegations should any discrepancies be identified.</p> |                       |                 |     |                        |   |
| <b>Risk Level</b>                        | <b>Medium Priority</b>  |                       |                 |     | <b>Risk RAG</b>        |  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                       |                 |     |                        |   |
| <b>Agreed Action</b>                     | DA - To be averted by a move to a cashless electronic process. The Facilities Manager has been in touch with the Vending Machine Supplier and contactless payments are compatible with the vending machine currently in use.  |                       |                 |     |                        |   |
| <b>Status</b>                            |    | <b>Check Progress</b> | <b>Progress</b> | 50% | <b>Head of Service</b> | <b>David Allum</b>  |
| <b>All Notes</b>                         | The cashless facility is being installed on the vending machines w/c 24th February this will produce a report of the sales activity for the period and agreed to the income received via the appropriate merchant number. (GB On behalf of DA).   |                       |                 |     |                        | 20-Feb-2020   |



|  |   |                       |                 |     |                          |   |
|--|---|-----------------------|-----------------|-----|--------------------------|---|
|  | <b>IA20/05.005 Access to Cash Collection Box</b>  |                       |                 |     |                          |   |
| <b>Action Code &amp; Description</b>     | <p>Anyone with access to the vending machine key also has the opportunity to access the cash collection box. Therefore due to the fact that there are circumstances where only one person is involved in either stocking the vending machine and another separately removes and counts the cash provides an opportunity for income to be vulnerable or miss appropriated. The viability of purchasing a lockable receptacle for the vending machines should be considered. Only those with access to the dedicated key to this area will have access to the vending machine income when two people will be present. This can be purchased from the supplier as per the instructions manual.</p> |                       |                 |     | <b>Exit Meeting Date</b> | 29-Nov-2019   |
|  |   |                       |                 |     | <b>Due Date</b>          | 29-Feb-2020   |
| <b>Risk Level</b>                        | <b>High Priority</b>  |                       |                 |     | <b>Risk RAG</b>          |  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                       |                 |     |                          |   |
| <b>Agreed Action</b>                     | DA-To be averted by a move to cashless electronic functionality   |                       |                 |     |                          |   |
| <b>Status</b>                            |    | <b>Check Progress</b> | <b>Progress</b> | 50% | <b>Head of Service</b>   | <b>David Allum</b>  |
| <b>All Notes</b>                         | The cashless facility is being installed on the vending machines w/c 24th February this will produce a report of the sales activity for the period and agreed to the income received via the appropriate merchant number. (GB On behalf of DA).   |                       |                 |     |                          | 20-Feb-2020   |



|                                      |  |  |  |  |                          |             |
|--------------------------------------|--|--|--|--|--------------------------|-------------|
| <b>Action Code &amp; Description</b> | <b>IA20/05.006 Stock Records</b>   |  |  |  | <b>Exit Meeting Date</b> | 29-Nov-2019 |
|                                      | Current the record completed to show the stocks put into the vending machine is manually recorded. |  |  |  |                          |             |

|  |  |                       |                 |     |                        |   |
|--|--|-----------------------|-----------------|-----|------------------------|---|
|  | During testing it was confirmed that this is not accurately completed and lead to errors or omissions. The vending machines purchased do have the functionality to register and record the sales made, change provided or failures to deliver if the programming had been setup at installation. A review of the programming functionality and the printing of reports from the vending machines would assist in verifying activity and providing assurance that all income generated has been collected and banked. |                       |                 |     | <b>Due Date</b>        | 01-Mar-2020   |
| <b>Risk Level</b>                        | <b>High Priority</b>   |                       |                 |     | <b>Risk RAG</b>        |  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines   |                       |                 |     |                        |   |
| <b>Agreed Action</b>                     | DA – Ideally this would be resolved by utilising or enhancing programme functionality.   |                       |                 |     |                        |   |
| <b>Status</b>                            |   | <b>Check Progress</b> | <b>Progress</b> | 20% | <b>Head of Service</b> | <b>David Allum</b>  |
| <b>All Notes</b>                         |  |                       |                 |     |                        |   |



|  |  |                       |                 |     |                          |   |
|--|--|-----------------------|-----------------|-----|--------------------------|---|
|  | <b>IA20/05.007 Accuracy of records completed</b>   |                       |                 |     |                          |   |
| <b>Action Code &amp; Description</b>     | The Restaurant staff collect the income from the vending Machine on the 1st floor link corridor. Although a “Vending Machine Balance sheet” is completed. During testing of the process it was found that no reliance could be made on the records maintained to confirmed that the cash collected agreed to the cash recorded as taken by the Vending machine, or that the stocks put into the vending machine or items sold from the vending machine are accurate data. The Vending Machine balance sheet is dependent on it being accurately completed by those putting the items into the machine but audit checks confirmed that these are not accurately recorded. The vending machine has this facility as per the instructions provided by the facilities manager. |                       |                 |     | <b>Exit Meeting Date</b> | 29-Nov-2019   |
|  | No accurate reconciliations can be completed as there are insufficient records to facilitate this to establish if all sales money/stocks has been accurately accounted for, re wastage and foreign coinage and promptly banked.  |                       |                 |     | <b>Due Date</b>          | 01-Mar-2020   |
| <b>Risk Level</b>                        | <b>High Priority</b>   |                       |                 |     | <b>Risk RAG</b>          |  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines   |                       |                 |     |                          |   |
| <b>Agreed Action</b>                     | DA-Vending Machine functionality to be utilised  |                       |                 |     |                          |   |
| <b>Status</b>                            |   | <b>Check Progress</b> | <b>Progress</b> | 10% | <b>Head of Service</b>   | <b>David Allum</b>  |
| <b>All Notes</b>                         |  |                       |                 |     |                          |   |



|                                      |  |  |  |  |                          |             |
|--------------------------------------|--|--|--|--|--------------------------|-------------|
|                                      | <b>IA20/05.008 Cash Collected</b>  |  |  |  |                          |             |
| <b>Action Code &amp; Description</b> | From our review of vending machine under the responsibility of the Restaurant we found that cash is collected from the vending machine on average every 7 weeks. |  |  |  | <b>Exit Meeting Date</b> | 29-Nov-2019 |
|                                      | Therefore the counting and banking of income is not carried out frequently.  |  |  |  | <b>Due Date</b>          | 29-Feb-2020 |

|  |  |                       |   |
|--|--|-----------------------|---|
| <p>The average number of days between banking of income for the last 3 years in shown below:-</p> <p>2019-20 1,422.05 to date (Oct /19)<br/>Average number of days to bank income 49 days, average daily takings £6.39</p> <p>2018-19 1,959.10<br/>Average number of days to bank income 56 days, average daily takings £6.85</p> <p>2017-18 4,143.05<br/>Average number of days to bank income 34 days, average daily takings £12.45</p> <p>The decline in banked values is worrying as the restaurant vending machine is replenished daily and average daily takings have now gone from £12.45 (17-18) to £6.85 (2018-19).</p> |  |                       |   |
| <b>Risk Level</b>  | <b>High Priority</b>   | <b>Risk RAG</b>       |  |
| <b>Audit Report Code and Description</b>   | IA20/05 Vending Machines   |                       |   |
| <b>Agreed Action</b>   | DA-to be averted by a move to a cashless electronic system<br>The frequency of emptying the vending needs to be increased until the cashless facility is operational. To be agreed with the Internal Audit Manager (GB)                                      |                       |   |
| <b>Status</b>  |   | <b>Check Progress</b> | <b>Progress</b> 40% <b>Head of Service</b> David Allum                              |
| <b>All Notes</b>   | The cashless facility is being installed on the vending machines w/c 24th February this will produce a report of the sales activity for the period and be reconciled monthly to the income received via the appropriate merchant number. GB On behalf of DA. |                       | 20-Feb-2020   |

|  |   |                        |   |
|--|---|------------------------|---|
| <b>IA20/05.009 Pricing Policy</b>        |   |                        |   |
| <b>Action Code &amp; Description</b>     | <p>The costing and profit schedule is not accurately maintained and kept up to date. An analysis of the items included on this schedule confirmed that not all items are included.</p> <p>Profit elements are not accurately calculated as some of the quantities and monetary value of purchased is not accurately reflected when comparing Booker invoices paid to the detail on the schedule. Previously mentioned in Finding 8 above is that income is down from previous years. It was however found that one of the vending machines best sellers "Shortbread" is being sold £0.18p below the purchase price.</p> <p>Other items are being sold above the Recommended Retail Price which might be putting staff off purchasing these items. A pricing policy should be adopted to ensure that purchase costs including VAT where applicable are recovered. Any profit elements should be agreed in the policy</p> |                        | <p><b>Exit Meeting Date</b> 29-Nov-2019</p> <p><b>Due Date</b> 01-Mar-2020</p>                        |
|  | <b>Risk Level</b>   | <b>Medium Priority</b> | <b>Risk RAG</b>  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                        |   |
| <b>Agreed Action</b>                     | DA – Agreed pricing Policy to be developed  |                        |   |
| <b>Status</b>                            |    | <b>Check Progress</b>  | <b>Progress</b> 20% <b>Head of Service</b> David Allum  |
| <b>All Notes</b>                         |   |                        |   |



|  |  |  |  |
|--|--|--|--|
| <b>IA20/05.010 Vending Machine Balance Sheet</b> |  |  |  |
| <b>Action Code &amp; Description</b>             | <p>'Vending Machine Balance sheet' is not accurately maintained, utilising excel to complete the analysis is not effective as the functionality on the spreadsheet is corrupted as it is not adding up the rows correctly which in turn means that any reconciliation completed will be flawed.</p> <p>The full information on the currently utilised Vending Machine Balance Sheet is not fully completed to show the period it covers who has completed the sheet and who has checked the sheet and the income collected back to the</p> |  | <p><b>Exit Meeting Date</b> 29-Nov-2019</p> <p><b>Due Date</b> 01-Mar-2020</p> |



|  |   |                       |                 |     |                        |   |
|--|---|-----------------------|-----------------|-----|------------------------|---|
|  | actual income to be banked.<br>Training on excel should be provided to those members of staff involved in the process, including those that would cover for others if they were absent. |                       |                 |     |                        |   |
| <b>Risk Level</b>                        | <b>Medium Priority</b>  |                       |                 |     | <b>Risk RAG</b>        |  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                       |                 |     |                        |   |
| <b>Agreed Action</b>                     | Agreed  |                       |                 |     |                        |   |
| <b>Status</b>                            |    | <b>Check Progress</b> | <b>Progress</b> | 20% | <b>Head of Service</b> | <b>David Allum</b>  |
| <b>All Notes</b>                         |   |                       |                 |     |                        |   |

|  |   |                       |                 |             |                          |   |
|--|---|-----------------------|-----------------|-------------|--------------------------|---|
| <b>IA20/05.012 Costing Master Sheet</b>  |   |                       |                 |             |                          |   |
| <b>Action Code &amp; Description</b>     | <p>"Vending machine costing master "- was previously provided by the restaurant manager on the 16/09/2019 however a subsequent version of this form was provided on 15/10/2019 as the manager stated this was the one that they use - this was completely different to the version previously supplied. The restaurant manager could not however locate the updated version in sharepoint environment even though all the previous versions were present.</p> <p>Nevertheless the auditor assessed this updated sheet and confirmed that this sheet does not contain accurate information relating to the cost of items. (For example "kitkat is shown as 48 packet size but it is currently supplied in a box of 24 not 48 therefore the price inclusive of VAT should be <math>(£8.99 \times 20\% = £1.798 + £8.99 = 10.798 \div 24 = 0.45p.)</math> therefore 45p is the cost price including VAT and it is sold at 70p which provides a profit of 25p and not 48p as detailed). Kitkat is a vatable item shown as B on an invoice.</p> <p>If the correct cost is not recorded on the item sheet, items are sold at a loss i.e. Walkers shortbread (W/P invoice 3562452 no VAT) actual cost is .58p but being sold at 40p therefore a loss of 0.18p per item sold is being borne by WBC therefore reducing income.</p> <p>Stock figures and costs need to be accurately recorded when purchased. Then the vending machine can be accurately updated to change the appropriate sales price.</p> <p>The Borough Hall Vending Machine pricing also needs to be reviewed to ensure that cost of goods are covered and profit elements are in accordance with the agreed pricing policy and Vat where applicable.</p> |                       |                 |             | <b>Exit Meeting Date</b> | 29-Nov-2019   |
|  |   |                       | <b>Due Date</b> | 01-Mar-2020 |                          |   |
| <b>Risk Level</b>                        | <b>High Priority</b>  |                       |                 |             | <b>Risk RAG</b>          |  |
| <b>Audit Report Code and Description</b> | IA20/05 Vending Machines  |                       |                 |             |                          |   |
| <b>Agreed Action</b>                     | DA - Comes within the parameters of the pricing strategy discussed earlier.   |                       |                 |             |                          |   |
| <b>Status</b>                            |    | <b>Check Progress</b> | <b>Progress</b> | 20%         | <b>Head of Service</b>   | <b>David Allum</b>  |
| <b>All Notes</b>                         |   |                       |                 |             |                          |   |



**Head of Service Vickers, Peter**

|  |   |  |                 |             |                          |             |
|--|---|--|-----------------|-------------|--------------------------|-------------|
| <b>IA20/04.004 Key reconciliations elements omitted from Accountancy Team Procedures</b> |   |  |                 |             |                          |             |
| <b>Action Code &amp; Description</b>   | <p>Accountancy Team Procedures handbook does not refer to all the key reconciliation procedures as stated on page 12 of the Financial Regulations. The key reconciliation procedures contained in the Financial Regulations but absent from the Accountancy Team Procedures handbook are:</p> <ol style="list-style-type: none"> <li>1. All reconciliations shall be reviewed and countersigned by the Financial Services Manager or delegated officer</li> <li>2. All unreconciled items shall be resolved as soon as practically possible, fully investigated and explained</li> <li>3. Reconciliation of income between the Finance system and external information, Terriers, charging schedules or other databases shall be</li> </ol> |  |                 |             | <b>Exit Meeting Date</b> | 07-Feb-2020 |
|  |   |  | <b>Due Date</b> | 30-Mar-2020 |                          |             |

|  |   |                    |                 |                 |   |
|--|---|--------------------|-----------------|-----------------|---|
|  | undertaken monthly by the officers responsible for service delivery   |                    |                 |                 |   |
|  | The Council's key reconciliation procedures may not be adhered to by Accountancy service resulting in incomplete reconciliations and errors in Council's key financial systems being unreported, leading to potential financial loss to the Council. Breach of financial regulations. |                    |                 |                 |   |
| <b>Risk Level</b>                        | <b>Medium Priority</b>  |                    |                 | <b>Risk RAG</b> |  |
| <b>Audit Report Code and Description</b> | IA20/04 Reconciliations of key financial systems  |                    |                 |                 |   |
| <b>Agreed Action</b>                     | The key reconciliation procedures contained in the Financial Regulations that are absent from the Accountancy Team Procedures handbook will be copied over and included in the Accountancy Team Procedures Handbook.  |                    |                 |                 |   |
| <b>Status</b>                            |    | <b>In Progress</b> | <b>Progress</b> | 95%             | <b>Head of Service</b><br><b>Peter Vickers</b>                                      |
| <b>All Notes</b>                         |   |                    |                 |                 |   |

|  |   |                 |                 |                          |   |
|--|---|-----------------|-----------------|--------------------------|---|
|  | <b>IA20/04.009 Access</b>   |                 |                 |                          |   |
| <b>Action Code &amp; Description</b>     | For one of the key financial systems selected in our audit sample the officers who prepare and review the reconciliations have open access to edit the data within the key financial system being reconciled. |                 |                 | <b>Exit Meeting Date</b> |   |
|  | Data entry errors in the key financial system being reconciled that could be detected by a reconciliation may be altered by a data entry to the key financial system by the reconciling officer.              |                 |                 | <b>Due Date</b>          | 30-Mar-2020   |
| <b>Risk Level</b>                        | <b>Low Priority</b>   |                 |                 | <b>Risk RAG</b>          |  |
| <b>Audit Report Code and Description</b> | IA20/04 Reconciliations of key financial systems  |                 |                 |                          |   |
| <b>Agreed Action</b>                     | Access to be reviewed and updated (Benefits)  |                 |                 |                          |   |
| <b>Status</b>                            |    | <b>Assigned</b> | <b>Progress</b> | 0%                       | <b>Head of Service</b><br><b>Peter Vickers</b>                                      |
| <b>All Notes</b>                         |   |                 |                 |                          |   |

### Head of Service Wagstaff, Hugh

|  |   |                    |                 |                          |   |
|--|---|--------------------|-----------------|--------------------------|---|
|  | <b>IA20/01.002.1 Re-inspections</b>   |                    |                 |                          |   |
| <b>Action Code &amp; Description</b>     | The Asbestos Management Plan states that properties where asbestos has been detected should receive a Management Inspection every 12 or 60 months, depending on the severity of the risk rating given at the time of the last inspection.   |                    |                 | <b>Exit Meeting Date</b> | 09-Aug-2019   |
|  | Present policy, however, is to treat all properties which are known not to have had a Management Inspection as priority, but there is currently no mechanism in place to ensure properties which have been inspected since 2013 and found to have asbestos present are flagged for re-inspection in line with their current risk ratings. |                    |                 | <b>Due Date</b>          | 31-Mar-2020   |
|  | <b>RISK:</b> Properties which are known to have asbestos present are not re-inspected in line with recommendations made in the Asbestos Management Plan, and therefore any potential deterioration in the safety of detected asbestos will not be acted upon in a timely manner.  |                    |                 |                          |   |
| <b>Risk Level</b>                        | <b>Medium Priority</b>  |                    |                 | <b>Risk RAG</b>          |  |
| <b>Audit Report Code and Description</b> | IA20/01 Management of Asbestos  |                    |                 |                          |   |
| <b>Agreed Action</b>                     | 2.1 The Asbestos re-inspection programme is to be added to the Keystone service inspection module. This software will prompt re-inspections when due and allow for accurate reporting in order to monitor progress.   |                    |                 |                          |   |
| <b>Status</b>                            |    | <b>In Progress</b> | <b>Progress</b> | 50%                      | <b>Head of Service</b><br><b>Hugh Wagstaff</b>  |
| <b>All Notes</b>                         | <ul style="list-style-type: none"> <li>We are currently working with the Asset team to create an accurate list of property's and their last management surveys for upload into KSI where the system will prompt when</li> </ul>   |                    |                 |                          | 07-Oct-2019   |

|  |  |  |
|--|--|--|
|  | <p>surveys are due. This will make it easier to track and monitor the progress of re-inspections.</p> <ul style="list-style-type: none"><li>• At current there are no high risk materials listed in Keystone, a process has been put in place to generate a monthly report of high risk items this will capture any changes and prompt a re-inspection or removal.</li></ul> |  |
|--|--|--|





**WAVERLEY BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**2<sup>ND</sup> MARCH 2020**

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**Title:**

**FRAUD INVESTIGATION SUMMARY**

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**Lead Councillor: Councillor Peter Marriott, Chairman of Audit Committee**

**Strategic Director: Graeme Clark**

**Key decision: Yes**

**Access: Public**

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**1. Purpose and summary**

The report provides an update to the Committee on the work being completed in investigating fraud, primarily focusing on Housing Tenancy fraud. The report also includes the current outputs in relation to the National Fraud Initiative (NFI)

**2. Recommendation**

It is recommended that the Audit Committee notes the results of the fraud investigation activity, attached in Annexe 1 up to and including quarter 3 covering the period 01 April 2019 to 31 December 2019.

**3. Reason for the recommendation**

To enable the Audit Committee to be informed of the work that has been completed to date in relation to fraud matters.

**4. Background**

- 4.1 This report provides the Audit Committee with an update on the progress being made on fraud investigations. As part of this work we continue to share ideas and information with other Surrey councils and other social housing providers as part of the Surrey Counter Fraud Partnership. The success of the work completed has been supported by the introduction of the Prevention of Social Housing Fraud Act 2013 where the maximum penalty for the offence of acting dishonestly in the subletting/parting with possession of a property is up to 2 years' imprisonment or a fine (or both).

- 4.2 In the period being reported, results include 5 properties either being relinquished (2 cases) or recovered through the court system, (3 cases), and these have been made available to be re-let to tenants on our waiting list.

## **5. Relationship to the Corporate Strategy and Service Plan**

- 5.1 A financially sound Waverley, with infrastructure and services fit for the future

## **6. Implications of decision**

### **6.1 Resource (Finance, procurement, staffing, IT)**

The notional value of financial savings detailed in Annexe 1 up to 31 December 2019, is £783,736. Of which £258,530 relates to National Fraud Initiative, £55,992 for a DFG Grant and the majority of the balance of £468,240 based on Cabinet Office figures relates directly to housing fraud. However, these indicative values do not include the real value to Waverley Borough Council, as it costs on average £200,000 to build a new house. Outcomes from this work not only highlight the fundamental financial value of continuing to support the work being carried out but the ethical and social responsibility importance to ensure that only those that qualify for social housing are successful. By securing the return of properties back into housing stock helps Waverley to meet the needs of legitimate housing applicants.

### **6.2 Risk management**

If the authority did not carry out this investigation work it would enable fraudsters to perpetrate fraud against the council and obtain services or financial benefit including housing that they are not entitled to.

### **6.3 Legal**

It is the Council's duty to safeguard public funds; the work being completed may incur legal costs where matters escalate to prosecution. However, these costs are far outweighed by the Council's stance that fraud perpetrated against the council and its taxpayers will not be tolerated. There are tangible and intangible benefits to the recovery of HRA properties by stopping fraudsters receiving services that they are not entitled to.

The Prevention of Social Housing Fraud Act 2013 contains two offences regarding the sub-letting or parting with possession of properties held under secure tenancies. The first is committed where the tenant no longer occupies the property as their only or principal home and sublets or parts possession of all or part of it in the knowledge that this is in breach of tenancy. A person convicted of this offence is liable on summary conviction to a fine of up to £5,000.

A more serious offence is committed if the tenant acts dishonestly in the subletting/parting with possession. A person convicted of this offence is liable to

imprisonment for a term not exceeding 2 years or a fine (or both).

#### 6.4 **Equality, diversity and inclusion**

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

#### 6.5 **Climate emergency declaration**

There are no direct implications in this report.

### 7. **Consultation and engagement**

7.1 Head of Housing and the Fraud Investigation

### 8. **Other options considered**

8.1 N/A

### 9. **Governance journey**

9.1 The minutes of the Audit Committee will be presented to Council.

#### **Annexes:**

Annexe 1 – Analysis of the caseload and outputs from the Fraud Investigation activity for the period 01/04/2019 to 31/12/2019.

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#### **Background Papers**

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

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#### **CONTACT OFFICER:**

Name: Gail Beaton  
Position: Internal Audit Manager  
Telephone: 01483 523260  
Email: [gail.beaton@waverley.gov.uk](mailto:gail.beaton@waverley.gov.uk)

Agreed and signed off by:  
Legal Services: 03/02/2020  
Head of Finance: 03/02/2020  
Strategic Director: 06/02/2020

|                 |          |
|-----------------|----------|
| Name of Partner | Waverley |
| QUARTER         | 3        |

**Record of cases investigated in the period covering 01 April 2019 to 31 December 2019**

|  | Cases currently being investigated from previous years | Referrals received since 1 April 2019 | Cases Started | Cases closed | Still under investigation | Positive outcomes includes previous years cases | Properties retained by the Council | Properties Handed Back /Recovered | Housing / Homeless/RTB / Succession/Mutual Exchange/Shared ownership application withdrawn | Financial Value | Prosecutions | Other Sanctions |
|--|--|---------------------------------------|---------------|--------------|---------------------------|---|------------------------------------|-----------------------------------|--|-----------------|--------------|-----------------|
| <b>Housing</b>   |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| Social housing Fraud                                   | 11   | 5                                     | 16            | 10           | 6                         | 5   |                                    | 5                                 | Tenancy Relinquished   | 465,000         |              | 3 Court Cases   |
| <b>Housing Register Fraud</b>                          | 2  | 3                                     | 5             | 4            | 1                         | 1   |                                    |                                   | Housing Applications Rejected  | 3,240           |              |                 |
| Homelessness Applications                              |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| <b>Right To Buy/Right To Acquire</b>                   | 4  | 29                                    | 33            | 33           | 0                         | 0   |                                    |                                   | Right to Buy stopped and/or Tenancy Relinquished   | 0               |              |                 |
| <b>Mutual Exchange</b>                                 | 0  | 16                                    | 16            | 16           |                           |   |                                    |                                   | Mutual Exchange denied/rejected  | 0               |              |                 |
| <b>Successions</b>                                     | 1  | 2                                     | 3             | 3            |                           |   |                                    |                                   | No of Succession/s denied  | 0               |              |                 |
| <b>Recovered properties for others</b>                 | 0  |                                       |               |              |                           |   |                                    |                                   |  | 0               |              |                 |
| Council Tax Discount                                   |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| <b>SPD &amp; LCTRS (As result from Caseload above)</b> |  |                                       |               |              |                           | 1   |                                    |                                   |  | 974             |              |                 |
| Student Exemptions                                     |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| Disability   |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| <b>Council Tax Support (benefit)</b>                   |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| <b>Business rates</b>                                  |  |                                       |               |              |                           |   |                                    |                                   |  |                 |              |                 |
| NNDR   | 0  |                                       |               |              |                           |   |                                    |                                   |  | 0               |              |                 |
| <b>Other (DFG)</b>                                     | 0  | 1                                     | 1             |              |                           | 1   |                                    |                                   |  | 55,992          |              |                 |
| <b>NFI exercise **</b>                                 |  |                                       |               |              |                           |   |                                    |                                   |  | 258,530         |              |                 |
| <b>2019/20 Total to 30 June 2019</b>                   | 18   | 56                                    | 74            | 66           | 7                         | 8   | 0                                  | 5                                 |  | 783,736         |              |                 |
| <b>2018/19 Year Total</b>                              | 18   | 54                                    | 72            | 55           | 17                        | 8   | 3                                  | 4                                 |  | 189,710         | 0            | 0               |
| 2017/18 Year Total                                     | 21*  | 113                                   | 134           | 117          | 17                        | 30  | 13                                 | 10                                |  | 733,930         |              |                 |
| 2016/17 Year Total                                     | 11   | 127                                   | 138           | 118          | 20*                       | 32  | 13                                 | 12                                |  | 688,866         |              |                 |

**Value of financial savings Re Cabinet Office savings figures now adopted by partnership 01 April 2019**

Tenancy Recovered - £93,000  
 Housing/Homeless Applicaton withdrawn - £3,240  
 Right To Buy/Right To Acquire withdrawn/terminated - £72,000 per application withdrawn  
 Council Tax Discount - Annual value of discount cancelled multiplied by two years

\* difference of 1 related to Housing Association property where assistance was provided to recover a property as part of one of our investigations.

\*\* To provide a total of the fraud investigation work that is completed the SCFP are now including the NFI outputs, the majority of these identified above relate to the removal from the housing register.

**AUDIT COMMITTEE  
RECURRENT ANNUAL WORK PROGRAMME**

| Meeting               | Item   | Action                       | Responsibility  |
|-----------------------|--|------------------------------|---|
| <b>July 2020</b>      | External Audit Findings Report                                     | Note                         | External audit  |
|                       | Annual Governance Report   | Endorse                      | External Audit  |
|                       | Statement of Accounts<br><b>(Deadline 31/07/2020)</b>              | Approve                      | Head of Finance, Peter Vickers  |
|                       | Annual Governance Statement<br><b>(Deadline 31/07/2020)</b>        | Approve                      | Head of Finance and Property, Peter Vickers and Head of Policy and Governance, Robin Taylor |
|                       | Annual Internal Audit Report (Activity of previous financial year) | Comment and Note             | Internal Audit Manager, Gail Beaton   |
| <b>September 2020</b> | Risk Management (if required)                                      | Approve                      | Head of Finance and Property, 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 Manager, Gail Beaton   |
|                       | External Audit Annual Audit Letter                                 | Note                         | External Audit  |
| <b>November 2020</b>  | Risk Management  | Approve                      | Head of Finance and Property, Peter Vickers   |
|                       | Annual Governance Statement – Interim Review                       | Comment and instruct         | Head of Finance and Property, Peter Vickers   |
| <b>March 2021</b>     | External Audit Plan  | Note                         | External Audit  |
|                       | Certification Report   | Note                         | External Audit  |
|                       | Internal Audit Plan  | Approve                      | Internal Audit Manager, Gail Beaton   |
|                       | Risk Management (if required)                                      | Approve                      | Head of Finance, Peter Vickers  |

**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.