

WAVERLEY BOROUGH COUNCIL

MINUTES OF THE AUDIT COMMITTEE - 15 MARCH 2016

SUBMITTED TO THE COUNCIL MEETING – 19 APRIL 2016

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

Present

Cllr Jim Edwards (Chairman)	Cllr Ged Hall
Cllr John Gray (Vice Chairman)	Cllr Stephen Hill
Cllr Andrew Bolton	Cllr Richard Seaborne
Cllr Jenny Else	

Also Present

Councillor John Williamson attended to speak on Agenda Items 6 - 8;
Iain Murray and Matthew Dean of Grant Thornton LLP;
Karen Williams of RSM

35. MINUTES (Agenda item 1.)

The Minutes of the last meeting of the Audit Committee held on 17 November 2015 were agreed as a correct record and signed.

36. APOLOGIES FOR ABSENCE (Agenda item 2.)

There were no apologies for absence received.

37. DISCLOSURE OF INTERESTS (Agenda item 3.)

There were no declarations of pecuniary or non-pecuniary interests received from Members.

PART I – RECOMMENDATIONS TO THE COUNCIL

There are no matters for consideration under this category.

PART II – MATTERS OF THE REPORT

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

38. GRANT THORNTON AUDIT OF 2014-15 HOUSING BENEFIT SUBSIDY RETURN (Agenda item 5.)

Iain Murray and Matthew Dean, from external auditors Grant Thornton, introduced the Committee to its certification work for the Housing Benefit Subsidy return for the year 2014/15.

They explained that they were required to certify certain claims and returns submitted by Waverley. The certification typically took place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding.

As part of their work, Grant Thornton had identified a number of low value individual errors regarding claimants Housing Benefit calculations including incorrect entry of earned income values, incorrect entry of rent values and incorrect application of Local Housing Authority rates.

These errors triggered a requirement for Grant Thornton to undertake further testing before determining whether they were able to adjust and/or issue a qualification letter because the Government allow no error margins in their audit requirements. This included the testing of a sample of 40 further cases in each of the six error areas identified. Iain Murray explained that this additional work was likely to have an impact on the final fee.

The Committee asked about the possible causes of the errors. Iain Murray responded that due to the nature of the work and the vast amount of data entry required, it was likely that the errors were due to mistyping and that some clerical errors had to be expected.

The Head of Finance agreed and explained that the department had spent 13,000 productive hours and dealt with over 22,000 phone calls in handling benefit claims during 2014/15. Regular quality checks were conducted within the department and 10% of cases sampled. He explained that the total value of the errors were relatively small and the extrapolated error of £7k needs to be considered in the context of a £30million claim.

Iain Murray responded that the qualification letter had been sent in November 2015 and there had been no response from the DWP so it was unlikely that they had any concerns. He explained that in context, the number and type of errors was nothing unusual and similar to those seen in other local authorities returns. It was agreed that Grant Thornton would provide Members with a copy of the qualification letter to enable them to see the detail, following the meeting. RESOLVED that the plan be adopted.

39. EXTERNAL AUDIT PLAN 2015-16 (Agenda item 6.)

The Committee was presented with the latest draft version of the Grant Thornton External Audit Plan for the Council for 2015/16 which gave an overview of the planned scope and timing of the audit.

Iain Murray described the major challenges and opportunities facing the Council and key sector developments that would need to be considered. He also summarised the significant potential risks identified in the Plan.

In completing his summary of the Plan, Iain Murray explained that the Local Audit & Accountability Act 2014 and the National Audit Office Code of Audit Practice required them to consider whether the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This was known as the `Value for Money` conclusion.

The guidance identified that for local government bodies, auditors were required to give a conclusion on whether the proper arrangements had been put in place.

Councillor John Williamson argued that there were risks that had not been included that should be and that the aims of the new corporate plan were vague, subjective and a wish list. As a result, Councillor Williamson felt the stated aims of the draft Plan could not be achieved as there were no measurable targets.

During the discussion, the Committee requested an update on when they will be able to view the Shottermill Recreation Ground and Ewart Bequest Trust accounts. Members were advised that due to scheduling differences between the Group and Waverley accounts, the timings of when the Committee would be able to scrutinise them was different. It was agreed that Members would be provided with a schedule to enable them to plan forward to ensure that they meet agreed deadlines for approving accounts.

Members also asked about the concept of `materiality` and were advised that in performing their audit, Grant Thornton applied the concept following the requirements of the `International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in Planning and Performing an Audit`. The standard states that `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`.

Grant Thornton had determined materiality for the statements as a whole proportion of Waverley's gross revenue expenditure. For the purposes of planning the audit, they had determined the Council's overall materiality to be £1,598k, equating to 2% of the prior year gross revenue expenditure. Members that 2% was an industry wide standard and that only substantial errors were considered material. In the case of the Council, this meant that anything under £80k would not be considered material.

The Committee was advised that ISA 320 also required Grant Thornton to determine separate, lower, materiality levels where there were `particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users`. Grant Thornton had not identified any items where separate materiality levels would have been appropriate.

RESOLVED that the Committee notes the progress for the External Audit Plan 15/16.

40. PROPOSED INTERNAL AUDIT PLAN FOR 2016/17 (Agenda item 7.)

The Internal Audit Manager introduced the draft Proposed Audit Plan for 2016/17 and invited the Committee to comment before adopting the Plan.

The Committee was advised that a different approach had been taken to previous years whereby the services of the internal audit contractor, RSM, in consultation with Heads of Service and the Corporate Management Team, had been involved in the facilitating and completion of the Internal Audit Plan.

The Director of RSM, Karen Williams, was present at the meeting and asked for input from Members regarding the draft Plan and to take any requests on amending the risks to be considered, wording and scope.

Councillor John Williamson expressed concern about two major projects, namely the SPA Avoidance Strategy and the Brightwells development in Farnham.

Members of the Committee made several requests regarding the risk areas. This included amendment of wording to items such as `Health and Safety policy`, `Recruitment of permanent and agency staff and performance management`, and `Planning applications and building control` to make the description of any action and scope of the work to be carried out more explicit.

Additional risks to be considered were also suggested including scrutiny of the performance of sub-contractors working on behalf of contractors engaged by the Council and of procurement. Karen Williams agreed to make the requested changes and reassured Members that the Plan was a fluid document that was not set in stone and could be amended throughout the period of its life.

Members also raised concerns about how the priorities for the Plan had been selected and asked for sight of the wider `audit universe` to enable them to see what items have been included and those that have not. It was agreed that the Internal Audit Manager would provide the Committee with the `audit universe` map to enable them to see what had risk items had been included in the draft Plan and what had not.

RESOLVED to adopt the draft Internal Audit Plan for 2016/17 with the amendments requested during the meeting.

41. PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2015/16 (Agenda item 8.)

The Committees terms of reference include provision for the Committee to comment on the progress made in the achievement of the Internal Audit Plan.

The Internal Audit Manager presented an update on the current position of the reviews for 2015/16.

Councillor John Williamson asked about the proposal to defer the review of the Councils internal I.T. system, `Sharepoint` to 2016/17 and Members also expressed similar concerns. Officers explained that this had been requested due to contractor staffing issues within I.T. services and a lack of technical knowledge of `Sharepoint`. Members were reassured that the aim was to complete the review in Q1 of 2016/17 by obtaining alternative resources.

RESOLVED that the Committee:

1. Notes the progress for the Internal Audit Plan 2015/16 as attached at Annexe 1, and

2. Approves the deferral of the Sharepoint review to be completed in 2016/17 by another service provider with the necessary expertise.

42. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 9.)

The Internal Audit Manager presented the Committee with the `Progress on the Implementation of Internal Audit Recommendations`.

Members asked about the reason why the due date for the recommendation was proposed to be changed. Officers responded that contracts for electrical and fire checks were already in place but that a contract for Legionella checks had not yet been procured. Members were reassured that Legionella checks were continuing to be carried out under the existing contract and that the delay requested was for the procurement of the contract and not the actual checks themselves. The Committee agreed that the Head of Housing, Hugh Wagstaff, provide the Committee with details on the specific reasons for the delay in procuring the Legionella checks.

The Committee were concerned by the amount of time it had taken for the Legal department to issue the Deed of Variation. The Borough Solicitor, Dan Bainbridge, explained that staffing issues had been the reason for the delay. The Committee agreed that the Head of Housing, Hugh Wagstaff, should attend the next meeting to allow Members to discuss any general concerns they may have.

RESOLVED that the Committee approve the proposed changes in implementation dates in Annexe 2.

43. COUNTER FRAUD INVESTIGATION SUMMARY (Agenda item 10.)

The Internal Audit Manager provided the Committee with an update on the progress that had been made on work being completed as part of the Surrey Counter Fraud Partnership. This included the investigation of all types of fraud barring Housing Benefit fraud which is now investigated by the Department for Work & Pensions. 1 Year of work had been supported in full with funding from the Department for Communities & Local Government to assist in combating fraud.

Key findings included:

- 5 Council properties that had not been occupied by the tenant in accordance with the Tenancy Agreements terms and conditions being recovered and subsequently made available to be re-let to residents on the waiting list.
- 3 housing applications and 5 right-to-buy applications had been refused as the information provided to the Council did not reflect the true circumstances of the applicant.

- The value of financial savings was £534,310 based on notional Audit Commission figures. However, those notional figures did not include the real value to Waverley, as it cost on average £200,000 to build a new house and where tenancies had been relinquished these had then been allocated to those on the waiting list. As five tenancies had been recovered this equated to £1million not being required to replace those properties.

The Committee was very pleased with the success of the investigation and thanked Officers for their work.

Members were advised that following further partnership funding together with money from savings made across the Council, the counter fraud investigation would continue for another year.

Officers commented that the outlay was money well spent when the potential returns were so high, especially at a time of financial strain.

It was agreed the Internal Audit Manager will provide at each meeting of the Audit Committee going forward with a quarterly summary of current progress of the continuing counter fraud investigation.

RESOLVED to that the Committee continue its support for the counter fraud work and notes the successes being achieved in safeguarding Waverley's assets.

44. EXCLUSION OF PRESS AND PUBLIC (Agenda item 11.)

The Committee RESOLVED that pursuant to Procedure Rule 20 and in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of items 11 and 12 on the grounds that it was likely, in view of the nature of the business transacted or the nature of the proceedings, that if members of the public had been present during the item(s), there would have been disclosure to them of exempt information (as defined by Section 100.1 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 namely:

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

45. UPDATE ON FRAUD INVESTIGATION (Agenda item 12.)

The Committee received a verbal update on the fraud investigation as noted in Exempt Annexe 1 of these Minutes.

46. UPDATE ON PAY BY PHONE CONTRACT (Agenda item 13.)

The Committee received a verbal update on the `pay-by-phone` contract as noted in Exempt Annexe 2 to these Minutes.

The meeting commenced at 7.00 pm and concluded at 9.22 pm

Chairman