

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

When calling please ask for:
Kimberly Soane, Democratic Services Officer
Policy and Governance
E-mail: Kimberly.soane@waverley.gov.uk
Direct line: 01483 523258
Date: 4 September 2020

Membership of the Audit Committee

Cllr Peter Marriott (Chairman)
Cllr Jerome Davidson (Vice Chairman)
Cllr Richard Cole
Cllr Jan Floyd-Douglass

Cllr John Gray
Cllr Michaela Gray
Cllr Richard Seaborne
Cllr George Wilson

Dear Councillors

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

DATE: MONDAY, 14 SEPTEMBER 2020
TIME: 7.00 PM
PLACE: ZOOM

The Agenda for the meeting is set out below.

The meeting can be viewed remotely in accordance with the provisions of The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, via the Council's YouTube page.

Yours sincerely

ROBIN TAYLOR
Head of Policy and Governance

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Please be advised that there is limited seating capacity in the Public Gallery; an overflow room will be available where possible. This meeting will be webcast and can be viewed by visiting www.waverley.gov.uk/webcast.

NOTE FOR MEMBERS

Members are reminded that Contact Officers are shown in 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 20th July 2020, which are published on the council's website.

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.

5. **QUESTIONS FROM MEMBERS**

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

6. **AUDIT ACTION LOG** (Pages 1 - 2)

To receive an update on outstanding actions.

7. **AUDIT COMMITTEE ANNUAL ACTIVITY REPORT** (Pages 3 - 12)

This report details the work undertaken by the Audit Committee over the

municipal year 2019/20. The purpose of this annual appraisal of the work of the Committee is to help Members review the previous year's work and plan for the coming year.

Recommendation

It is recommended that the work carried out by the Audit Committee in 2019/20 be noted.

8. REVIEW OF THE AUDIT TERMS OF REFERENCE (Pages 13 - 110)

To consider the attached report including the core functions and membership and to make comment.

Recommendations

To consider the CIPFA Model TOR as a whole and pass comments to the Governance Review Working Group.

That the committee carries out the self-evaluation/effectiveness review following the template in the CIPFA Guidance (in an informal meeting).

9. RISK MANAGEMENT

To receive an update following the Risk Register review held on 17th August 2020.

10. AUDIT FINDINGS REPORT 2019/20 (Pages 111 - 142)

The Audit Findings Report, produced by Grant Thornton, summarises the key findings arising from the work they have carried out at Waverley Borough Council for the year ended 31 March 2020.

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

Recommendation

It is recommended that the Audit Committee receives and notes the Audit Findings Report 2019/20.

11. STATEMENT OF ACCOUNTS 2019/2020 (Pages 143 - 258)

To receive and agree the Statement of Accounts 2019/2020.

Recommendation

The Committee is asked to Agree the Statement of Accounts 2019/2020.

12. ANNUAL GOVERNANCE STATEMENT 2019/2020 (Pages 259 - 272)

To receive and agree the Annual Governance Statement 2019/2020.

Recommendation

The Committee is asked to Agree the Annual Governance Statement 2019/2020.

13. CONSIDERATION OF POTENTIAL GOVERNANCE ISSUES

The Committee to raise any potential emerging governance issues that may need to be addressed.

Recommendation

The committee to raise any potential emerging governance issues for consideration.

14. REVIEW OF PROGRESS IN THE IMPLEMENTATION OF INTERNAL AUDIT AGREED ACTIONS (Pages 273 - 284)

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

Recommendation

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

15. REVIEW OF THE PROGRESS IN ACHIEVING THE AUDIT PLAN (Pages 285 - 302)

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 reviews is attached.

Recommendation

It is recommended that the Committee notes the contents of the Internal Audit Progress report as attached.

16. AUDIT COMMITTEE RECURRENT ANNUAL WORK PROGRAMME (Pages 303 - 304)

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.

17. **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).

18. **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**

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Audit Action Log / Forward Programme					
Date of Meeting	Outstanding Actions	Owner	Date Due	Outcome/Progress/Comment	Complete
02/03/2020	Detailed discussion on the Property Investment Strategy	Graeme Clark	TBC	This would be held offline and reported back.	21/07/2020
02/03/2020	Internal costed audit plan	Gail Beaton	22/07/2020	Carried out and circulated	22/07/2020
21/07/2020	Session on the Strategic Risk Register to be organised for mid to late August.	Graeme Clark	01/09/2020	Session held Monday 17 th August 2020	17/08/2020

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AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2019/20

This report details the work undertaken by the Audit Committee over the municipal year 2019/20. The purpose of this annual review of the work of the Committee is to help Members review the previous year's work and plan for the coming year.

The Committee met four times in July, September and November 2019 and March 2020. Additional informal briefing sessions were held throughout the year and are summarised at section 7 of this report. The membership of the Committee was as follows:

Cllr Peter Marriott (Chairman)	Cllr Jan Floyd-Douglass
Cllr Jerome Davidson (Vice-Chairman)	Cllr Michaela Gray
Cllr Richard Cole	Cllr Richard Seaborne
Cllr Simon Dear	Cllr George Wilson

A brief summary of the work undertaken by the Committee in 2019/20 is outlined in the table below and further details are set out at Sections 1 – 6 of this report.

July 2019	September 2019	November 2019	March 2020
External Audit Findings Report	Annual Audit Letter	Contract Procurement Rules Update	Air Quality Management Investigation Outcome and Findings
Annual Internal Audit Report	Audit Committee Annual Activity Report	Financial Regulations Update	External Audit Plan for 2019/20
Annual Governance Statement 2018/2019	Internal Audit Charter	Tax Strategy Update	Accounting Policies for 2020/21
Statement of Accounts 2018/2019	Progress on the Internal Audit Plan for 2019/20	Annual Governance Statement – Consideration of Potential Governance Issues	Annual Governance Statement – Consideration of Potential Governance Issues
Risk Management Framework	Progress on Implementation of Internal Audit Recommendations	Debt Recovery update	Progress on the Internal Audit Plan for 2019/20
	Fraud Investigation Summary	Progress on the Internal Audit Plan for 2019/20	Proposed Internal Audit Plan for 2020/21
	Risk Management	Progress on Implementation of	Progress on Implementation of

		Internal Audit Recommendations	Internal Audit Recommendations
	Annual Governance Statement – Consideration of Potential Governance Issues	Fraud Investigation Summary	Fraud Investigation Summary

1. Standing Items

The Audit Committee has a recurrent work programme, with a number of items received at each meeting.

1.1 Progress on the implementation of Internal Audit Recommendations

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

There were no notable matters of concern for the Committee in 2019/20, and all recommendations were either completed by the target date or were nearing completion.

1.2 Progress in achieving the Internal Audit Plan

The Audit Committee's terms of reference allow the Committee to comment on the progress made against the Internal Audit Plan. At each meeting the Committee receives an report summarising the current status of the reviews within the plan, including details of any reports where only a *limited* or *no* assurance opinion is given.

During the year the Committee noted:

- The *limited* assurance opinion in relation to Management of asbestos –all the recommendations from the audit review had been accepted and implemented; monitoring of the actions would be carried out by the Head of Service and the Internal Audit Manager.
- A vacancy in the in-house internal audit resources impacted on service delivery, with additional days procured from Southern Internal Audit Partnership (SIAP) to cover the shortfall in resources, and some rescheduling of Internal Audit Plan priorities.
- Internal audit reports were not routinely shared with Members, but could be circulated on request. Wider learning arising out of a specific audit review would be cascaded to officers as part of the staff development programme rather than as an action specifically for the Audit Manager.
- 204 audit plan days had been delivered; a number of planned reviews, totalling 79 days, were deferred to the 2020/21 Audit Plan. A number of reviews were added to the 2019/20 Audit plan, totalling 92 days.

1.3 Annual Governance Statement – Consideration of Emerging Governance Issues

Every year, the Audit Committee is required to formally review the Council's governance arrangements and approve the Annual Governance Statement (AGS). However, the statement is monitored throughout the year, to identify potential governance issues as they arise.

At its July 2019 meeting, the committee approved the AGS for 2018/19. At the September and November 2019, and March 2020 meetings the committee considered potential governance issues that might need to be addressed in the 2019/20 AGS, including:

- Management of Projects through a robust project management framework
- Air Quality monitoring and reporting
- Application of Habitats Regulations
- Impact of the Covid-19 pandemic

1.4 Updates on Counter Fraud Work

At each meeting, the Committee is updated on the progress made by officers on the work being completed in investigating all types of fraud, but primarily focusing on Housing Tenancy fraud.

The Committee was particularly pleased with the success of the anti-fraud work, which meant that more properties were available for residents who were in genuine need of a home. Additionally, the notional financial returns more than justified the dedicated post, which also had added benefits as a deterrent value.

2. Accounts and Annual Governance Statement

It is within the Committee's Terms of Reference to approve the Statement of Accounts and Annual Governance Statement (AGS) each year.

The Committee considered the Statement of Accounts and Annual Governance Statement for 2018/19 at its meeting on 22 July 2019. A briefing session had been held earlier in the month, to provide an opportunity for members of the Committee to ask any detailed questions on the accounts.

The Committee had some concerns about approving the accounts before the external audit was fully completed. Graeme Clark stated that he hoped there would not be any significant changes arising from the remaining work, but in order to make any minor amendments that may be required, he proposed a revised recommendation to give delegated authority to make changes subject to there being no fundamental mis-statements.

The Committee agreed with this approach, and requested that it be informed of any changes made to the statement of accounts under this delegation. Additionally, the Committee requested that Grant Thornton circulate a final Audit Findings Report once all the audit work had been completed.

In view of the ongoing audit work in relation to property valuations, the Committee RESOLVED that delegated authority be given to the Strategic Director (s151 Officer) in consultation with the Chairman of the Audit Committee to consider any changes to the External Audit Findings Report and, if satisfied with the report to make any necessary amendments to the accounts and/or Letter of Representation, and subject to this:

1. Approved the Statement of Accounts for the financial year ended 31 March 2019;
2. Approved the Letter of Representation for 2018/2019; and
3. Confirmed that the accounts had been prepared on a going concern basis.

3. Internal Audit Reports

In addition to the standing items presented by the Internal Audit Service, the Committee received a number of additional reports during 2019/20.

3.1 Annual Internal Audit Report

The Annual Internal Audit Report is linked to the Internal Audit opinion set out in the Annual Governance Statement and details the audit recommendations made throughout the year, as well as highlighting those still to be actioned.

At its July meeting, the Committee received the report and discussed the issue of fraud and its prevalence in Waverley.

The Committee noted that the Council had recently appointed a new internal audit contractor as well as strengthening the in-house audit team. This had not been mentioned in the report, but it was felt that the new arrangements would provide a strong and resilient internal audit service going forward.

The Committee thanked the audit team for their hard work.

3.2 Internal Audit Charter

The Internal Audit Charter is reviewed by the Committee on an annual basis. There were only minor changes made to the since the last version had been published, and these were highlighted in the document attached to the agenda for the September meeting.

3.3 Internal Audit Plan

At its March meeting, the Committee considered the proposed Internal Audit Plan for 2020/21. The Internal Audit Manager had consulted with the Directors and Heads of Service and carried out risk assessments in order to determine which items should be included.

4. External Audit

During 2019/20, the Committee received a number of reports from Grant Thornton, the council's external auditors.

4.1 External Audit Findings Report

The Committee received External Audit Findings Report at its July meeting. Members heard that the audit work had started later in the year than anticipated due to a change in the audit team that had been necessary in order to ensure the independence and integrity of the audit. Grant Thornton thanked staff in the Council's finance team for their hard work and assistance in meeting the tighter than usual timeframes.

One adjustment to the accounts had been required in relation to net pension liability as a result of a national issue, not specific to Waverley. As a result of this matter, the Council had requested that its actuary carry out further work and officers had reviewed the findings to ensure that there was no impact on the integrity of the accounts.

4.2 Annual Audit Letter

At its September meeting the Committee received the Annual Audit letter. This document was a more public-facing version of the External Audit Findings Report and had been updated to take into account the comments made by Members at the previous meeting.

Overall, the Committee was very pleased with the work of both the council's finance team and the external auditors, particularly given the short time frame.

4.3 External Audit Plan

At its March meeting, the Committee received the External Audit Plan for the year ending 31 March 2020.

The scope of the audit was outlined with the key areas of significant risk highlighted.

The significant risks identified were:

- The revenue cycle includes fraudulent transactions – this was rebutted after the auditor concluded there was little evidence of any risk;
- Management over-ride of controls – this will be evaluated by Grant Thornton;
- Valuation of land and buildings – this will be evaluated by Grant Thornton; and
- Valuation of pension fund net liability – this will be evaluated by Grant Thornton

5. Corporate Governance Policies

The Audit Committee has a key role in reviewing Council policies relating to governance, and may make recommendations to officers or the Council as appropriate.

5.1 Accounting Policies

At its March meeting the Committee were advised that the 2019/2020 Code had introduced no substantial new reporting requirements in 2019/20. In 2020/21 there was one substantial financial reporting standard which would be implemented from 1 April 2020. International Financial Reporting Standard (IFRS) 16 Lease accounting, which changed how leases were accounted for to represent the value of assets and liabilities. He advised that a lot of work had already been done around this change. The report outlined the areas affected and the impacts of the change.

5.2 Tax Strategy

At its November meeting the Committee was advised that the Council was required to have in place a Tax Strategy to fulfil its responsibilities under the Legislation in Criminal Finances Act 2017, and to undertake to respond appropriately to the Corporate Criminal Offence guidance from HMRC issued in September 2017.

The Council's Tax Strategy had been adopted in September 2018. The Committee noted that the legislation was aimed more at the wider corporate world, and the Council did not have any complex tax structures. It was therefore proposed that the Strategy be reviewed every two years, or sooner if there was a material change that impacted on it.

The Committee recommended the Tax Strategy 2020/22 to the Executive for approval

5.3 Financial Regulations

At its November meeting the Committee were advised that they were required to maintain an overview of the Council's Constitution in respect of financial regulations. Members noted that the regulations were last updated in September 2018 and in line with the commitment of continual review within the Annual Governance Statement the Financial Regulations had been reviewed and three changes were proposed, in relation to:

- FR 4.30 Carry forwards of budget
- FR 7.2 Approval of fees and charges
- Glossary - Definition of key financial system

It was proposed that the Section 151 Officer, rather than the Executive, would approve all budget carry forwards, and these would then be reported to the Executive as part of the end of year out-turn reporting.

It was proposed that the Section 151 Officer be able to approve changes to fees and charges, including car park fees, to speed up the process and give more flexibility to change charges during the year to respond to market demand. This would be carried out in consultation with the portfolio holder.

5.4 Contract Procurement Rules

At its November meeting the Committee were advised that the Contract Procedure Rules (CPR) were maintained and updated as and when required to adopt legislative changes, reflect best practice in the industry and support the Council's corporate objectives.

The current CPRs had last been updated and approved by full Council in October 2018. Whilst they were still fit for purpose, there were a small number of amendments required to reflect new/current legislation as well as the Council's newly adopted Corporate Strategy.

The Committee considered proposed amendments in relation to:

1. Modern Slavery
2. Tax implications
3. Accessibility standards
4. Carbon neutral
5. Disposal of Council assets

The Committee resolved that Council should approve the amendments.

5.6 Debt Recovery Update

At the Committee's November meeting, the Committee received an update on debt recovery. In February 2019 the council had implemented a new Income Debt Management Policy which provided an over-arching framework for managing all the council's income streams. It was a significant update of the previous policy, driven by the need to reflect the capability of current systems and the principle of charging for services at the point of service whenever possible.

The Committee noted that there were 3 key areas of work:

1. Updates to IT systems including Agresso, and Adelante the cash-handling system. Adelante had new functionality to allow recurring payments which allowed the process to be more efficient.
2. The Finance Team was liaising with all services to discuss the handling of debt and establish procedures appropriate to the service and their customers.
3. The Exchequer team was being reconfigured to make sure they had the right capacity to handle debt management, with increased resources in the debt recovery team to avoid reaching the point of having to use bailiffs and going to court. Recovery of Housing Benefit over-payments was a key focus. Officers were in contact with Reigate and Banstead Borough Council to benefit from their practices.

The Committee was pleased to hear about the work being done to manage income due to the Council, and that Internal Audit had reviewed the new systems.

6. Risk Management

At its September meeting the Committee were advised that the Corporate Risk Registers were being reviewed in light of the new Corporate Strategy. Risk appetite workshops had been arranged for all councillors, and a further session would be arranged for Audit Committee Members to go through the risk registers in more detail.

At its March Meeting the Committee were read a statement by Tom Horwood, Chief Executive of Waverley Borough Council regarding the Air Quality Management Investigation around fraudulent readings of Air Quality submitted by a member of staff.

The committee agreed that the way forward was to strengthen controls.

The Committee were advised that lessons had been learned. Waverley had now introduced two contracts: one for diffusion tubes and one to manage the Automatic Air Quality Monitors. In addition, the raw data was published monthly so it was in the public domain. One company also carried out quality assurance checks on the other and there were now much tighter controls overall.

The committee request that Internal Audit draw up a report showing all aspects of operations that could be exposed or Heads of Service to give assurance that the lessons have been captured.

7. Briefing Sessions

The Committee received a number of briefing sessions during 2019/20 and these are summarised below.

7.1 Audit Induction Sessions

At the elections in May there were a number of 'new' councillors elected therefore three introductory sessions were arranged for the committee to introduce the members to the duties of the Audit Committee.

7.2 Risk Appetite and Risk Management

Prior to its November meeting, the Committee received risk appetite workshops and a briefing session on risk management. (see item six of this report)

7.3 Medium Term Financial Plan

Prior to its November meeting, the Committee received briefing sessions on the Medium Term Financial Plan.

Contact Officer:

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WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

14 SEPTEMBER 2020

Title:

Audit Committee – Terms of Reference

Portfolio Holder: Cllr John Ward, Leader of the Council; Cllr Paul Follow, Deputy Leader of the Council

Head of Service: Robin Taylor, Head of Policy & Governance

Key decision: No

Access: Public

1. Purpose and summary

- 1.1 This report follows-up on an outstanding action, for the Audit Committee to review its own Terms of Reference in relation to the current CIPFA Guidance for Local Authority Audit Committees.
- 1.2 Using the CIPFA Guidance 2018, there is an opportunity to review the Audit Committee Terms of Reference against best practice and in the wider context of the council's governance review; and also to review its own effectiveness in fulfilling the remit which will inform future learning and development needs for the committee members.

2. Recommendation

It is recommended that:

1. The Audit Committee makes recommendations to the Governance Review Working Group and Standards Committee on adopting the Model Local Authority Audit Committee Terms of Reference as set out in the *CIPFA Audit Committee Practical Guidance 2018*, with particular reference to:
 - Statement of Purpose of the Audit Committee
 - Membership of the Audit Committee, including appointment of an independent committee member;
 - Number of public and private (or formal/informal) meetings a year;
 - Inclusion of wider functions such as Local Standards and Ethics and/or reviewing and monitoring treasury management functions, within the Committee's remit.
2. The Audit Committee carries out a review of its effectiveness, following the template in the *CIPFA Audit Committee Practical Guidance 2018*, to inform future training and development needs of the Committee.

3. Reason for the recommendation

The Audit Committee is a key component of the Council's governance framework. It is entirely appropriate that the Committee contributes to the Council's review of its overall governance arrangements, with a particular focus on its own place and role in those arrangements. Similarly, the Committee should, on a regular basis, reflect on its own effectiveness and identify what learning and development is required for Members in order that they can carry out their role as Audit Committee Members.

4. Background

- 4.1 The Terms of Reference of the Audit Committee (**attached at Annexe 1**) were last updated by Council on 20 February 2018. Subsequent to that, and prior to the local elections in May 2019, the Audit Committee Chairman and Vice-Chairman had raised a number of issues where they felt there was potential overlap between the roles of the Audit Committee and Overview and Scrutiny.
- 4.2 At its meeting on 4 March 2019, the Audit Committee reviewed the CIPFA 2018 *Audit Committees: Practical Guidance for Local Authorities and Police* [the CIPFA Guidance 2018 – **attached at Annexe 2**] on the function and operation of audit committees. The CIPFA Guidance 2018 represents CIPFA's view of best practice for audit committees in local authorities throughout the UK. The key changes in the CIPFA's 2018 guidance (compared to the 2013 edition) relate to the following areas:
- in local authorities, the Audit Committee should be independent of both the executive and the scrutiny functions, and include an independent member where this is not already mandated by legislation;
 - additional guidance on how the Audit Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
 - additional guidance on how the Audit Committee can support independence of the external auditor and monitor the external audit process.
- 4.3 The Guidance includes:
- suggested terms of reference for local authority audit committees (Appendix B);
 - commentary on the characteristics of good audit committees, and common areas of difficulty for audit committees; and
 - approaches to improvement and evaluating effectiveness (Appendix D, Appendix E).
- 4.4 The Audit Committee recommended that a draft of revised terms of reference be brought back to the Audit Committee following detailed consideration of the CIPFA Guidance 2018.
- 4.5 Due to the significant change in the membership of the Audit Committee following the May 2019 elections, the immediate priority for the Committee members has been to develop their understanding of the Committee's role and purpose. It is now timely for the Audit Committee to reflect on its role and effectiveness going forward, to ensure that the Audit Committee is fulfilling its function of providing an independent and high level resource to support good governance and strong public financial management.

- 4.6 Unsurprisingly, there is a great deal of similarity between the Audit Committee's agreed Statement of Purpose and Core Functions, and those as set out in the Model Terms of Reference in the CIPFA Guidance 2018, with the latter being somewhat more detailed. Officers have no hesitation in recommending that the Model Statement of Purpose and Core Functions are adopted.
- 4.7 The Model Terms of Reference set out best practice for Audit Committees in terms of Independence and Accountability, including membership being independent of the executive and scrutiny functions, and there being an independent committee member. At Waverley, Executive Members are excluded from the Audit Committee, and there is considerable overlap in the membership of the Audit Committee and the Overview & Scrutiny Committees. Waverley does not include an independent member on its Audit Committee. The Audit Committee is asked to consider whether, in principle, it agrees with CIPFA best practice that there should be separation between the Audit Committee and scrutiny functions, and/or an independent member, so that this can be taken into account by the Governance Review Working Group in looking at the council's governance arrangements across the board.
- 4.8 The CIPFA Guidance 2018 also notes that in some local authorities the Audit Committee may take on a wider corporate governance role including, for example, responsibility for ethical standards or the treasury management framework. These functions are carried out at Waverley by the Standards Committee, and the Value for Money Overview & Scutiny Committee. There is potential to avoid some of the potential overlap in committee responsibilities by having one 'Corporate Governance & Audit Committee', and the Audit Committee is asked to agree comments to be passed to the Governance Review Working Group in relation to taking on a wider remit.
- 4.9 The Audit Committee membership largely comprises Members who were newly elected to the Council in May 2019. Induction training was provided for the new Audit Committee, and there have been ad hoc briefings for the Committee including most recently on risk management and the annual accounts. Given the technical nature of the Committee's role, it is timely for the Committee Members individually and collectively to reflect on their performance and how this might inform future learning and development needs. The CIPFA Guidance 2018 includes a self-evaluation template for this purpose.
- 4.10 The Audit Committee is a key component of the Council's governance framework, and should demonstrate good governance principles and independence through the way it operates, drawing on the best practice guidance as set out by CIPFA.

5. Relationship to the Corporate Strategy and Service Plan

- 5.1 An effective Audit Committee is key to supporting the Council's vision for transparent, open and participative governance.

6. Implications of decision

6.1 Resource (Finance, procurement, staffing, IT)

To be completed in liaison with Finance/HR. These are the substantive resource

comments.

6.2 Risk management

“Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly-based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.” *CIPFA Guidance 2018 Appendix D (page 73).*

6.3 Legal

Reports should be sent to legal services for review at least 4 working days before the final agenda reports deadline.

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

Should the Audit Committee have a specific role in relation to giving assurances around the council’s compliance with the climate emergency declaration, or the outcomes reported in the action plan? Is that embedded in other functions implicitly?

7. Consultation and engagement

7.1 The Audit Committee is asked to provide comments on its Terms of Reference, to inform the wider governance review being undertaken by the Governance Review Working Group.

8. Other options considered

8.1 It is good practice for the Committee to keep its Terms of Reference under review, and there is an outstanding action to do so. The starting point for the review should be the latest CIPFA Guidance.

9. Governance journey

9.1 The feedback from the Audit Committee will be reported to the Governance Review Working Group in the first place, to inform the rral governance review. Any changes to the Audit Committee’s Terms of Reference will need to be approved by Full Council on the recommendation of the Standards Committee.

Annexes:

Annexe 1 – Audit Committee Terms of Reference (20 Feb 2018)

Annexe 2 – *CIPFA Audit Committee Practical Guidance 2018*

Background Papers

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

CONTACT OFFICER:

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Position: Democratic Services Manager
Telephone: 0148 3523226
Email: Fiona.cameron@waverley.gov.uk

Agreed and signed off by:

Legal Services: date

Head of Finance: date

Strategic Director: date

Portfolio Holder: date

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Article 8 – Regulatory and other Committees

8.1 Regulatory Committees

The Council will appoint the Committees set out in the left hand column of the table Responsibility for Council Functions in Part 3 of this Constitution to discharge the functions described in column 3 of that table. Currently the Regulatory Committees are:

- a) Joint Planning Committee
- b) Area Planning Committees (Central, Eastern, Southern and Western)
- c) Licensing and Regulatory Committee.

8.2 Audit Committee

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

- a) Risk management framework
- b) Control environment and arrangements
- c) Financial performance
- d) Non-financial performance (processes and controls)
- e) Financial reporting.

8.3 Audit Committee Terms of Reference

The Terms of Reference are as follows:

(a) Corporate Governance

- i. To review the Council's arrangements for corporate governance and recommend necessary actions to ensure compliance with best practice as set out in the current CIPFA/SOLACE Framework "Delivering Good Governance in Local Government" and any revision thereof.
- ii. To review the Council's compliance with its own and other published regulations, standards and controls, covering both financial and general issues and, if appropriate, make recommendations to the Council.
- iii. To maintain an overview of the contract procedure rules and financial regulations and recommend their adoption to the Council.
- iv. To review Council policies in "Whistleblowing" and the anti-fraud and anti-corruption strategy and the Council's complaints-handling process and recommend any changes to the Council.
- v. To monitor the effective development and operation of internal control in the Council with particular reference to all aspects of risk management, including Waverley's Corporate Risk Registers.

- vi. To review any issue referred to it by the Head of Paid Service or a Director or any other Council Committee.
- vii. To approve the Council's Annual Governance Statement.

(b) External Audit

- i. To consider whether appropriate accounting policies have been followed in the preparation of the annual statement of accounts and to approve any changes to these policies.
- ii. To receive all reports from the external auditor to the Audit Committee.
- iii. To consider any concerns arising from the audit or the accounts and to agree appropriate action to be taken including bringing the matter to the attention of the Council.
- iv. To consider and approve the annual statement of accounts.
- v. To comment on the scope and depth of external audit work and to ensure that it gives value for money, especially with regard to reports dealing with risk management and performance matters.
- vi. To make recommendations to Council regarding the appointment of the External Auditor.

(c) Internal audit

- i. To approve the Internal Audit Charter.
- ii. To approve the Annual Internal Audit (Risk-Based) Plan.
- iii. To consider the Internal Audit Client Manager's Annual Report and Internal Audit Opinion.
- iv. To consider the current Internal Audit Plan and summaries of internal audit activity by Service Area and consider the level of assurance this can give concerning the effectiveness of the Council's corporate governance arrangements.
- v. To consider internal audit reports detailing recommendations not implemented within the specified timescale and to agree appropriate action, including requesting a report from any Head of Service relating to an outstanding internal audit recommendation issue.
- vi. To commission work from the Internal Audit Service.
- vii. To monitor the progress of any specific internal audit projects not included in the Audit Plan.
- viii. To consider reports dealing with the appointment, management and performance of the providers of internal audit services.

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

8.4 Composition of Audit Committee

(a) Membership and Meetings

The Audit Committee will

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

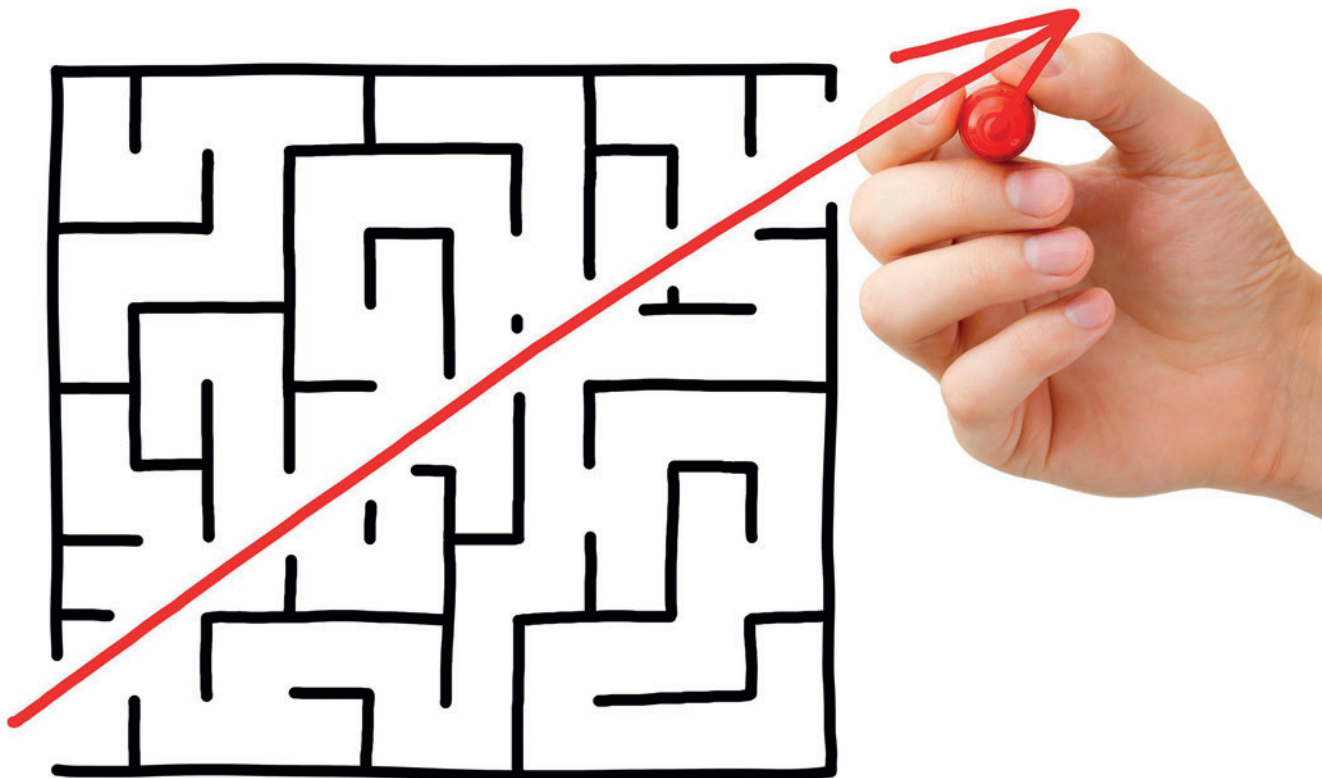
(b) Quorum

The quorum for meetings will be three Councillors.

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audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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audit committees

Practical Guidance for
Local Authorities and Police
2018 Edition

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Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.



Diana Melville

Governance Advisor, CIPFA

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CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards \(PSIAS\)](#) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards \(LGAN\)](#).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4** The core functions of an audit committee are to:
 - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority’s risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
 - review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - be able to meet privately and separately with the external auditor and with the head of internal audit
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

The purpose of audit committees

Extract from the Position Statement

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the [Police Reform and Social Responsibility Act 2011](#). Guidance for police audit committees is contained in the [Financial](#)

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

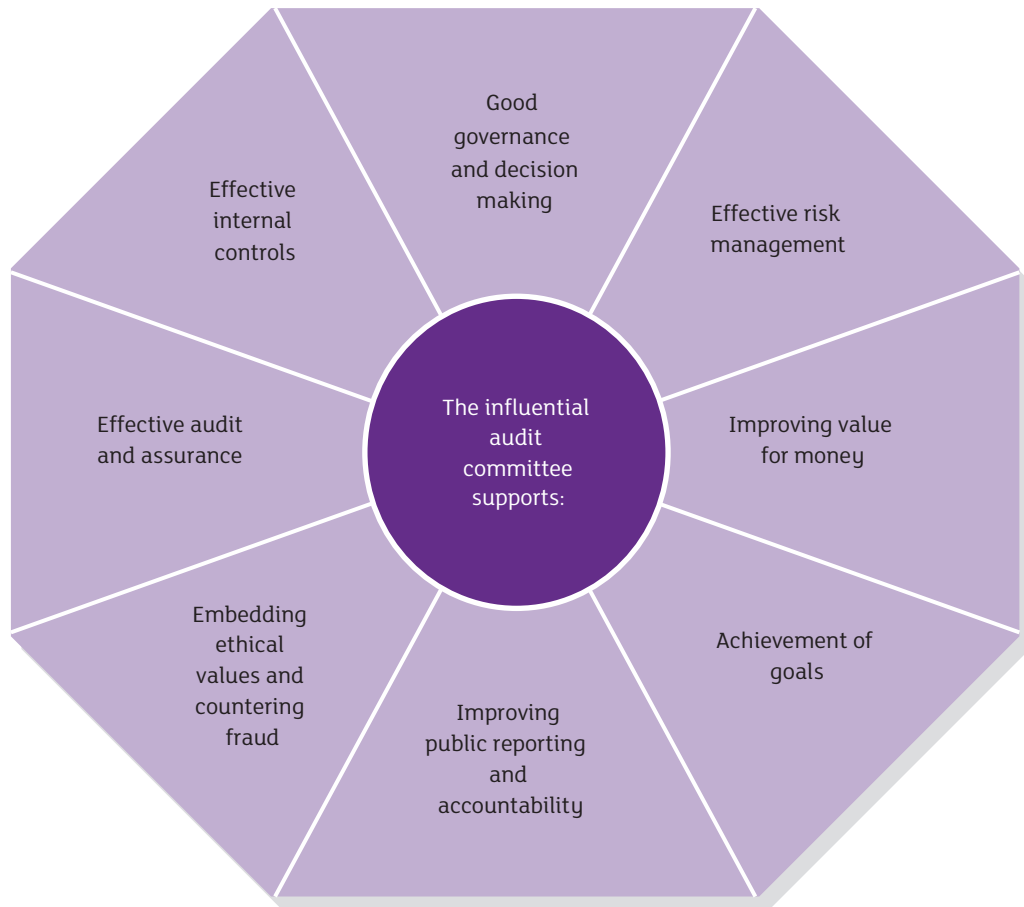
As a key component of an organisation’s governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openness from the authority.

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority’s goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA’s view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

The core functions of an audit committee

Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
 - in relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework
 - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
 - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
 - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
 - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
 - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
 - the internal audit charter
 - the risk-based internal audit plan
 - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
 - a summary of the work on which internal audit has based the opinion
 - a statement on conformance with the PSIAS and the LGAN
 - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
 - overseeing the authority's risk management policy and strategy and their implementation in practice
 - overseeing the integration of risk management into the governance and decision-making processes of the organisation
 - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
 - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
 - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
 - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
 - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
 - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
 - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance [Internal Audit's Role in Counter Fraud](#) (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the [Local Audit and Accountability Act 2014](#).

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see [Guide to Auditor Panels](#) (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive [guidance](#) from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the [Revised Ethical Standard 2016](#) (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
 - whether the external auditor has a good understanding of the authority
 - how the external auditor has responded to areas of audit risk
 - actions taken to safeguard independence and objectivity
 - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The [Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#) require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

[Understanding Local Authority Financial Statements](#) (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the [Policing and Crime Act 2017](#). Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.

Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the [Public Interest Disclosure Act 1998](#). As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

Possible wider functions of an audit committee

Extract from the Position Statement

- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
 - working with local standards and ethics committees to support ethical values
 - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
 - providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the [Localism Act 2011](#), English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the [Code of Ethics](#) (College of Policing, 2014)
- [Tone from the Top: Leadership, Ethics and Accountability in Policing](#) (Committee on Standards in Public Life, 2015)
- [Integrity Matters](#) (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

Independence and accountability

Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
 - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
 - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
 - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The [CIPFA Survey on Audit Committees in Local Authorities and Police 2016](#) found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

Membership and effectiveness

Extract from the Position Statement

- 6** Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
 - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
 - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
 - unbiased attitudes – treating auditors, the executive and management fairly
 - the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the [Local Government \(Wales\) Measure 2011](#), which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the [Cities and Local Government Devolution Act 2016](#). The Act and the subsequent [Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#) require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. [CIPFA's 2016 survey](#) of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or ‘context’ among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members	<ul style="list-style-type: none"> ■ Where turnover of membership is very frequent, it will be difficult for the committee to build up experience 	<ul style="list-style-type: none"> ■ Enhanced level of support and training to members will be required ■ To enhance continuity the authority could consider recruitment of independent members
Audit committee members do not feel confident in their knowledge of particular areas	<ul style="list-style-type: none"> ■ Lack of training and support 	<ul style="list-style-type: none"> ■ Enhanced level of support and training to members
Independent members lack knowledge of the organisation and lack connections with key managers	<ul style="list-style-type: none"> ■ Poor induction ■ Limited opportunities to engage with the organisation outside formal meetings 	<ul style="list-style-type: none"> ■ Improve induction ■ Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion	<ul style="list-style-type: none"> ■ Lack of experience or skill in managing meetings by the chair ■ Committee members are unsure about their role ■ Poor support from the committee secretary 	<ul style="list-style-type: none"> ■ Training and support ■ Develop a mentoring/ coaching programme ■ Chair seeks feedback from meeting participants ■ Consider skills and experience in the selection of the chair ■ Provide training and guidance to committee members on their role ■ Improve committee support
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues	<ul style="list-style-type: none"> ■ Agenda management fails to prioritise key areas ■ The chair does not intervene to keep focus at an appropriate level 	<ul style="list-style-type: none"> ■ Review the process of agenda development ■ Review the terms of reference and provide training ■ The chair seeks feedback from meeting participants ■ Provide the chair with committee management training
The audit committee is little known or understood in many parts of the authority	<ul style="list-style-type: none"> ■ The audit committee fails to engage with many parts of the authority ■ Attendance is often limited to the CFO and the head of internal audit 	<ul style="list-style-type: none"> ■ Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	<ul style="list-style-type: none"> ■ Lack of feedback or reporting arrangements 	<ul style="list-style-type: none"> ■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	<ul style="list-style-type: none"> ■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives 	<ul style="list-style-type: none"> ■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	<ul style="list-style-type: none"> ■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee 	<ul style="list-style-type: none"> ■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	<ul style="list-style-type: none"> ■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee 	<ul style="list-style-type: none"> ■ Seek feedback from those interacting with the committee or external assessment ■ Provide support for or training for the chair ■ Consider the inclusion or role of independent members
A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management	<ul style="list-style-type: none"> ■ Lack of understanding about the role of the committee ■ Differing perceptions on the value of the committee ■ Personality clashes 	<ul style="list-style-type: none"> ■ Review the terms of reference and provide training and guidance ■ A senior officer provides internal facilitation to support improved relationships ■ Seek an external assessment or facilitation ■ Change the chair or membership, if the constitution or opportunity arises

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

APPENDIX A

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Required It is recommended that this should be a combined body for both PCC and chief constable 	<ul style="list-style-type: none"> No guidance
Composition of the audit committee	<ul style="list-style-type: none"> Committees must have at least one independent person as defined by guidance The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical The committee may not include an officer of the combined authority or a constituent council 	<ul style="list-style-type: none"> Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor 	<ul style="list-style-type: none"> Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable) 	<ul style="list-style-type: none"> No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specified functions of the audit committee	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Review and assess the authority's risk management, internal control and corporate governance arrangements</p> <p>c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions</p> <p>d) Make reports and recommendations to the combined authority</p>	<p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Make reports and recommendations in relation to the authority's financial affairs</p> <p>c) Review and assess the risk management, internal control and corporate governance arrangements of the authority</p> <p>d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements</p> <p>e) Oversee the authority's internal and external audit arrangements</p> <p>f) Review the financial statements prepared by the authority</p>	<p>Consider the internal and external audit reports of both the PCC and the chief constable</p> <p>Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices</p>	No guidance
Responsibilities of the audit committee in relation to external audit	<p>■ No guidance</p>	<p>■ Oversee external audit arrangements</p>	<p>■ Review external audit reports</p>	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	<ul style="list-style-type: none"> ■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016 	<ul style="list-style-type: none"> ■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011 	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on ‘relevant bodies’, eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to 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

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: <i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i> <i>a) arrangements for the management of risk, and</i> <i>b) adequate and effective financial management</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority's functions; and</i> <i>(b) includes arrangements for the management of risk</i>
Financial affairs and financial statements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i> Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: <i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: <i>A relevant authority must ensure that it has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i> <i>(b) ensures that the financial and operational management of the authority is effective; and</i> <i>(c) includes effective arrangements for the management of risk.</i>
Authority’s financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to 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

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: <i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i> <i>(a) facilitates the effective exercise of the authority’s functions; and</i> <i>(b) includes arrangements for the management of risk.</i>
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

- 34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 To publish an annual report on the work of the committee.

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	<ul style="list-style-type: none"> ■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority 	<ul style="list-style-type: none"> ■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	<ul style="list-style-type: none"> ■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee 	<ul style="list-style-type: none"> ■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance 	<ul style="list-style-type: none"> ■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	<ul style="list-style-type: none"> ■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled 	<ul style="list-style-type: none"> ■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	<ul style="list-style-type: none"> ■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) 	<ul style="list-style-type: none"> ■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	<ul style="list-style-type: none"> ■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken 	<ul style="list-style-type: none"> ■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	<ul style="list-style-type: none"> ■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee 	<ul style="list-style-type: none"> ■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	<ul style="list-style-type: none"> ■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud 	<ul style="list-style-type: none"> ■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	<ul style="list-style-type: none"> ■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority 	<ul style="list-style-type: none"> ■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
<p>Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)</p>	<ul style="list-style-type: none"> ■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> – regulatory requirements – treasury risks – the organisation’s treasury management strategy – the organisation’s policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017) 	<ul style="list-style-type: none"> ■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	<ul style="list-style-type: none"> Professional qualification in accountancy 	<ul style="list-style-type: none"> More able to engage with the review of the accounts and financial management issues coming before the committee Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues More able to engage with the external auditors and understand the results of audit work
Internal audit	<ul style="list-style-type: none"> Professional qualification in internal audit 	<ul style="list-style-type: none"> This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	<ul style="list-style-type: none"> Risk management qualification Practical experience of applying risk management Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority Previous scrutiny committee experience 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	<ul style="list-style-type: none"> Able to focus on material issues and overall position, rather than being side tracked by detail 	<ul style="list-style-type: none"> When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	<ul style="list-style-type: none"> Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding 	<ul style="list-style-type: none"> The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility 	<ul style="list-style-type: none"> The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	<ul style="list-style-type: none"> Able to understand the practical implications of recommendations to understand how they might work in practice 	<ul style="list-style-type: none"> The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> ■ Support the use of plain English in communications, avoiding jargon, acronyms, etc 	<ul style="list-style-type: none"> ■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	<ul style="list-style-type: none"> ■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity 	<ul style="list-style-type: none"> ■ The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	<ul style="list-style-type: none"> ■ Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting 	<ul style="list-style-type: none"> ■ These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> ■ counter fraud and corruption 			
	<ul style="list-style-type: none"> ■ supporting the ethical framework 			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

Membership and support

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the effectiveness of the audit committee

Assessment key

5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
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Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> ■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships 		
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Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> ■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> ■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> ■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> ■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> ■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements 		
Supporting the development of robust arrangements for ensuring value for money	<ul style="list-style-type: none"> ■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> ■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> ■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee 		



The Audit Findings for Waverley Borough Council

Year ended 31 March 2020

4 September 2020

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Agenda Item 10.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Waverley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work was completed on remotely during July-September. Our findings are summarised on pages 5 to 16. We have not identified any adjustments to date to the financial statements that have resulted an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p>
	<p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our work is still in progress but there are no outstanding matters of which we are aware at this time that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding areas which are outstanding at the time of drafting the report;</p> <ul style="list-style-type: none"> • PPE revaluations (see page 8) • work on the pension fund liability (see page 9). • Journals • Debtors (including HRA and Collection fund debtors) • Creditors • Operating expenditure • Fee and charges – responses to queries on sample evidence outstanding • Capital grants • Bad debt provision • Housing benefits expenditure – awaiting evidence for the top-up sample • Financial instruments • Leases • Related parties • completion of our internal quality review process • receipt of management representation letter; and • review of the final set of financial statements.
		<p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unmodified including an Emphasis of Matter paragraph, highlighting the material uncertainty of the valuation of land and buildings.</p>

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Waverley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Waverley Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 20.</p>
Covid-19 Page 114	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to initiate remote access working arrangements including the remote accessing of financial systems, the provision of working papers electronically by secure means, the use of video and telephone conferencing arrangements and using virtual technology to observe the download of data and other information to ensure its completeness and accuracy for testing.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Our approach to 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.

We have revised the materiality levels that was reported in our audit plan due to the lower gross revenue expenditure in the draft 2019/20 financial statements.

	Group Amount (£)	Council Amount (£)
Planning materiality (per the Audit Plan)	1,911k	1,905k
Materiality for the financial statements	1,832k	1,782k
Trivial matters	91k	89k

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you in our Audit Plan Addendum in April 2020, to reflect our response to the Covid-19 pandemic which we identified as an additional financial statements significant risk.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 14 September 2020, as detailed in Appendix E. These outstanding items are set out on page 3.

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

As part of our audit work we:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported in respect of Covid-19, although it was reduced to reflect the lower gross revenue expenditure of the Council. The draft financial statements were provided on 17 July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

Management produced the draft financial statements and working papers in line with the agreed timetable ahead of the audit commencing. This is a significant achievement with all of the Council's staff working remotely, although our audit did identify improvements that could be made to the Council's arrangements for supporting the audit. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the Council.

We did not identify any implications for our audit report resulting from Covid-19, however our report includes standard reference to the macroeconomic conditions arising from Brexit and Covid-19.

Significant audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

The assessment in our audit plan to rebut the presumed risk of improper revenue recognition remains appropriate. We have rebutted this presumed risk for the Council because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Waverley Borough Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the Council.

Management override of controls

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 Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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.

As part of our audit work we:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work on journals to date has not identified any issues in respect of management override of controls, but remains in progress at the time of drafting this report.

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings (Rolling revaluation)

The Council 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 Council and group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used

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.

Auditor commentary

As part of our audit work we:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- discussed with the valuer the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Council's valuer's report and the assumptions that underpin the valuation.
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated 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.

At the time of drafting this report, our audit work in respect of valuation of land and buildings is in progress. This is mainly due to the significant delays in responses to our audit queries from the Council's internal valuer.

We will be including an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty in the external valuer's report.

Significant audit risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Council'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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£68 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

As part of our audit work we:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested 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;
- undertook 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

Our work in this area is still in progress. This work is partially dependent on the progress of the Surrey Pension Fund audit, where we require assurances 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.

In addition, we will need to review further information from the actuary that we have requested in respect of two issues:

- Breakdown of the experience items. These are pension related figures that relate to the impact of correcting the estimates made in the years between the triennial revaluations of the pension fund.
- Details of the impact of the McCloud judgement on the Council's pension fund liability.

Other findings

Risks identified in our Audit Plan


IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary

The Council complied with the requirement of IAS 8 para 31 by disclosing the title of the standard and the date of the initial application. However, the draft accounts do not include any disclosure of the potential impact on the Council.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<p>Land and Buildings – Council Housing</p> <p>Draft: £421.6m</p> <p>Final: £429.8m</p>	<p>The Council owns a number of dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuer to complete the valuation of these properties.</p> <p>As the dwellings are valued as at 1 April the Council then applies an appropriate indexation to reflect movements in value to 31 March.</p> <p>The year end valuation of Council Housing was £429.8m, a net increase of £7.4m from 2018/19 (£422.4m), following indexation being applied as part of the audit adjustments.</p>	<ul style="list-style-type: none"> Local authority valuations are increasingly important given the significance of the amounts involved in the context of our overall materiality. Because of this we are taking a more challenging approach to the audit and many councils are finding that they need to strengthen their valuation arrangements in response. This is what we have found at Waverley, where the current in-house valuer is new to role. There have been no changes to the valuation method this year. Disclosure of the estimate in the financial statements is considered adequate No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate We have considered the movements in the valuations of assets, which identified that no indexation had been applied to the dwellings for the 2019/20 year. We challenged the valuer on the rationale and the supporting evidence supporting the decision, which was not in line with previous practice. The Council has now decided to apply indexation to the value of its council dwellings, which is a material adjustment. Management need to ensure that they have assurance over the work of their experts, including the valuer. This should include review and challenge of the valuer's work as appropriate. The valuation expert should be objective and separate from the preparation of the financial statements. Our audit identified evidence that a member of the finance team on secondment from finance appeared to involved in the decision making process of the internal valuer. <p>Our work on the valuation of Council dwellings is in progress at the time of drafting this report.</p>	 <p>Red</p>

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements


Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other £80.1m	<p>Other land and buildings comprises £21.3m of specialised assets such as leisure centre, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£58.8m) are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 32% of total assets were revalued during 2019/20.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 3.</p>	<ul style="list-style-type: none"> Local authority valuations are increasingly important given the significance of the amounts involved in the context of our overall materiality. Because of this we are taking a more challenging approach to the audit and many councils are finding that they need to strengthen their valuation arrangements in response. This is what we have found at Waverley, where the current in-house valuer is new to role. There have been no changes to the valuation method this year. Disclosure of the estimate in the financial statements is considered adequate. Management need to ensure that they have assurance over the work of their experts, including the valuer. This should include review and challenge of the valuer's work as appropriate. The valuation expert should be objective and separate from the preparation of the financial statements. Our audit identified evidence that a member of the finance team on secondment from finance appeared to be involved in the decision making process of the internal valuer. Our work on how management have considered the year end value of properties that have not been valued and the potential change in valuation is in progress. Management were initially unable to provide supporting evidence for this process, which remains outstanding. <p>Our work on the revaluation of land and buildings remains in progress at the time of drafting this report.</p>	

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability £66.2m	<p>The Council's net pension liability at 31 March 2020 is £66.2m (PY £68m) comprising the obligations under the Surrey Pension Fund Local Government pension scheme. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £5.3m net actuarial gain during 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> Assessed management's expert Assessed the actuary's roll forward approach taken and deemed it reasonable Used PwC as our auditors expert to assess the actuary and assumptions made by the actuary <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% - 2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.8%</td> <td>Values are in line with PwC report</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.1 22.9</td> <td>20.5 - 22.2 21.6 - 23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.3 25.7</td> <td>22.9 - 24.3 24.6 - 26.3</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Confirmed the completeness and accuracy of the underlying information used to determine the estimate Confirmed that there have been no changes to the valuation method Confirmed the reasonableness of the Council's share of LGPS pension assets. Confirmed the consistency of the pension fund assets and liability disclosures in notes to the financial statements with the actuarial report from the actuary <p>Our work in this area is still in progress, as set out previously on page 9. Our work in respect of assessing the assumptions used by the actuary, considering the work of our auditor's expert PwC, is complete and is reflected in the table above.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8% - 2%	●	Salary growth	2.8%	Values are in line with PwC report	●	Life expectancy – Males currently aged 45 / 65	22.1 22.9	20.5 - 22.2 21.6 - 23.3	●	Life expectancy – Females currently aged 45 / 65	24.3 25.7	22.9 - 24.3 24.6 - 26.3	●	 Green
Assumption	Actuary Value	PwC range	Assessment																								
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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

- Management's assessment is based on the public sector interpretation of going concern as the continuation of the provision of services to support the preparation of the accounts on a going concern basis.

Work performed

- We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of the Council.
- We reviewed the Council's medium term financial planning documents, and considered the impact of Covid-19.

Concluding comments

- No issues identified.

Auditor commentary

The going concern assessment was completed by the Strategic Director (s.151 officer). We consider that management's arrangements for considering going concern are adequate.

We concur with management's assessment that the Council is a going concern with no material uncertainties that would require disclosure.

We considered management's assessment and also considered the potential impact of Covid-19 on the Going Concern assumption. The Council had to set a Contingency Revised Budget in order to address a £6.6m shortfall in 2020/21 due to Covid-19. This was achieved with the use of reserves and budget savings and the Council is reviewing its Medium Term Financial Plan in the coming months.

We did not identify any material uncertainties that would require additional disclosure. However, we did identify that the Council has not made any reference to the financial statements being prepared on a going concern basis.

We did not identify any issues with the Council's use of the going concern assumption, with the exception of this not being disclosed in the draft financial statements. This has been corrected in the amended set of accounts. Our proposed audit opinion will be unmodified in respect of going concern.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not currently aware of any related parties or related party transactions which have not been disclosed. However our work in this area is in progress currently.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent, with positive confirmations received for all.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The draft financial statements and working papers were provided in line with the timetable agreed in advance of the audit. However there have been delays in some areas during the audit where there were difficulties in the provision of detailed population breakdowns for some areas and in the subsequent sample evidence. HRA debtors and PPE revaluations were particular areas where we have encountered delays.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We did identify some areas where the Narrative Report could be enhanced and this is summarised in the Action Plan at Appendix A.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – please see our proposed opinion at Appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Waverley Borough Council in the audit report, as detailed in Appendix E.</p>

Value for Money

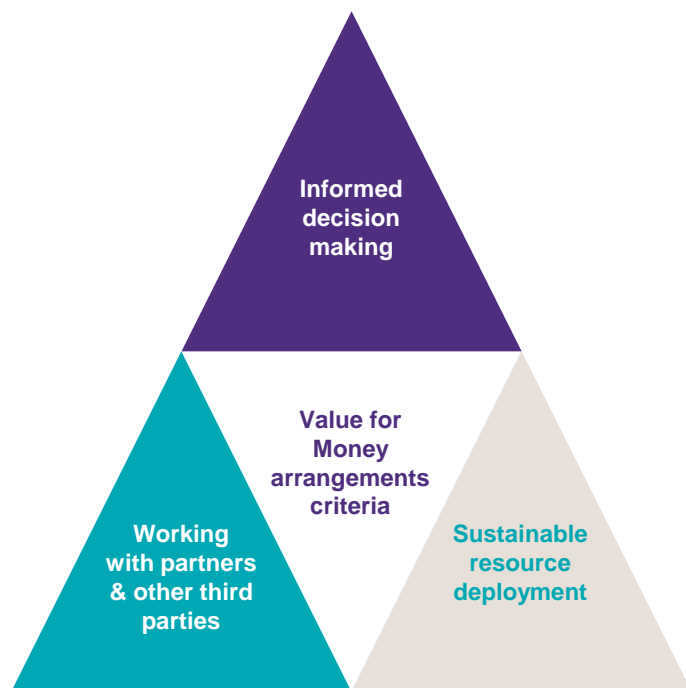
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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:



Page 127

Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

We have not identified any new VfM risks in relation to Covid-19. We do not consider Covid-19 to be a significant risk given the date of the pandemic.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 and 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Sustainability

The Council 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.

Findings and conclusion

Due to the Covid-19 crisis, the Council took a Contingency Revised budget for 2020/21 to Council on 11 August 2020. This was to address some significant adverse variances to the original approved budget that had been caused by the coronavirus. The impact on the budget was identified by management as £6.6m. This results from direct costs of the Council deploying staff to its own services and to implement government mandated schemes, and then direct income losses due to enforced closures of facilities, including leisure centres and museums and consequential losses such as car park income and slow recovery after reopening facilities. The Council has not used the furlough scheme but has incurred overtime costs.

The Council stopped all recruitment and non-essential spending as an interim measure in April 2020 to combat these challenges and has received Covid-19 support grant of £1.4m to date from the Government, leaving £5.2m of the budget gap to be mitigated by the Council. The report sets out that £2.9m is being drawn from the Council's reserves and £2.3m from budgetary savings in the year.

This unplanned draw down on reserves has put additional pressure on the Council, when it already had to identify savings of £5.4m over the life of the Medium Term Financial Plan (MTFP). As a result the Council launched its Recovery Change and Transformation (RCT) programme, phase 1 of which was the Contingency Revised Budget. Phase 2 of the Programme is looking at the medium term impacts of Covid. This will include new working practices, to see what can be learned from the experiences of delivering the Council's services during lockdown. There are ten separate projects included within the RCT Programme. As part of this process the MTFP will also be reviewed, which is critical given the revised budget that had to be set in the year and the knock on impact of this on the assumptions within the MTFP.

We are satisfied that the Council has suitable arrangements in place for financial resilience but as with other councils there are significant challenges to be resolved. The Council's current MTFP has a gap of £5.4m over the 2020/21 - 2023/24 period. This was before the Covid-19 crisis that has led to contingency revised budget for 2020/21 to address a budget gap of £6.6m. The Council is now considering the impact of Covid-19 and the associated budget changes in 20/21 on its medium term financial position. The Recovery Change and Transformation Programme is a critical piece of work for the Council to determine how it will deliver its services going forward. This represents a considerable challenge for the Council given the savings it has had to make in recent years.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Commercial Property Portfolio

The Council 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 Council needs to ensure that such investments do not expose it to unnecessary risks within the commercial property sector.

Findings and conclusion

We have reviewed the arrangements that the Council have put in place when considering its commercial property investments.

The Council sets its Capital Strategy for 2020/21 in February 2020. The Council’s Property Investment Strategy is an Annex to the overarching Capital Strategy and is subject to the review of the Property Investment Advisory Board.

The Executive has the authority to bid, negotiate and complete on property acquisitions and investments, with the performance being monitored by the Value for Money Overview and Scrutiny Committee. A business case must be produced for all cases, supported by financial modelling. Before the investment proceeds it must determine:

- The reason for the investment
- The powers under which the investment is made
- The extent to which the capital invested is placed at risk
- The impact of any potential losses on financial sustainability

There is then a governance framework in place, with the Property Investment Advisory Board playing a key role in scrutinising and challenging proposals, and ensuring that appropriate due diligence has been carried out. They also ensure that the strategic direction of the portfolio and investment principles are in line with the strategy.

Each property will have an exit strategy in place to ensure that the Council can take action to prevent further loss should its objectives/required return not be achieved.

The Property Investment Strategy arrangements would appear to be appropriate but there has been no activity outside of the Waverley area to assess how this is working in practice for property outside the LEP area.

The Council have obtained legal advice from a QC who has advised a number of councils who are looking at extending their commercial property portfolio outside of their area. This advice is supportive of the Council’s plans but it should be noted that this continues to be a area where guidance is developing. Investment property remains a priority in the Council’s Medium Term Finance Plan, however due to the recent consultation on public sector borrowing and the potential exclusion of investment for purely return from PWLB, the Investment Strategy is being revisited alongside the MTFP revision.

The Council has not invested in property outside of the Waverley area currently, although its Property Investment Strategy would allow it to do so. This continues to be a fast moving area in Local Government and the Council is revisiting its strategy in the light of potential changes to regulations for investments funded from PWLB as part of the review of the MTFP. We have not identified a risk to our VFM conclusion.

Independence and ethics

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 confirm that we, as a firm, and each covered person, 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards	
Audit related				
Page 132	29,000	Certification of Housing Benefit Grant	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 £29,000 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, there is no contingent element to the fee. These factors all mitigate the perceived self-interest threat to an acceptable level.
			Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
	3,000	Certification of Housing capital receipts grant	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, there is no contingent element to the fee. These factors all mitigate the perceived self-interest threat to an acceptable level.
			Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
	6,000	Independent examinations of Shottermill Recreation Ground Trust and the Bequest of Joseph Ewart	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, there is no contingent element to the fee. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.





Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Red	<p>Management assurances – PPE valuation</p> <p>Management are required to ensure that they have the assurance that they require that the accounts are free from material misstatement. This would include assurances over the work of management's experts, including the valuer and the actuary. This is the second successive year where there has been a material adjustment to PPE valuation.</p>	<p>Management must ensure that their processes for how they gain assurance over the PPE valuation work are robust. This should include senior officer review and challenge of the work and findings of management's experts.</p> <p>Management response</p> <p>Recommendation accepted and this aspect will be reviewed in the Autumn in the light of the new roles and structure in the estates team. Strengthened oversight will be included in the closedown plan next year.</p>
 Amber Page 133	<p>Segregation of duties – Property valuation</p> <p>The valuation expert should be objective and separate from the preparation of the financial statements. Our audit identified evidence that a member of the finance team on secondment from finance appeared to be involved in the decision making process of the internal valuer.</p>	<p>Valuation judgements and decisions should be made by the qualified valuer and should be appropriately documented and evidenced.</p> <p>Management response</p> <p>This will be picked up in the review referred to above. The finance team have supported the valuer in ensuring that the amounts, as assessed by an appropriately qualified officer, are reflected in the ledger and accounts and also in the provision of working papers to the external auditors.</p>
 Amber	<p>HRA debtors</p> <p>The Council was unable to provide a breakdown of approximately £300k of historic balances within the HRA debtors.</p>	<p>Management must review the reason for these historic balances and clear or resolve them as appropriate.</p> <p>Management response</p> <p>The finance team are still working on this and are confident that a significant element of the unidentified amount will be explained. However, it is recognised that this issue needs to be resolved within the Orchard system and resource will be allocated to this immediately.</p>

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Green	<p>Narrative Report</p> <p>The disclosures in the Narrative Report could be enhanced by further details on the following areas:</p> <ul style="list-style-type: none"> • Details of the performance indicators used by the Council and its performance against them • Detailing the financial performance in line with the EFA and management accounts format, including budgetary information. • The Medium Term Financial Plan section could include details of the budget gaps in future years to emphasise the challenges faced by the Council. 	<p>We recommend the Council could enhance the information reported within the Narrative Report in line with the Code recommendations and suggestions.</p> <p>Management response</p> <p>Officers appreciate the suggestions and are grateful for the good practice that Grant Thornton are able to identify from other councils' narrative statements.</p>
 Amber	<p>Heritage assets valuation</p> <p>The last insurance revaluation on one of the Council's heritage assets (on which its value is based in the accounts) was in 2011.</p>	<p>The Council must ensure that it revalues its heritage assets on a more regular basis.</p> <p>Management response</p> <p>Noted and the Corporate Asset Manager will implement an appropriate valuation frequency for future years.</p>
 Amber	<p>Expenditure and income analysed by nature</p> <p>The analysis of the Council's expenditure and income in Note 7 was extremely difficult to agree and included double counting of recharges in fees and charges (£448k) and other service expenditure (£2.1m).</p>	<p>The Council should review its process for the production of this note to ensure that it eliminates any double counting and allows the figures to be agreed to the trial balance.</p> <p>Management response</p> <p>Noted and a review will be undertaken to facilitate an easier and more robust analysis.</p>
 Amber	<p>Agreement of the trial balance to the financial statements</p> <p>The agreement of the trial balance to the Consolidated Income and Expenditure Statement includes lots of manual adjustments, including for recharges, investment property, reserve movements and revenue grants. The level of manual adjustment also meant what should be a straight forward audit task took much longer than we would expect.</p>	<p>The Council should review its cost centre structures and coding arrangements as manual adjustments increase the risk of error and manipulation.</p> <p>Management response</p> <p>The ledger is structured to enable sound internal reporting and monitoring at service level. Some manual adjustment is necessary to represent the figures according to the requirements of the code of practice governing year end accounts. However, officers accept that the process could be improved and simplified and this review will be instigated as a matter of priority.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Waverley Borough Council's 2018/19 financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Following challenge from the audit team, a material adjustment has been made to the Council's Property, Plant and Equipment. Management are required to assure themselves that their financial statements are free from material misstated each financial year.</p> <p>We recommended that the issues identified in this year's audit are addressed in valuation arrangements moving forwards.</p>	<p>The issues identified from the 2018/19 audit were addressed for 2019/20, however a material adjustment has been made to the Council's Property, Plant and Equipment again in 2019/20. Management are required to assure themselves over the work of their experts and to ensure that their financial statements are free from material error.</p>

Page 135
 Assessment
 ✓ Action completed
 X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Indexation had not been applied to the Council's HRA dwellings. Indexation of 1.95% has now been applied in the amend accounts.			
Council dwellings		8,221	-
Unusable reserves		(8,221)	-
Surplus on revaluation of non-current assets	(8,221)		-
Overall impact	(8,221)	Nil	Nil

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Use of the going concern assumption	The draft financial statements do not make any reference to the accounts being prepared on a going concern basis.	✓
Note 3 – Critical judgements	The critical judgements note should only disclose judgements that are material to the Council's financial statements	✓
Note 4 – Estimation uncertainty	The estimation uncertainty note should only disclose where estimation uncertainty could be material to the financial statements	✓
Note 7 - Expenditure and income analysed by nature	The analysis of the Council's expenditure and income in Note 7 included double counting of recharges in fees and charges (£448k) and other service expenditure (£2.1m). There was also a classification error between Grant Income and Fees, Charges and Other Service Income of £286k due to a formula error in the spreadsheet.	✓
Note 11 – Property, Plant and equipment	The format of the note with a line adjusting the cost for impairment was not in line with the Code.	✓
Note 11 – Property, Plant and equipment	Downward revaluations of council dwellings had been incorrectly disclosed as impairments.	✓

Audit adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatement.

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements.

Fees

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

Audit fees	Proposed fee	Final fee
Council audit	41,494	41,494
Audit Fee variations	7,500	TBC
Total audit fees (excluding VAT)	£48,994	TBC

We set out in our audit plan how the Financial Reporting Council has set 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. This, coupled with the recent impact of Covid 19, the increased time taken in managing the audit in a more remote working environment, delays in responses to audit queries and additional time taken to resolve issues with some supporting working paper, has clearly impacted our work. We will need to review the actual audit inputs required at the conclusion of our work, to assess any fee implications arising from this. We will advise the Chief Finance Officer and the Audit Committee of any proposed variations to our fees once reviewed.

The proposed fees of £48,994 reconcile to the financial statements.

Non-audit fees for other services	Proposed fee
Certification of Housing benefits grant	29,000*
Certification of Housing capital receipts grant	3,000*
Independent examinations of Shottermill Recreation Ground Trust and the Bequest of Joseph Ewart	6,000*
Total non- audit fees (excluding VAT)	£38,000

* Estimated fees as work has not yet commenced

Audit opinion

We anticipate we will provide the Council with an unmodified audit report with the inclusion of an “Emphasis of matter” regarding the valuation of property, plant and equipment

Independent auditor’s report to the members of Waverley Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Waverley Borough Council (the ‘Authority’) and its subsidiaries (the ‘group’) for the year ended 31 March 2020 which comprise the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group’s and Authority’s future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group’s and Authority’s future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Strategic Director’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority’s financial statements shall be prepared on a going concern basis, we considered the risks associated with the group’s and Authority’s operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group’s and Authority’s financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor’s report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority’s and group’s land and buildings as at 31 March 2020. As, disclosed in note 4 to the financial statements, the Covid-19 pandemic created a period of significant uncertainty in relation to many factors that historically have acted as drivers of the property investment and letting markets, with major adverse impacts affecting global stock markets, future economic growth forecasts, and business and consumer confidence. A material valuation uncertainty was therefore disclosed in the Authority’s property valuer’s report. Our opinion is not modified in respect of this matter.

Audit opinion

Other information

The Strategic Director is responsible for the other information. The other information comprises the information included in the Annual Financial Report, other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Securing good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Financial Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Strategic Director and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director. The Strategic Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Waverley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jon Roberts, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol



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WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

14 SEPTEMBER 2020

Title:

Statement of Account 2019/2020

Portfolio Holder: Cllr John Ward, Leader of the Council; Cllr Paul Follow, Deputy Leader of the Council

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: No

Access: Public

1. Purpose and summary

1.1 The purpose of this report is for the Audit Committee to consider and approve the Statement of Accounts for the year ended 31 March 2020.

2. Recommendation

It is recommended that the Audit Committee

1. approves the Statement of Accounts for the financial year ended 31 March 2020;
2. approves the Letter of Representation for 2019/2020; and
3. Confirms that the accounts have been prepared on a going concern basis.

3. Reason for the recommendation

3.1 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. These Regulations incorporate a statutory requirement for the Statement of Accounts to be approved by a resolution of a Committee of the relevant body by 31 July 2020. However, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 introduced a temporary change to the required dates, moving the statutory requirement for the Statement of Accounts to be approved by a resolution of a Committee of the relevant body by 30 November 2020.

3.2 The Chief Finance Officer (Section 151 Officer) retains responsibility for the preparation of the Statement of Accounts and is required to certify that they give a true and fair view of the financial position of the Council for the year ended 31 March 2020. In February 2007, the Council formally delegated the authority for approving Waverley's annual accounts to the Audit Committee. The Members' role in approval is to demonstrate their ownership of the Statement of Accounts

and their confidence in both the Chief Finance Officer and the process by which the accounting records are maintained and the Statement of Accounts prepared. Given the complexity of the statements, members of the committee have received an officer briefing and the opportunity to ask detailed questions before the formal meeting.

Statement of Accounts 2019/2020

- 3.3 The Statement of Accounts for 2019/2020 is included as a separate document at Annexe 1. This Statement of Accounts is an amended version of the unaudited accounts presented for audit and published on the Council's website in July 2020 to reflect a small number changes identified during the audit, these are mostly presentational improvements. These changes are detailed in Annexe 2.
- 3.4 The Narrative Report to the Accounts highlights the key issues and shows the headline figures.
- 3.5 The format and content of the accounts is largely prescribed by regulation and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Local Authority Accounting (the Code). It is a requirement that the accounts are arranged with all core financial statements grouped together followed by all notes to these statements in a separate section. The supplementary statements, Housing Revenue Account (HRA) and Collection Fund, are grouped separately with their corresponding notes section.
- 3.6 The Unaudited Statement of Accounts is available on the Council's website. This will be replaced with the final version following this Audit Committee meeting.
- 3.7 The Audit Findings Report following the audit of the Council's accounts for 2019/2020 by Grant Thornton is included on this agenda.
- 3.8 It is a requirement that the Council issues a Letter of Representation to its external auditors at the conclusion of the audit and this is referred to in Grant Thornton's Audit Findings Report. The draft Letter of Representation is attached at Annexe 3.

Going Concern Report

- 3.9 International Audit Standards require the Audit Committee to provide confirmation that the 2019/2020 Statement of Accounts have been prepared on a 'going concern' basis. The going concern concept is one of the core principles underpinning local authority accounting practice and refers to the assumption made when the Accounts are prepared that the organisation will continue to operate for at least 12 months following the accounting period in question, taking into consideration best estimates of future activity and cash flows.
- 3.10 The main issues around the application of the 'going concern' concept are to consider the medium term financial plans and cash flow forecasts in existence to ensure the continuing operation of the Council. As explained in the Narrative report to the accounts, whilst the impact of Covid-19 on Waverley's finances was relatively minor in 2019/2020, the impact in 2020/2021 has been significant and this is likely to continue in to future years. This emerging position after the balance sheet date must influence the going concern statement.

- 3.11 CIPFA has issued specific guidance on how local authorities should report their going concern statement in the light of the Covid-19 impact. Whilst this guidance confirms that local authorities cannot cease to be a going concern, or be liquidated or cease to operate, it suggests areas that should be reported to give assurance to the Council about the organisation's current and future financial position.
- 3.12 Waverley's Medium-Term Financial Plan (MTFP) (2020/2021 to 2022/2023) was agreed by Council in February 2020. The MTFP forecasts the Council's financial performance and identifies budget pressures for the three years of the plan and demonstrates that the Council has sound plans to continue operating. In the period from end of March 2020 to end July 2020, the Covid-19 crisis has directly and indirectly affected the Council's operations and financial position. In July 2020, officers supported by councillors prepared a contingency revised General Fund budget for 2020/2021. This budget was thoroughly scrutinised ahead of being approved by Council on 8 August 2020. This budget set out a range of proposals for addressing the in-year forecast budget deficit of £6.6m, approximately half of which involved the one-off use of reserves. In terms of cashflow and HRA impact, the work done on the revised budget confirmed that these areas were manageable in the year and that no long lasting material impact was expected and flexibility in treasury operations is being utilised. Officers have implemented more robust and more frequent monitoring arrangements to ensure that the Council has early warning of adverse variations to the forecast so that it can take corrective action.
- 3.13 Alongside the contingency budget, the Council at its meeting on 8 August 2020 also approved a programme of work under the heading of Recovery, Change and Transformation. This is a series of projects and initiatives that will rebase Waverley's operations and finances over the coming eight months, locking in good practice and driving further efficiency. This work includes a fundamental review of the MTFP which will report back to Council by December 2020 seeking agreement to a sustainable resource plan for the medium term. Throughout this period, the Council has also continued to progress its efficiency, property and commercial strategies and these will continue to deliver long term savings to address the underlying projected budget deficit. The approved contingency budget plus the robust arrangements for ensuring continued financial sustainability lead the Council to conclude a positive going concern assessment.

4. Relationship to the Corporate Strategy and Service Plan

- 4.1 Waverley's published Accounts are a key document that helps to demonstrate the Council's accountability for public funds. The accounts support the Council's key objective of providing good value for money by showing how the Council's resources have been utilised.

5. Implications of decision

5.1 Resource (Finance, procurement, staffing, IT)

There are no additional resource implications resulting from the 2019/2020 Statement of Accounts. The Accounts set out Waverley's financial position at the year-end in a format which is prescribed by Regulations and the Local Government Accounting Code of Practice.

5.2 Risk management

The preparation of the Statement of Accounts and the audit scrutiny provide reassurance that the accounts give a true and fair view of the financial position of the Council for the year ended 31 March 2020.

5.3 Legal

The Accounts set out Waverley's financial position at the year-end in a format which is prescribed by Regulations and the Local Government Accounting Code of Practice.

5.4 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.

5.5 Climate emergency declaration

Sound financial management supports the Council in achieving its objectives with regard to the Climate emergency declaration.

6. Consultation and engagement

6.1 In August 2020 Members of the Audit Committee received the unaudited 2019/2020 Accounts and met with officers to receive detailed training and/or to respond to any questions.

7. Other options considered

7.1 There is a statutory requirement for the approval and publication of the annual Statement of Accounts.

8. Governance journey

8.1 Once approved the Statement of Accounts will be incorporated into the Annual Financial Report with the Annual Governance Statement and Audit Opinion and then published on the Council's website.

Annexes:

Annexe 1 – The Statement of Accounts for 2019/2020

Annexe 2 – Changes to the Unaudited Accounts 2019/2020

Annexe 2 – Letter of Representation 2019/2020

Background Papers

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

CONTACT OFFICER:

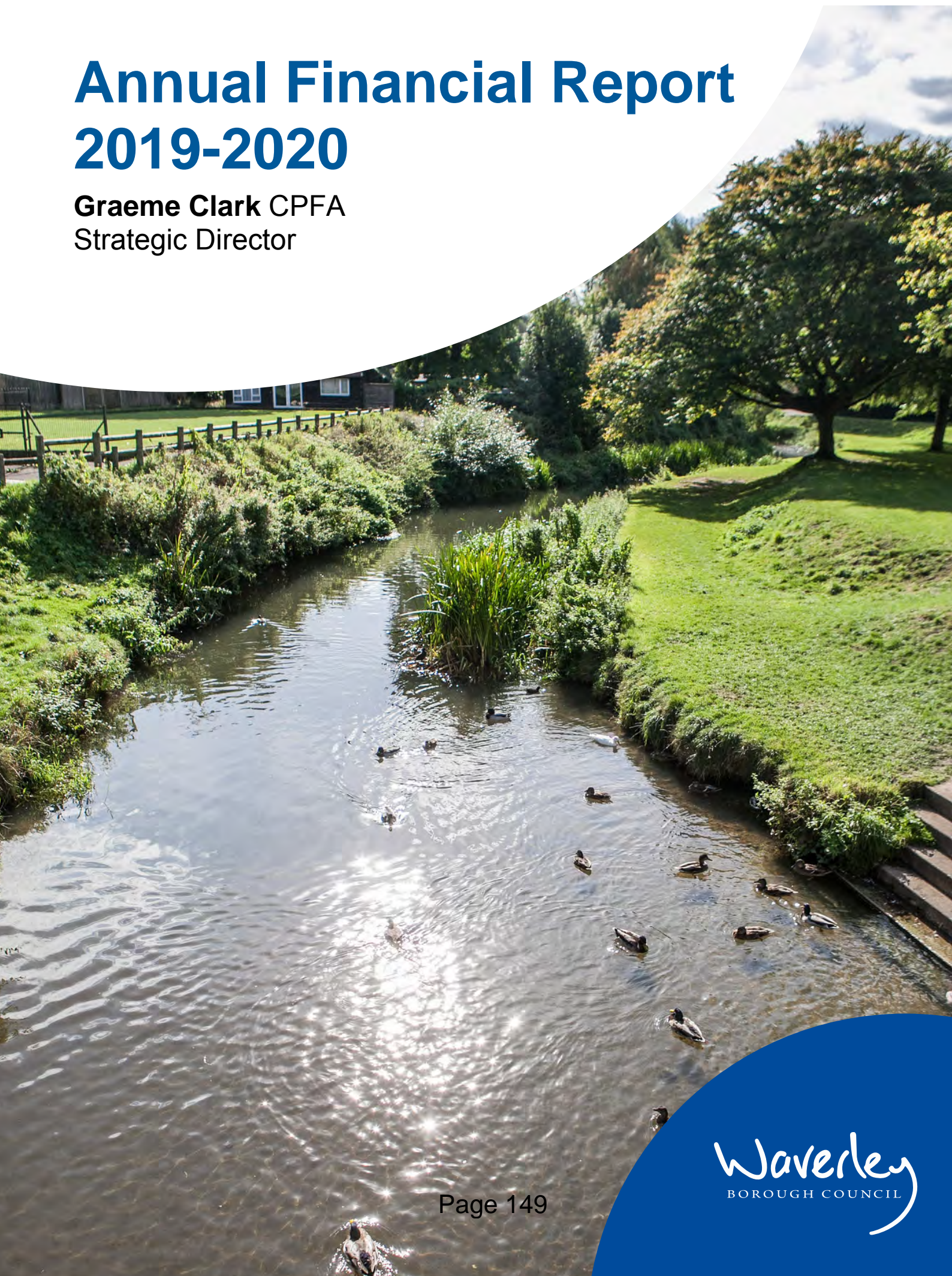
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Agreed and signed off by:
Legal Services: date
Head of Finance: date
Strategic Director: date
Portfolio Holder: date

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Annual Financial Report 2019-2020

Graeme Clark CPFA
Strategic Director



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Waverley Borough Council – General Information

Council Offices: Council Offices, The Burys, Godalming, Surrey, GU7 1HR

Telephone: 01483 523333

Website: www.waverley.gov.uk

Councillors

Waverley Borough Council has 57 elected Councillors.

Leader	Cllr J Ward
Deputy Leader	Cllr P Follows

The Council is led by an Executive which, since the election on 2 May 2019, comprises the Leader of the Council and nine other Councillors to create a multi-party Executive. The Executive's responsibilities are divided into portfolios with each Member leading on a specific group of policy issues.

Portfolio Holders as at 31 March 2020

Business Transformation and IT	Cllr P Clark
Operational and Enforcement Services	Cllr N Palmer
Health, Wellbeing and Culture	Cllr D Beaman
Environment and Sustainability	Cllr S Williams
Housing and Community Safety	Cllr A-M Rosoman
Planning Policy, Services and Brightwells	Cllr A MacLeod
Finance, Assets and Commercial	Cllr M Merryweather
Economic Development, Parks and Leisure	Cllr L Townsend

Management Board as at 31 March 2020

Chief Executive	Tom Horwood
Strategic Director and Section 151 Officer	Graeme Clark
Strategic Director	Annie Righton

External Auditors

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

Narrative Report to the Statement of Accounts 2019/2020

Waverley the Place

Waverley Borough is situated in South West Surrey and is a large rural borough characterised by beautiful countryside, distinctive towns and villages. Waverley is shaped by four distinct settlements; Godalming, Farnham, Haslemere and Cranleigh which bring high streets with character, protected green areas and a diverse business community. Waverley Borough Council (the Council) provides over 110 services to residents and visitors. In May 2019 Waverley held local elections and became 'no-overall control' with a multi-party collaborative Executive.

In accordance with the Council's commitment to openness, this Narrative Report to the Statement of Accounts presents an overview of the Council's finances for the financial year 1 April 2019 to 31 March 2020. It also shows how the Council has performed and identifies the challenges faced and aims to help readers understand the most significant issues reported in the accounts and how they relate to the Council's overall business.

To achieve its objectives the Council employs approximately 450 staff in full-time and part-time positions, including apprentices, in a wide variety of roles. The Council recognises the importance of investing in the development of its employees through staff development and training programmes to enable the delivery of a quality service.

The financial statements presented are those of the Council and its group entities, comprising Shottermill Recreation Ground Trust and the Ewart Bequest, reflecting the stewardship responsibility the Council has over these charitable funds. The Council is sole trustee for the Shottermill Recreation Ground Trust and the Ewart Bequest. The Shottermill Recreation Ground Trust owns the Haslemere Leisure Centre. The Ewart Bequest owns a small number of dwellings in Farnham that the Council manages and maintains.

Purpose/Services

As a local authority the Council's purpose is to deliver a wide range of services to the local community. It also provides and maintains some 4,800 Council houses.

Financial Headlines – the Council:

- Collected £109m of Council Tax of which £10m was kept by the Council to spend on services.
- Collected £38m of Business Rates, most of which was paid to the Government.
- Holds £616m in assets (including Council Dwellings) which generate income to help deliver services.
- Received no core Government grant in 2019/2020.
- Ended the year within budget overall on General Fund and Housing Revenue Account (HRA)
- Spent £15m building new Council-owned social rented homes for Waverley residents over the last three years.

Strategic objectives and Corporate Strategy

The Council provides its services under its overarching Corporate Strategy. The Corporate Strategy 2019-2023 was adopted by the Council in September 2019. The Corporate Strategy provides the Council with direction, priorities and key objectives. Objectives are delivered through annual service reviews agreed with Members and monitored and reported regularly. The full Corporate Strategy 2019-2023 can be found on the Council's website www.waverley.gov.uk.

Narrative Report to the Statement of Accounts 2019/2020

Key relationships with other parties for effective service delivery:

- Town and Parish councils
- Surrey County Council
- Community Organisations under Service Level Agreements
- Contractor partners, including waste collection, street cleaning, grounds maintenance, housing and the operation of the Council's leisure centres

Major Achievements in 2019/2020

- Adopted the Corporate Strategy 2019-2023.
- Declared a Climate Change emergency and produced comprehensive action plan to address the environmental challenges facing the council and its community.
- Delivered the overall budget for 2019/2020 on target, with overspends in a couple of areas offset by surpluses in others.
- Agreed a budget for 2020/2021 with a clear strategy for addressing the medium term budget shortfall, which will be revised in the context of the Covid-19 pandemic.
- Strengthened the Council's Risk Management framework through Member training.
- Bedded-in several major contracts with minimal negative impact and resolving issues that arose.
- Added 10 new dwellings to the Council's affordable housing stock. In addition the Council continues to work on a number of developments that will result in further new properties being available to tenants in the future.
- Conducted a by-election in Milford to elect a new borough councillor.
- Successfully held a neighbourhood plan referendum in Farnham and 'made' the plan as a result.
- The Council and its specialist contractors continued to tackle the incidence of non-pneumophila legionella in a property and made plans to replace pipework.
- Dealt with severe weather and flooding in several parts of the borough.
- Rapidly reorganised and prioritised services that support the vulnerable and the local economy in the face of the Covid-19 pandemic.

Challenges facing the Council

Financial Pressures

- Impact of Covid-19 on 2020/2021 budget and the Medium Term Financial Plan (MTFP) – see specific statements later in the Narrative report.
- Reducing Government Funding – see figure 1.
- Uncertainty about future funding coming from the Government's Fair Funding Review and business rates proposals.
- Inflation in 2019/2020 has impacted on pay, contractor and procurement costs.

Brexit

- Brexit will create uncertainty which could impact on interest rates, inflation, property values and rents. Brexit could also impact on the Council's contractors and its property investments.

Other

- Demographic changes and the budget pressures of adult social care demands being felt by Surrey County Council and filtering down to Borough Councils.
- Government legislation on homelessness.
- Staff recruitment and retention in key professional roles.
- Local high house prices and demand for affordable housing.

Narrative Report to the Statement of Accounts 2019/2020

Impact of Covid-19 Pandemic

Provision of Services

The outbreak of the Covid-19 pandemic has had a significant impact on the Council and its finances. In response to the outbreak the Council adopted the objective of arranging its resources to support the immediate health, wellbeing and safety of local residents, particularly the vulnerable. Aspects of the Council's business that did not directly contribute to the objective were suspended or significantly scaled down. The Council set up a Covid-19 response group to identify critical impacts on residents, businesses and council operations and determine actions to take to minimise these. The group also aimed to effectively communicate the actions that were taken to councillors, residents, contractor and appropriate agencies. It was also essential to ensure that this work linked with that of the Local Resilience Forum at a Surrey Level. More details on Waverley's response can be found in a report to the Executive on 12 May 2020.

The Council's staff

The Council's workforce was diverted to focus on key priority services and to resource the delivery of the roll out of the Government's initiatives to support business through business rate reliefs and grants. New initiatives were adopted to support those most vulnerable in the community in the form of telephone support and connection with localised befriending and help services, which included shopping and prescription collection for the shielding and vulnerable.

Since March only 10% of staff have attended the office with all others working remotely. Additional IT investment improved operating speed for the high volume of remote workers and new remote meeting technology enabled a speedy return to near business as usual. Staff views have been continuously reviewed during the period and adjustments made to working practices as a result. There has been no significant increase in sickness levels during this period.

Reserves, financial performance and financial position

The impact of Covid-19 on the Council's financial position, reserves and financial performance are significant in 2020/2021. However, the 2019/2020 outturn shows negligible impact against budget. The reserves at the Balance Sheet date were as forecast. Substantial losses in income across a number of service areas such as car park income, planning fees, leisure centres will mean that the level of reserves in 2020/2021 will be significantly depleted. A contingency budget was presented for scrutiny and approval in July 2020 which showed a £6.6m budget deficit. Approximately half of this deficit is being addressed with budget measures and half from drawing on reserves. (Overview and Scrutiny Committee – Value for Money and Customer Service 13 July 2020).

The Council's MTFP will be reassessed in light of the anticipated financial impact of Covid-19 and a separate work stream and associated governance processes have been established under the overarching Recovery, Change and Transformation programme, details included via above link. This will identify future demands on service budgets including the Housing Revenue Account. Robust budget monitoring will be undertaken to ensure further corrective action is taken quickly if necessary.

The Council already had a transformation programme under way to deliver efficiencies and savings through a number of work streams and projects. A number of these initiatives will be accelerated or given greater priority to help mitigate the impact on the Council's finances.

The Council's Capital Programme for 2020/2021 will extend to only those schemes that are essential. The Capital financing strategy will be reviewed as part of the MTFP update.

Narrative Report to the Statement of Accounts 2019/2020

The Housing Revenue Account has been impacted in 2020/2021, mainly in terms of longer void periods and delayed rent payments. However, a plan has been agreed which will restore the budget and balances to projected levels by the end of the 2020/2021 financial year.

Cash Flow management

The main areas impacted by Covid-19 are council tax and business rate collection and income from fees and charges, such as car parks. It is expected that overall cash flow in quarter 1 of 2020/2021 can be managed without taking drastic action as the Government has deferred some major payments and officers have retained sufficient liquidity in treasury activity but the position may deteriorate in quarter 2 as the business grants are finalised and payments to the government resume.

Risks and Opportunities to Waverley

Given the overall success of Waverley working under these challenging conditions, there are opportunities to lock-in the good practices, sound leadership and creative problem solving that staff have demonstrated. There are clearly risks to Waverley's finances and the significant use of reserves will impact on financial resilience in the future, particularly given the £5.4m budget shortfall already projected in the MTFP.

Governance

In April 2020 it was clear that the impact on the Council's business of Covid-19 would be long lasting so the emergency response team started a process to review governance and decision making. Remote meetings were facilitated and a revised structure was approved for planning meetings. During May and June 2020, the full range of democratic meetings were held successfully with all participants joining remotely and the meetings being broadcast publicly.

Annual Governance Statement

The Annual Governance Statement (AGS), which is detailed at page 101, documents the Council's approach to governance and ensures there are robust rules, systems and information available for managing and delivering services to the local community. The AGS also identifies any issues arising in the year and details actions taken to address them. There have been no significant changes in governance arrangements during the year.

The Council's Audit Committee provides oversight of the arrangements for financial governance as well as the management of risk.

Financial Performance

The Council has a good track record of sound financial management as endorsed annually by its external auditors.

The Council has a number of short, medium and long term plans to direct resources into service delivery and outcomes that fulfil its strategic and operational objectives for meeting the needs of the community.

These plans comprise:

Capital Strategy	Brings together the Council's detailed policies, procedures and plans relating to cash investments and property assets.
Medium Term Financial Plan	Sets out the pressures and opportunities over the next four years and strategy to address the forecast funding shortfall to ensure there will be sufficient resources for service delivery.
Annual revenue budget	To provide services during the year.

Narrative Report to the Statement of Accounts 2019/2020

Capital programme	Delivery of projects for longer term benefits including income generation. The Council has a three year rolling capital programme.
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The key resources on which the Council depends are:

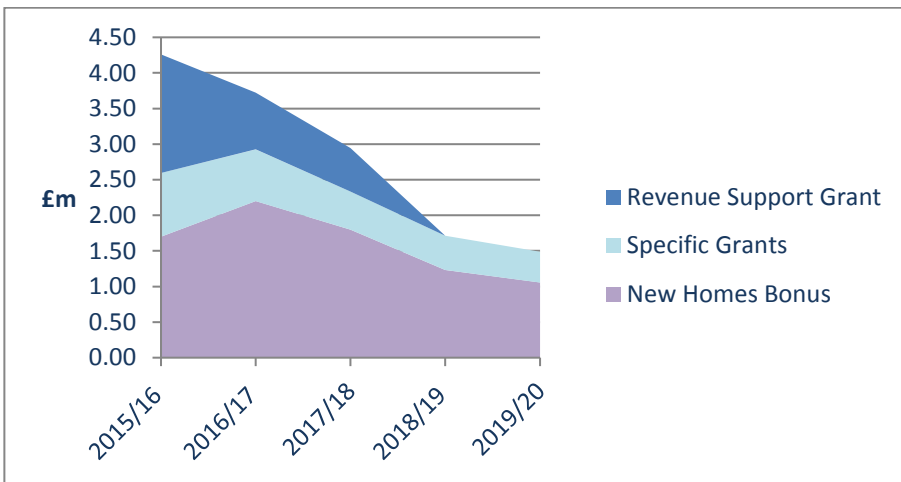
Financial Resources

- Local taxation
- Income raised from fees & charges and property rents
- Grants

Non Financial Resources

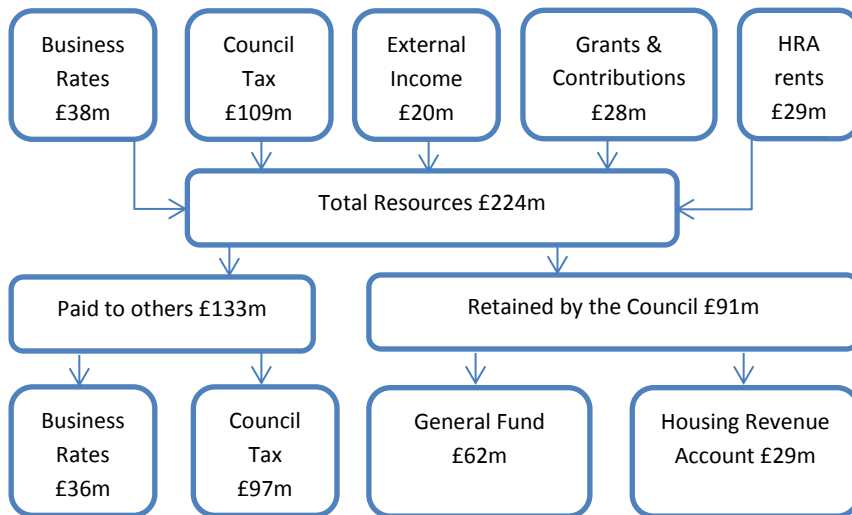
- Skilled and experienced staff
- Partnerships with other organisations
- Information sharing

Figure 1. Total Government revenue funding:



Cash flow

Figure 2. The Council’s incoming resources and where they go:



Revenue spend for year

Through sound financial management and budgetary control during 2019/2020 the Council has again maintained service delivery without cuts.

Narrative Report to the Statement of Accounts 2019/2020

In 2019/2020 Council spending on General Fund Services reported an overall surplus against budget of £325,000 (2%) against an approved net budget of £13.2 million. The main contributors to this are:

- Additional Interest Income
- Staff Savings

However some services suffered a downturn in income, notably building control and planning where a downward trend was experienced industry-wide.

The finances for the Council's council houses are maintained in a ring-fenced account called the Housing Revenue Account (HRA). The HRA has an agreed 30-year Business Plan. Revenue spend for the year was within budget.

The cost of providing services is detailed in the Comprehensive income and Expenditure Statement at page 12 and shown in table 1. Below:

Table 1.	Gross Expenditure	Gross Income	Net Expenditure
	£'000	£'000	£'000
General Fund			
Policy and Governance	5,095	(923)	4,172
Planning & Economic Development	5,555	(2,151)	3,404
Business Transformation	1,720	(644)	1,076
Finance and Property	26,562	(24,733)	1,829
Commercial Services	16,844	(5,421)	11,423
Environmental Services	9,796	(7,637)	2,159
Housing Delivery & Communities	2,431	(1,532)	899
Housing Revenue Account	21,131	(29,474)	(8,343)
Subsidiaries (Trusts)	2,504	(110)	2,394
Net Cost of Services	91,638	(72,625)	19,013

Capital Spend

Spend on the Council's assets totalled some £12.6million:

Table 2.	Actual
	£'000
House renovation grants mainly for disabled people	512
Information technology to support customer services	180
Recreation and leisure facilities	45
CIL funded Towns and Parish projects	275
Other minor capital spend	170
New affordable homes	6,891
Improving council homes	4,535
Total Capital Spend	12,608

Risks and Opportunities

The Council has a risk management strategy in place to identify and evaluate risk. This strategy is subject to regular review and updating. Through understanding risk the Council is able to support

Narrative Report to the Statement of Accounts 2019/2020

better decision making and identify opportunities, as well as threats, in relation to future service provision.

In 2019/2020 the Council updated its Strategic Risk Register to reflect the adoption of the Corporate Strategy 2019-2023 and climate change emergency resolution. The Strategic Risk Register underpins the achievement of the objectives within the Corporate Strategy. It shows the high-level risks that could prevent the Council from achieving its corporate aims and objectives and includes mitigation against these risks as well as a risk rating and impact assessment.

The key themes, being seen as the most significant to the Council in achieving its Corporate Strategy objectives are:

- On-going impact of Covid-19 pandemic, including the economic implications
- Finance – Medium Term Financial Plan and addressing the projected budget gap
- Deliver housing options for people in need of affordable housing
- Achieving sustainable housing needs for the future
- A sense of responsibility for our environment, promoting biodiversity and protecting our planet
- Responsible planning and supporting place-shaping and local engagement in planning policy
- Promoting the use of environmentally sustainable transport options, including reducing the need to travel and supporting the use of electric vehicles
- Promoting a business-friendly culture that supports local businesses and helps those wanting to locate to the borough
- Delivering a Property Investment Strategy that supports the local economy, while providing additional income to the Council
- Ensuring the council operates in an open, democratic manner where all residents feel valued and able to contribute

Financial Statements

This Narrative Report accompanies the Statement of Accounts. The Statement of Accounts sets out the Council's income and expenditure for the year and its financial position at 31 March 2020. The Statement of Accounts, which comprises statements and disclosure notes, has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and complies with International Financial Reporting Standards (IFRS).

The statement of accounts is subject to external audit scrutiny and opinion. This Narrative Report and the Annual Governance Statement, whilst outside the scope of this certification, are considered by the external auditors to confirm in their opinion they are materially consistent with their knowledge of the Council.

The Core Financial Statements are:

The **Comprehensive Income and Expenditure Statement** (page 12) which records all the Council's income and expenditure for the year based on the organisational structure under which it operates and manages its services. The top half of the statement provides an analysis by service area. The bottom half of the statement deals with corporate transactions and funding.

The **Movement in Reserves Statement** (page 14) shows movement in the year on the different reserves held by the Council, analysed into 'usable' reserves, those that can be applied to fund expenditure, invest in capital projects or service improvements and 'unusable' reserves which reflect the value of the Council's non-current assets (Property, Plant and Equipment, Investment Property, Heritage Assets and Intangible Assets) and are not available to be spent.

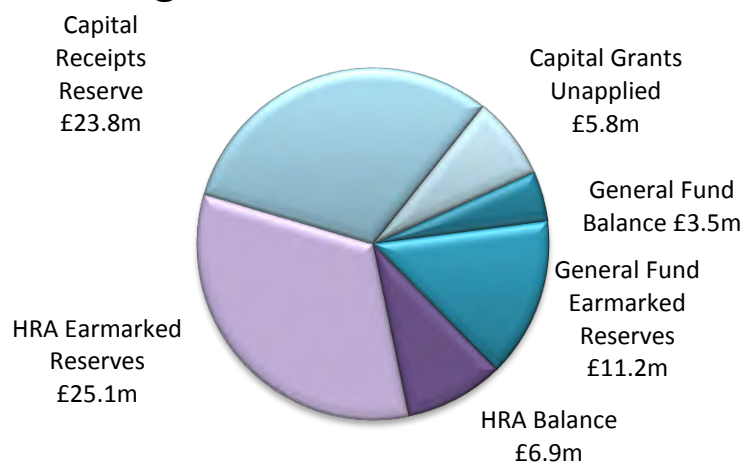
Narrative Report to the Statement of Accounts 2019/2020

Usable reserves are maintained at prudent levels and are subject to any statutory limitations on their use. The Council's Financial Strategy and HRA Business Plan set out approved minimum levels of working balances at £3.2million for the General Fund and £2million for the Housing Revenue Account.

The **Balance Sheet** (page 16) shows the value, as at the balance sheet date, of the Council's assets, liabilities, cash balances and reserves.

The Council has usable reserves of £76.3million as at 31 March 2020 which are summarised in figure 3. below.

Figure 3. Usable Reserves



The **Cash Flow Statement** (page 17) shows the changes in actual cash and cash equivalents during the year and whether that change is due to operating activities, new investment, or financing activities (such as the repayment of borrowing).

The **Housing Revenue Account** (page 80) details the expenditure, funded from rents, on the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

The **Collection Fund** (page 88) summarises the collection of Council Tax and Business Rates and the redistribution to preceptors, the Government and the Council's General Fund.

Measuring Performance in 2019/2020

The Council measures and monitors performance in a number of ways:

- ❖ At a **strategic** level the Council sets out its objectives in the Corporate Strategy and measures performance against these objectives.
- ❖ At a **service level** Service Plans are prepared annually which set out the actions that underpin the Corporate Strategy. Delivery of Service Plan actions is reported to Overview & Scrutiny Committees and in 2019/2020 over 89% of the service plan actions were completed successfully. The delivery of the remaining actions, which were partially completed at the end of the year, were carried forward to 2020/2021.
- ❖ At an **operational** level the Council uses a set of key performance indicators to monitor performance in services such as housing, environment, planning and leisure. The final performance figures for 2019/2020 will be reported to the Executive in September 2020. Notable successes were:

Narrative Report to the Statement of Accounts 2019/2020

- Mobilising new waste, recycling, street cleaning and ground maintenance contracts
 - Improvements in benefits claims processing resulting in much shorter turnaround times and improved customer experience.
 - Achieving higher than target performance for processing planning applications.
 - Continuing excellent homelessness prevention resulting in very low or no homeless households in temporary accommodation.
- ❖ At an **individual** level the Council operates a system of personal performance reviews which set objectives and assess performance against objectives.
 - ❖ Management of cash flow is monitored during the year with a target of achieving an average daily cash balance of less than £25,000.

Looking ahead – addressing the financial challenges

As Chief Financial Officer I consider that the Council is well placed to face the challenges ahead given the Council's approved financial plan and its track record responding to budget pressures. Despite the substantial financial and operational challenges faced by the Council since March 2020 due to Covid-19, officers have worked closely with councillors to understand the issues and agree sensible, deliverable mitigation measures.

In the light of continued financial pressure from government cuts and the impact of new legislation the Council must adapt to the challenges and changes ahead. The Council has developed plans which include focusing on strengthening resilience in operations and policies including financial and staffing resilience. Policies such as the Property Investment Strategy and non-dependency on New Homes Bonus will put the Council in a stronger position to withstand the financial challenges it faces in the future.

The medium and long term strategies and plans to address any future funding shortfalls include:

- Cost savings from better procurement
- More commercial approach and new income opportunities
- Business transformation and customer service improvement
- Property income
- Council tax increases

The Council's aim is to continue to provide high quality services and replace diminishing traditional resources with alternative sources of income whilst also reducing its cost base.

To use its resources to maximum effect the Council will continue to:

- Strengthen its approach to risk management while also recognising this may bring opportunities to try new ventures and ways of working.
- Spend appropriately to keep its assets fit to maintain service delivery.
- Consider different or innovative ways of delivering services including partnership working where appropriate.
- Improve performance and project management.
- Review all services and their budgets to identify areas of further efficiency and value.



Graeme Clark, Strategic Director and S151 Officer

Dated: 17 July 2020

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Director (Chief Finance Officer and Section 151 Officer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Chief Finance Officer's responsibilities

The Strategic Director (Chief Finance Officer and Section 151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance and Accountancy) *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code

The Chief Finance Officer has also:

- kept proper accounting records which are up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities

We certify that the Statement of Accounts gives a true and fair view of Waverley Borough Council's financial position at 31 March 2020 and of its income and expenditure for the year then ended.



Graeme Clark
Strategic Director

Dated: 17 July 2020

Councillor Peter Marriott
Audit Committee (Chairman)

Dated:

Financial Statements

Group Comprehensive Income and Expenditure Statement

Group Movement in Reserves Statement

Group Balance Sheet

Group Cash-Flow Statement

Group Comprehensive Income and Expenditure Statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Local Authorities raise taxation and rents to cover expenditure in accordance with statutory requirements, this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/2019			2019/2020			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Continuing Operations						
General Fund						
4,141	(440)	3,701	Policy and Governance	5,095	(923)	4,172
5,105	(2,126)	2,979	Planning and Economic Development	5,555	(2,151)	3,404
941	(274)	667	Business Transformation	1,720	(644)	1,076
31,453	(29,501)	1,952	Finance and Property	26,562	(24,733)	1,829
14,307	(6,128)	8,179	Commercial Services ¹	16,844	(5,421)	11,423
10,147	(7,637)	2,510	Environmental Services	9,796	(7,637)	2,159
2,347	(1,434)	913	Housing Delivery and Communities	2,431	(1,532)	899
26,799	(29,973)	(3,174)	Housing Revenue Account (p80)	21,131	(29,474)	(8,343)
312	(203)	109	Subsidiaries (Trusts)	2,504	(110)	2,394
95,552	(77,716)	17,836	Net Cost of Services	91,638	(72,625)	19,013
Other Operating Expenditure						
		3,129	Precepts of Parish/Town Councils			3,267
		759	Contribution of Housing Capital Receipts to Government Pool			888
		(2,572)	(Gain)/Loss on disposal of non-current assets			(3,328)
Financing and Investment Income and Expenditure						
		5,583	Interest payable and similar charges			5,521
		1,539	Pension Interest Cost & Expected Return on Pension Assets (note 36)			1,643
		(668)	Interest and Investment Income			(905)
		(1,513)	Investment Properties (note 16)			29
		615	Impairment Losses (Financial Assets)			193
Taxation and Non-Specific Grant Income & Expenditure						
		(12,810)	Council Tax income			(13,216)
		(3,866)	Business Rates income and expenditure			(2,221)
		(1,322)	Non-ringfenced Government grants (note 10)			(1,462)
		(1,704)	Capital grants and contributions			(2,855)
		5,006	(Surplus)/Deficit on Provision of Services			6,567
		(10,798)	(Surplus)/Deficit on revaluation of non-current assets (p62)			(12,847)
		5,713	Remeasurement on Pension Fund Assets & Liabilities (p64)			(5,260)
		(5,085)	Other Comprehensive Income and Expenditure			(18,107)
		(79)	Total Comprehensive Income and Expenditure			(11,540)

1. The movement between 2018/2019 and 2019/2020 reflects revaluation losses in the valuation of Cranleigh Leisure Centre and Farnham Sports Centre. These losses were debited to the Provision of Services as there was no balance in the Revaluation Reserve to offset the loss. The loss is then reversed out in the Movement in Reserves Statement.

Reconciliation of the Single Entity Surplus for the Year to the Group Surplus

This reconciliation statement summarises the difference between the outturn on the Group Comprehensive Income and Expenditure Statement and the Single Entity (Surplus) or Deficit.

The role of this reconciliation is to show how the various group entities have contributed to the overall (Surplus)/Deficit on the Group Comprehensive Income and Expenditure Statement.

2018/2019 £'000		2019/2020 £'000
17,836	Group Net Cost of Services	19,013
	Less Subsidiary transactions:	
	Net cost of Services	
(176)	Shottermill Recreation Ground	(2,404)
67	Ewart Bequest	10
17,727	Single Entity Net Cost of Services	16,619
(12,830)	Group Other Income and Expenditure	(12,446)
	Less Subsidiary transactions:	
1	Shottermill Recreation Ground	2
13	Ewart Bequest	15
(12,816)	Single Entity Other Income and Expenditure	(12,429)
4,911	(Surplus)/Deficit for the year on the Single Entity Comprehensive Income and Expenditure Statement	4,190
5,006	(Surplus)/Deficit on Provision of Services - Group (page 12)	6,567
(95)	Less Subsidiary transactions (identified above)	(2,377)
4,911	(Surplus)/Deficit for the year on the Single Entity Comprehensive Income and Expenditure Statement	4,190

Group Movement in Reserves Statement 2019/2020

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable' reserves (ie those that can be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax and rents for the year. The Net (Increase)/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	Usable Reserves				Total Usable Reserves	Total Unusable Reserves See note 25	Total Authority Reserves	Trust Reserves	Total Group Reserves
	General Fund Balances	Housing Revenue Account Balances	Capital Receipts Reserve	Capital Grants Unapplied Account					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2019	(13,437)	(30,528)	(25,268)	(2,948)	(72,181)	(275,118)	(347,299)	(11,798)	(359,097)
Movement in reserves during 2019/2020									
Total Comprehensive Income and Expenditure	7,403	(3,213)	0	0	4,190	(18,111)	(13,921)	2,381	(11,540)
Adjustments between accounting basis and funding basis under regulations (note 8)	(8,694)	1,741	1,487	(2,843)	(8,309)	8,309	0	0	0
(Increase)/Decrease in 2019/2020	(1,291)	(1,472)	1,487	(2,843)	(4,119)	(9,802)	(13,921)	2,381	(11,540)
Balance at 31 March 2020 (carried forward)	(14,728)	(32,000)	(23,781)	(5,791)	(76,300)	(284,920)	(361,220)	(9,417)	(370,637)

Group Movement in Reserves Statement 2018/2019 - comparative information

	Usable Reserves				Total Usable Reserves	Total Unusable Reserves See note 25	Total Authority Reserves	Trust Reserves	Total Group Reserves
	General Fund Balances	Housing Revenue Account Balances	Capital Receipts Reserve	Capital Grants Unapplied Account					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018	(11,427)	(26,428)	(23,341)	(2,033)	(63,229)	(283,917)	(347,146)	(11,872)	(359,018)
Movement in reserves during 2018/2019									
Total Comprehensive Income and Expenditure	3,255	1,656	0	0	4,911	(5,064)	(153)	74	(79)
Adjustments between accounting basis and funding basis under regulations (note 8)	(5,265)	(5,756)	(1,927)	(915)	(13,863)	13,863	0	0	0
(Increase)/Decrease in 2018/2019	(2,010)	(4,100)	(1,927)	(915)	(8,952)	8,799	(153)	74	(79)
Balance at 31 March 2019 (carried forward)	(13,437)	(30,528)	(25,268)	(2,948)	(72,181)	(275,118)	(347,299)	(11,798)	(359,097)

Group Balance Sheet as at 31 March 2020

The Balance Sheet shows the value as at the 31 March of the assets and liabilities of the Council. The net assets (assets less liabilities) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category is usable reserves, ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and to any statutory limitations on their use. The second category is those that the Council is not able to use to provide services. This category of reserves is called unusable reserves (see note 25).

31 March 2019			31 March 2020		
Group £'000		Note	Single Entity £'000	Subsidiaries £'000	Group £'000
	Property, Plant and Equipment	11			
422,418	Council Dwellings		429,816		429,816
89,650	Other Land and Buildings		72,381	7,737	80,118
2,943	Vehicles, Plant and Equipment		2,508	77	2,585
573	Infrastructure Assets		571		571
218	Community Assets		218		218
0	Surplus Assets		0		0
365	Assets Under Construction		5,235		5,235
516,167			510,729	7,814	518,543
26,502	Investment Property	16	25,734		25,734
1,275	Heritage Assets		1,277		1,277
312	Intangible Assets		293		293
9,116	Long Term Investments	17	17,180		17,180
553,372	Total Long-Term Assets		555,213	7,814	563,027
	Current Assets				
47,017	Short Term Investments	17	46,162		46,162
274	Assets Held for Sale		0		0
9	Inventories		9		9
8,981	Short Term Debtors	21	9,740	18	9,758
11,419	Cash and Cash Equivalents	22	13,173	1,594	14,767
67,700	Total Current Assets		69,084	1,612	70,696
621,072	Total Assets		624,297	9,426	633,723
	Current Liabilities				
(4,296)	Short Term Borrowing	17	(4,375)		(4,375)
(11,394)	Short Term Creditors	23	(17,644)	(9)	(17,653)
(1,177)	Provisions	17	(1,507)		(1,507)
(16,867)	Total Current Liabilities		(23,526)	(9)	(23,535)
	Long-Term Liabilities				
(175,617)	Long-term Borrowing	17	(171,314)		(171,314)
(67,987)	Pensions Liability	36	(66,232)		(66,232)
(1,504)	Capital Grants Receipts in Advance		(2,005)		(2,005)
(245,108)	Total Long-Term Liabilities		(239,551)	0	(239,551)
359,097	Net Assets		361,220	9,417	370,637
	Financed by:				
(73,685)	Usable Reserves		(76,300)	(1,603)	(77,903)
(285,412)	Unusable Reserves	25	(284,920)	(7,814)	(292,734)
(359,097)	Total Reserves		(361,220)	(9,417)	(370,637)

Group Cash-Flow Statement

The Cash-Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation, grant income or from recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash-flows arising from financing activities are useful in predicting claims on future cash-flows by providers of capital (ie borrowing) to the Council.

2018/2019

2018/2019			2019/2020		
£'000			Single Entity £'000	Group Activities £'000	Group Total £'000
		Note			
5,006	Net (Surplus)/Deficit on the Provision of Services *		4,190	2,377	6,567
(24,844)	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	26	(29,247)	(2,479)	(31,726)
6,550	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	26	8,448		8,448
(13,288)	Net Cash-flows from Operating Activities	29	(16,609)	(102)	(16,711)
7,035	Investing Activities	27	9,386	3	9,389
2,290	Financing Activities	28	3,974		3,974
(3,963)	Net (increase)/decrease in Cash and Cash Equivalents		(3,249)	(99)	(3,348)
7,456	Cash and Cash Equivalents at the beginning of the reporting period		9,924	1,495	11,419
11,419	Cash and Cash Equivalents at the end of the reporting period	22	13,173	1,594	14,767
3,963	Movement in Cash increase/(decrease)		3,249	99	3,348

* See Group Comprehensive Income and Expenditure Statement page 12 and 13.

For notes on the Group Cash-Flow Statement see notes 26-29.

Notes to the Financial Statements

1. Statement of Main Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's consolidated group account transactions for the 2019/2020 financial year and its position at the year-end on 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 (the Code), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts have been prepared on a going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

The Chief Finance Officer reviews the Accounting Policies to give assurance that there are no material changes to those previously approved for the financial year.

The Group Accounts consolidate the accounts of the Shottermill Recreation Ground Trust and the Ewart Bequest (see 1.22). The accounts for these Trusts are prepared in accordance with The Charities Act 2015, and applicable regulations.

The accounting convention adopted in the Statement of Accounts is historical cost with the exception of the revaluation of certain categories of non-current assets and financial instruments.

The notes to the accounts represent the single entity accounts but have been supplemented by additional notes incorporating group transactions where the activity is material.

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. However, as the Council borrowings and investments are either of a short duration or have fixed-interest rates, the 'effective interest rate' accounting method is generally equal to the fixed contractual cash flows on a single investment.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The de minimis for the accrual of a single item is £1,000.
- Revenue from council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- Where the amount of an item of revenue or expenditure relating to the financial year is not known at the 31 March, estimation techniques are applied to ensure that the accounts reflect the most likely position.

1.3 Council Tax and Business Rates

Billing authorities act as agents, collecting Council Tax and Business Rates on behalf of the major preceptors (including Central Government for Business Rates), and as principals, collecting Council Tax and Business Rates for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and Business Rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and Business Rates collected could be less or more than estimated.

Accounting for Council Tax and Business Rates

The Council Tax and Business Rates income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. Regulations, however, determine the amount of Council Tax and Business Rates that must be included in the Council's General Fund. The difference, therefore, between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and Business Rates relating to arrears, impairment allowances for bad debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge

made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are, in accordance with the Council's Treasury Management Policy, investments identified as meeting short-term needs rather than for investment purposes. They are identified as those held 'on call' with a bank or building society rather than invested in longer term Fixed Deposits. They are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. Bank overdrafts will also form part of cash and cash equivalents where the bank balance fluctuates between cash in hand and cash overdrawn between years.

1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.6 Charges to Revenue for Non-Current Assets

Non-Current Assets are all Property, Plant, Equipment, Intangible and other assets that bring longer term benefits (for a period of more than one year) to the Council, its customers and the services it provides.

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. Depreciation, revaluation and impairment losses and amortisation are, therefore, replaced by a contribution in the General Fund Balance of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

The General Fund is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement of an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is called the Minimum Revenue Provision (MRP).

1.7 Employee Benefits

Benefits Payable during Employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the appropriate service, or where applicable, to a corporate service segment in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructure.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund or Housing Revenue Account balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Most employees of the Council are members of the statutory Local Government Pension Scheme administered by Surrey County Council (the Surrey Pension Fund). This scheme provides defined benefits to members (retirement lump sums and annual pensions), earned while employees of the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Surrey Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement

benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.3% in 2019/2020.
- The assets of the Pension Fund attributed to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Finance and Property Services segment. Annual pension increases are calculated using CPI.
 - net interest on the net defined benefit liability (asset), ie net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other Comprehensive Income and Expenditure.
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities - not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant

accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9 Financial Instruments

The definition of a financial instrument is "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity".

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straightforward trade receivables (trade debtors) and trade payables (trade creditors) to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowings and investment transactions are also classified as financial instruments. There has been no change in the valuation technique used during the year for the financial instruments. Amounts relating to council tax, business rates and payments and overpayments of Housing Benefit etc are outside the scope of these accounting provisions as they are statutory debts and do not arise from contracts.

Financial Liabilities

A Financial Liability is an obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another

financial assets to another entity or an obligation to exchange financial assets and liabilities with another entity under conditions that are potentially unfavourable to the Council.

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the Council's borrowing, this means that the amount presented on the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Borrowing costs are interest payments and other costs incurred in connection with the borrowing of funds. The Council has a policy of expensing borrowing costs and they are recognised as expenditure in the period in which they are incurred.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund or Housing Revenue Account Balance to be spread over future years.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that are represented by cash or other instruments or a contractual right to receive cash or another financial asset.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are

based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. However, at the 31 March the interest due but not received is included with the investment figure shown on the Balance Sheet, rather than treated as a debtor.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council's portfolio of investments and Trade Receivables are measured at amortised cost. This form of measurement does not change the amount of cash receivable under the terms of the transaction.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit and Loss

The Council does not have any material assets on its Balance Sheet classified required to be measured at Fair Value through Profit or Loss.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund or Housing Revenue Account Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Grants to cover general expenditure, eg retained Business Rate income and New Homes Bonus are non-ring-fenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council approved its Community Infrastructure Levy (CIL) Scheme to take effect from March 2019. The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

The CIL is received without outstanding conditions. It is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

1.11 Heritage Assets

Heritage assets are assets held and maintained principally for their contribution to knowledge and culture and are intended to be preserved in trust for future generations because of their cultural, historical, artistic, scientific, technological, geological or environmental associations. Provided that they meet this definition, heritage assets can be tangible such as historic buildings, civic regalia, museum collections and works of art or intangible such as recordings of historical events.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see 1.17 page 33 in this Statement of Main Accounting Policies. If a heritage asset is disposed of, the proceeds would be accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see 1.17 page 34).

Recognition and Measurement: Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. They are principally measured at insurance valuation based on market value updated annually or external valuation if appropriate.

The Council has set a de minimis level for the recognition of heritage assets of £5,000.

Depreciation: Most of the heritage assets are not subject to depreciation because of indeterminable lives, high residual values or the valuations being updated annually. However, depreciation may be charged if appropriate and in accordance with the Council's general policies on depreciation shown at 1.17 on page 33.

1.12 Interests in Companies and Other Entities

The Council, as sole Trustee, has a material interest in the Shottermill Recreation Ground Trust and the Ewart Bequest. According to the Code both are considered a subsidiary for the purpose of preparing this Statement of Accounts and, therefore, the Council is required to produce group accounts incorporating the accounts of the Shottermill Recreation Ground Trust and the Ewart Bequest.

1.13 Long-term Contracts

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

1.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. In such cases the asset is then accounted for as property, plant and equipment.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use. They are not depreciated but are revalued annually, by the Council's valuer, according to market conditions at the year-end unless the carrying value is not materially different from the fair value. Gains and losses on revaluation are accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements

to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

The Council has no material assets acquired under finance leases.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council leases in a small number of assets under operating leases.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line on the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore apportioned to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to Net Cost of Services or Investment Properties in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

The Council owns a number of non-current assets that are leased out under operating leases.

1.16 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. The HRA element is charged to the HRA revenue account.

1.17 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition: Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable

that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

The Council has a de minimis level for the recognition of non-current assets of £5,000 for vehicles, plant and equipment (including Information Technology equipment) and £10,000 for land and buildings.

Component Accounting: this requires assets to be separated into component parts and recognised, depreciated and derecognised separately where those component parts have a cost that is significant in relation to the total cost of the asset and require a different useful life and method of depreciation to be used.

Measurement: Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Dwellings - current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH).
- Land and buildings – current value, determined as the amount that would be paid for the asset in its existing use (existing use value EUV).
- Vehicles, Plant and Equipment – depreciated historical cost.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Council Dwellings and land and buildings were valued in accordance with the Royal Institute of Chartered Surveyors (RICS) <http://www.rics.org/uk/> Statement of Asset Valuation Practice and Guidance Notes (Red Book) as supplemented by the Manual of Valuation (White Book) by the Council's valuer who is RICS qualified.

Assets included in the Balance Sheet at current value are revalued regularly, and as a minimum every five years, to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The de minimis level for land and buildings is £10,000 and vehicles, plant and equipment £5,000.

Impairment: Assets are assessed at each year-end to determine whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation: Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their estimated useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain community assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is charged to the services that receive the benefit of the assets during the year. It is reversed out of the Comprehensive Income and Expenditure Statement via the Movement in Reserves Statement.

Depreciation is calculated on the following bases:

- Council Dwellings – componentised basis for dwelling stock valued on replacement cost of each component.
- Buildings (General Fund and HRA non dwelling) – straight-line allocation over the useful life of the property as estimated by the valuer.

- Vehicles, Plant and Equipment – straight-line allocation over the useful life of the asset.
- Infrastructure – straight-line allocation over the useful life of the asset.
- Surplus Assets – straight-line allocation over the useful life of the asset as estimated by the valuer.

Depreciation on HRA assets – depreciation is charged in accordance with proper practices to the HRA. The Code requires an amount equal to the total depreciation charge for all HRA assets to be transferred to the Major Repairs Reserve (MRR) to establish resources available for capital spend on HRA assets. This is transacted through the Movement in Reserves Statement to remove the impact on the HRA.

The estimated useful lives for depreciation purposes are reviewed on revaluation and when assets are coming to the end of their current useful life. Estimated useful lives are updated, if appropriate, and the new estimated useful life used to calculate the depreciation charge for the year by dividing the carrying value of the asset over the new estimated useful life. Where useful lives have been changed in 2019/2020, the effect on the depreciation charge for the year is immaterial.

Where an item of Property, Plant and Equipment asset has major components with a significant cost in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Newly acquired/enhanced assets receive a full depreciation charge in their first year, regardless of the precise timing of the expenditure. Assets disposed of receive no depreciation charge in the year of disposal.

Following a revaluation, a full year of depreciation is charged in the year of revaluation on the new valuation.

Disposals and Non-Current Assets Held for Sale: When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and is then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.18 Provisions, Contingent Liabilities and Contingent Assets

Provisions: Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The Council has a provision for losses on backdated Business Rate appeals that would be unavoidable costs if the District Valuer upheld appeals.

Waverley sets an amount aside from revenue to meet potential bad debts but this does not meet the definition of a provision.

Contingent Liabilities: A contingent liability arises where an event has taken place that gives the Council a possible obligation, the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised on the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets: A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised on the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.19 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits - they do not represent usable resources for the Council. These reserves are detailed in the notes to the financial statements on page 61.

1.20 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.21 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset, or
- in the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of an asset using the assumptions that market participants would use when pricing the asset assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 - unobservable inputs for the asset.

1.22 Group Accounts

Nature of Interest: The Group Accounts consolidate the accounts of the Shottermill Recreation Ground Trust and the Ewart Bequest in the form of a subsidiary relationship as the Council is the sole trustee of both and has the ability to direct the operating and financial policies (within Trust objectives) with a view to gaining service potential from the activities undertaken by the Trusts.

Shottermill Recreation Ground Trust (Haslemere Leisure Centre) is an important part of the Council's Leisure provision. In 2008 the Council entered into a 15 year management contract for the operation of this centre.

The Ewart Bequest owns land at Farnham on which are built small dwellings suitable for elderly people of limited financial resources. It is an important part of the Council's housing service.

Basis of Consolidation: The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Council, the Shottermill Recreation Ground Trust and the Ewart Bequest, each having a year-end of 31 March 2020.

The assets of the trust are revalued in line with the accounting policies at 1.17.

Degree of Commitment: The Council performs a role of stewardship over the charitable trusts included in the Group Accounts. As such it has a degree of commitment to meet any accumulated deficits or losses. However, the risks associated with this commitment are not considered material.

Trust Accounts: The annual report and accounts for the Trusts are prepared in accordance with The Charities Act 2015, and applicable regulations. The Statement of Financial Activities and Balance Sheets for the Trust Accounts for the year ended 31 March 2020 are included on pages 92 to 95 for information.

The full charity accounts are subject to audit/review according to audit thresholds. For the 2019/2020 accounts both the Shottermill Recreation Ground Trust and the Ewart Bequest are subject to independent review. The accounts can be obtained from the Charity Commission website:

<http://apps.charitycommission.gov.uk/showcharity/registerofcharities/RegisterHomePage.aspx> or Waverley Borough Council.

2. Accounting Standards that have been issued but have not yet been adopted

The Council is required to disclose information relating to the impact of an accounting change required by a new standard that has been issued, but not yet adopted, in the 2019/2020 financial statements.

For the 2019/2020 accounts the accounting changes to disclose are in relation to:

- IFRS16 Leases – the recognition of ‘right of use’ assets on the Balance Sheet for lessees. The CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has agreed to defer the implementation of IFRS 16 Leases for one year in-line with the government’s Financial Reporting Advisory Board’s proposals for central government departments. This will mean the effective date for implementation is 1 April 2021.
- IAS19 Employee Benefits - relating to plan amendment, curtailment or settlement. This amendment has been adopted in the 2020/21 Code and will therefore be applicable for the 2020/21 financial year reporting.
- Amendments to IAS28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- IAS1/IAS 8 Changes on the definition of Materiality

These accounting changes are not anticipated to have a material impact on the financial statements of the Council.

3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Although many minor judgements have been made in the process of creating these accounts (eg whether a lease is a finance or operating lease based on the indicators detailed in the Code) the only critical judgements made in the Statement of Accounts are as follows:

1. Funding Levels

There is a high degree of uncertainty about future levels of government funding for local government. The Fair Funding Review due in 2020 was delayed due to the Covid-19 pandemic and the Council is yet to receive an indication of the potential impact on its finances as a result of the review. Therefore, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to reduce spend and levels of service provision.

2. Group Accounts

The Statement of Accounts is prepared on a Group Accounts basis incorporating the accounts of the two Trusts (see Accounting Policies on page 37). Management has determined the relationship is in the form of a subsidiary due to the control of the trusts by the Council as sole trustee. The judgements made in relation to the Trusts follow the Accounting Policies as set out in Note 1. unless the Charities Commission Statement of Recommended Practice determines otherwise.

3. Covid-19

The Statement of Accounts for 2019/2020 did not see a material financial impact as a result of the Covid-19 pandemic. However, there is a very high degree of uncertainty about the impact of Covid-19 on the Council's finances and on the economic environment following the Balance Sheet date. Due to this uncertainty at the balance sheet date the Council has continued to apply accounting policies (see Note 1.) and disclosed the estimation uncertainty regarding valuations. This is covered in more detail in the Narrative Report and note 4. below.

4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions

Estimation of the net pensions liability depends on complex judgements relating to the discount rate used, projected salary increases, changes in retirement ages, and mortality rates. A firm of actuaries is engaged to provide the Council with expert advice as to the assumptions to be applied. A Sensitivity Analysis showing the effects of changes in individual assumptions is shown in Note 36 Defined Benefit Pension Schemes on page 78.

As a result of Covid-19 there will likely be expected uncertainties with some of asset valuations in the Pension Fund Accounts.

Impairment Allowance

The Council has an impairment allowance for estimated non recovery of its financial assets (bad debts) where the counterparty is not central government or a local authority. The allowance is assessed each year and an appropriate allowance made. The allowance is by its nature an estimate, usually based on previous experience.

The unknown economic impact of the Covid-19 pandemic has made the estimation of impairment allowances difficult as there is uncertainty about the economic viability of counterparties and their ability to settle their debts.

Asset Valuations, Impairments and Fair Value Measurements

Asset valuation (including Fair Value measurement) and impairment is based on an estimate and the Council draws on the expertise of its Valuer to calculate valuations, useful lives and impairment reviews in accordance with professional guidance. When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible professional judgement is required. These judgements typically include considerations such as uncertainty and risk. However, changes in assumptions used could affect the fair value of the authority's assets and liabilities.

Impact of Covid-19

Asset valuations have been undertaken in accordance with the RICS Red Book, which highlights matters that may give rise to material valuation uncertainty. The Covid-19 pandemic created a period of significant uncertainty in relation to many factors that historically have acted as drivers of the property investment and letting markets, with major adverse impacts affecting global stock markets, future economic growth forecasts, and business and consumer confidence. Such circumstances are unprecedented but are expected to result in similar uncertainty in much of the property market, and may impact values in the months following the Balance Sheet date. At the Balance Sheet date there was little or no empirical evidence available on the impact of Covid-19 on property market activity or values, resulting in a reduced level of certainty that could be attached to valuations.

EU Withdrawal

The financial impact of the United Kingdom's withdrawal from the European Union is as yet uncertain. It could impact on interest and inflation rates, property and rental values, procurement and labour costs as well as the business economy. The assumption has been made that it will not significantly impair the value of the Council's assets, however, the assumptions will need to be reviewed regularly. No adjustments have been made for the identified uncertainties.

5. Events after the Reporting Period

The Statement of Accounts was authorised for issue on 17 July 2020 by Mr Graeme Clark, Strategic Director for Waverley Borough Council.

Events taking place after this date are not reflected in the financial statements or notes. When events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There is a high degree of uncertainty about the impact of Covid-19 on the Council's finances following the 31 March 2020. A report to the Executive in May 2020 summarises how the Council has responded to the Covid-19 crisis and the Council considered and approved a contingency revised budget for 2020/2021 to mitigate the projected budget deficit based on best estimates.

There are no other significant material events which took place after 31 March 2020 which (although not relating to conditions at that date) provided information that is relevant to an understanding of the Council's financial position at that date.

6. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (Government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/2019			2019/2020		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	£'000	£'000	£'000
General Fund					
3,247	(454)	3,701	3,620	(552)	4,172
2,342	(637)	2,979	2,643	(761)	3,404
700	33	667	(321)	(1,397)	1,076
2,076	124	1,952	2,514	685	1,829
3,553	(4,626)	8,179	3,135	(8,288)	11,423
1,275	(1,235)	2,510	1,726	(433)	2,159
776	(137)	913	736	(163)	899
(14,879)	(11,705)	(3,174)	(15,325)	(6,982)	(8,343)
(910)	(18,637)	17,727	(1,272)	(17,891)	16,619
(5,200)	7,616	(12,816)	(1,491)	10,938	(12,429)
(6,110)	(11,021)	4,911	(2,763)	(6,953)	4,190
Opening Balances as at 1 April 2019					
(11,427)			General Fund		(13,437)
(26,428)			Housing Revenue Account		(30,528)
(37,855)			Total Usable Reserves		(43,965)
Surplus or Deficit in year					
See MiRS (p14) Net (Increase)/					
Decrease before Transfers to					
Earmarked Reserves:					
(2,010)			General Fund		(1,291)
(4,100)			Housing Revenue Account		(1,472)
(6,110)					(2,763)
Closing Balances as at 31 March 2020					
(13,437)			General Fund		(14,728)
(30,528)			Housing Revenue Account		(32,000)
(43,965)			Total Usable Reserves		(46,728)

For notes on the Expenditure and Funding Analysis see notes 6A to 7

6A. Note to the Expenditure and Funding Analysis

Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	2019/2020			
	Adjustments for Capital Purposes	Net Charge for the Pension Adjustments	Other Differences	Total Adjustments
	Note 1	Note 2	Note 3	
	£'000	£'000	£'000	£'000
General Fund				
Policy and Governance	(4)	(548)	0	(552)
Planning and Economic Development	(7)	(754)	0	(761)
Business Transformation	(1,312)	(85)	0	(1,397)
Finance and Property	(25)	710	0	685
Commercial Services	(7,880)	(408)	0	(8,288)
Environmental Services	(26)	(407)	0	(433)
Housing Delivery and Communities	(1)	(162)	0	(163)
Housing Revenue Account	(6,774)	(208)	0	(6,982)
Net Cost of Services	(16,029)	(1,862)	0	(17,891)
Other income and expenditure from the Expenditure and Funding Analysis	12,671	(1,643)	(90)	10,938
Difference between Surplus or Deficit and Comprehensive Income & Expenditure Statement (Surplus) or Deficit on the Provision of Services	(3,358)	(3,505)	(90)	(6,953)
	2018/2019			
Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Charge for the Pension Adjustments	Other Differences	Total Adjustments
	Note 1	Note 2	Note 3	
	£'000	£'000	£'000	£'000
General Fund				
Policy and Governance	0	(454)	0	(454)
Planning and Economic Development	(7)	(630)	0	(637)
Business Transformation	87	(54)	0	33
Finance and Property	(21)	145	0	124
Commercial Services	(4,323)	(303)	0	(4,626)
Environmental Services	(912)	(323)	0	(1,235)
Housing Delivery and Communities	0	(137)	0	(137)
Housing Revenue Account	(11,627)	(78)	0	(11,705)
Net Cost of Services	(16,803)	(1,834)	0	(18,637)
Other income and expenditure from the Expenditure and Funding Analysis	7,895	(1,539)	1,260	7,616
Difference between Surplus or Deficit and Comprehensive Income & Expenditure Statement (Surplus) or Deficit on the Provision of Services	(8,908)	(3,373)	1,260	(11,021)

Note 1 - Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line, and for:

- **Other Operating Expenditure** - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** - the statutory charges for capital financing, ie Minimum Revenue Provision and other revenue contributions, are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2 - Net Charge for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related income and expenditure:

- For **services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

Note 3 - Other Statutory Adjustments

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

6B. Segmental Income (Single Entity)

This note analyses the **material** revenue income received from external customers on a segmental basis:

2018/2019 £'000		2019/2020 £'000
	Income from Services	
(5,396)	Environment	(5,475)
(28,441)	Housing Revenue Account	(28,095)
(33,837)	Total	(33,570)

7. Expenditure and Income analysed by nature (Single Entity)

The Council's expenditure and income is analysed as follows:

2018/2019 £'000		2019/2020 £'000
	Expenditure/Income	
	Expenditure	
22,377	Employee costs	23,413
55,131	Other service expenses	50,221
(750)	Support Service recharges *	(1,190)
21,136	Depreciation, amortisation, impairment and revaluation losses	18,364
5,597	Interest payments	5,538
3,129	Precepts and levies	3,267
759	Payment to Housing Capital Receipts Pool	888
615	Impairment Losses (Financial Assets)	193
107,994	Total Expenditure	100,694
	Income	
(50,356)	Fees, charges and other service income	(48,227)
(2,172)	Interest and Investment Income	(2,280)
(12,810)	Council Tax income	(13,216)
(29,217)	Government Grants and Contributions	(25,419)
(3,866)	Business Rates distribution	(2,221)
(1,704)	Capital grants and contributions	(2,855)
(2,572)	(Gain)/Loss on disposal of non-current assets	(3,328)
(386)	Gain on fair value of Investment Properties	1,042
(103,083)	Total Income	(96,504)
4,911	(Surplus) or Deficit on the Provision of Services	4,190

* The credit reflects the staff recharges to areas outside of the Net Cost of Services in the Comprehensive Income and Expenditure Statement such as capital schemes.

8. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which the non Housing Revenue Account receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund Housing Revenue Account services.

Housing Revenue Account (HRA) Balance

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure, as defined by the 1989 Act, that is available to fund future expenditure in connection with the Council's landlord function.

Major Repairs Reserve

The Council is required to maintain the HRA Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied Account

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The statements on the following pages detail these adjustments.

Adjustments between accounting basis and funding basis under regulations						
2019/2020	Usable Reserves					Total Adjustments
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to or from the Pensions Reserve) (see note 36)	(2,911)	(594)				(3,505)
Council Tax and NNDR (transfers to or from Collection Fund Adjustment Account)	(90)					(90)
Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):						
Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(9,242)	(5,692)	(5,838)			(20,772)
Total Adjustments to Revenue Resources	(12,243)	(6,286)	(5,838)	0	0	(24,367)
Adjustments between Revenue and Capital Resources						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	1,477	3,211		(4,688)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool	(888)			888		0
Statutory provision for the repayment of debt	117		4,223			4,340
Capital expenditure charged against the General Fund and HRA balances	0	3,036				3,036
Other movements						0
Total Adjustments between Revenue and Capital Resources	706	6,247	4,223	(3,800)	0	7,376
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance new capital expenditure				5,287		5,287
Use of the Major Repairs Reserve to finance new capital expenditure			3,395			3,395
Capital grants and contributions unapplied credited to the CIES	2,843	0			(2,843)	0
Total Adjustments to Capital Resources	2,843	0	3,395	5,287	(2,843)	8,682
Total Adjustments	(8,694)	(39)	1,780	1,487	(2,843)	(8,309)

Adjustments between accounting basis and funding basis under regulations						
2018/2019 Comparative figures	Usable Reserves					Total Adjustments £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to or from the Pensions Reserve) (see note 36)	(2,926)	(447)				(3,373)
Council Tax and NNDR (transfers to or from Collection Fund Adjustment Account)	1,260					1,260
Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):						
Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(4,828)	(10,201)	(6,538)			(21,567)
Total Adjustments to Revenue Resources	(6,494)	(10,648)	(6,538)	0	0	(23,680)
Adjustments between Revenue and Capital Resources						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	847	3,331		(4,178)		0
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool	(759)			759		0
Statutory provision for the repayment of debt	100		3,708			3,808
Capital expenditure charged against the General Fund and HRA balances	180	390				570
Other movements				(29)		(29)
Total Adjustments between Revenue and Capital Resources	368	3,721	3,708	(3,448)	0	4,349
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance new capital expenditure				1,521		1,521
Use of the Major Repairs Reserve to finance new capital expenditure			3,947			3,947
Capital grants and contributions unapplied credited to the CIES	861	54			(915)	0
Total Adjustments to Capital Resources	861	54	3,947	1,521	(915)	5,468
Total Adjustments	(5,265)	(6,873)	1,117	(1,927)	(915)	(13,863)

9. Transfers to/from Earmarked and Other Specific Reserves

This sets out the amounts set aside from the General Fund and HRA balances in earmarked and other specific reserves to provide financing for future expenditure plans for the General Fund and HRA expenditure.

1 April 2019 Balance £'000	Reserve	Net Movement in year £'000	31 March 2020 Balance £'000	Purpose of Reserve
	General Fund			
(23)	Revenue Reserve Fund (RRF)	(313)	(336)	The RRF is a General Fund Reserve used for financing capital expenditure and supporting revenue.
(3,476)	Business Rates Retention Equalisation Reserve	(374)	(3,850)	To provide for the exposure to fluctuations in rateable values and deficit timing differences
(6,244)	Other Earmarked Reserves	(773)	(7,017)	Other reserves and funds
(9,743)	Total	(1,460)	(11,203)	

	Housing Revenue Account			
(13,518)	New Affordable Housing Reserve	(1,219)	(14,737)	Reserves created from surplus generated as a result of HRA self-financing
(6,289)	Dwelling Stock Improvement Reserve	1,158	(5,131)	
0	Major Repairs Reserve	(2,100)	(2,100)	Set aside for additional programme of work to dwellings
(3,224)	Other	136	(3,088)	Other reserves and funds
(23,031)	Total	(2,025)	(25,056)	

10. Non-ringfenced Government Grants

The general Government Grants in the Comprehensive Income and Expenditure Statement comprise:

2018/2019 £'000		2019/2020 £'000
(1,231)	New Homes Bonus	(1,164)
(91)	Other Revenue Grants	(298)
(1,322)		(1,462)

New Homes Bonus - is based on an average national council tax amount and is paid to the Council according to the total net increase in homes in the Borough between each September and the total number of empty homes being brought back into use.

Other Revenue Grants - these are other non-ringfenced grants and contributions received that are not attributed to a specific service. Any unspent element of the grant at the end of the year has been transferred to an earmarked Revenue Grant Reserve.

11. Group Property, Plant and Equipment (PPE)

Movements in 2019/2020

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets under Construction	Total PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2019	422,418	92,001	7,580	1,419	218	365	524,001
Additions/enhancement	6,193	108	88	40		5,162	11,591
Donations			13				13
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	6,589	116	(197)				6,508
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,316)	(10,837)		(37)			(15,190)
Derecognition Disposals	(1,360)						(1,360)
Other Reclassifications	292					(292)	0
At 31 March 2020	429,816	81,388	7,484	1,422	218	5,235	525,563
Depreciation and Impairments							
At 1 April 2019	0	(2,351)	(4,637)	(846)	0	0	(7,834)
Charge for 2019/2020	(5,501)	(1,612)	(418)	(40)			(7,571)
Depreciation written out to the Revaluation Reserve	5,501	680	156				6,337
Depreciation written out to the Surplus/Deficit on the Provision of Services		2,013		35			2,048
At 31 March 2020	0	(1,270)	(4,899)	(851)	0	0	(7,020)
Balance Sheet amount at 31 March 2020	429,816	80,118	2,585	571	218	5,235	518,543

Movements in 2018/2019

	Council Dwellings (Restated) £'000	Other Land and Buildings (Restated) £'000	Vehicles, Plant and Equipment (Restated) £'000	Infra-structure £'000	Community Assets (Restated) £'000	Assets under Construction (Restated) £'000	Total PPE £'000
Cost or Valuation							
At 1 April 2018	419,893	88,194	7,785	1,371	364	10,923	528,530
Additions/enhancement	4,284	689	209	48		2,444	7,674
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(1,440)	5,871	(42)		(137)		4,252
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,080)	(5,319)	(372)		(9)		(14,780)
Derecognition Disposals	(1,320)	(70)					(1,390)
Derecognition Other						(11)	(11)
Reclassified to/from Held for Sale		(274)					(274)
Other Reclassifications	10,081	2,910				(12,991)	0
At 31 March 2019	422,418	92,001	7,580	1,419	218	365	524,001
Depreciation and Impairments							
At 1 April 2018	0	(2,560)	(4,546)	(804)	0	0	(7,910)
Charge for 2018/2019	(6,204)	(941)	(420)	(42)			(7,607)
Depreciation written out to the Revaluation Reserve	6,204	311	29				6,544
Depreciation written out to the Surplus/Deficit on the Provision of Services		835	300				1,135
Derecognition Disposals		4					4
At 31 March 2019	0	(2,351)	(4,637)	(846)	0	0	(7,834)
Balance Sheet amount at 31 March 2019	422,418	89,650	2,943	573	218	365	516,167

The 2018/2020 note has been restated to reflect the decrease in asset values being treated as Revaluation Losses rather than Impairment Losses. The change is in presentation only.

12. Revaluation Losses

Note 11, which reconciles the movement over the year in Property, Plant and Equipment, includes a number of downward movements in asset value following revaluation. The significant losses in value are described below:

Council Dwellings - the revaluation reflects the valuers assessment of the market and the difference in construction cost and valuation for completed new build properties coming onto the Balance Sheet at social housing value.

Land and Buildings - the revaluation losses incurred in 2019/2020 relate mainly to leisure centres which were revalued to reflect the latest build costs and estimated remaining useful lives.

	2019/2020 £'000
Cranleigh Leisure Centre	(1,174)
Farnham Sports Centre	(5,518)
Haslemere Leisure (Shottermill Recreation Grout Trust asset)	(2,121)

13. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources used for its financing. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, a measure of the capital expenditure incurred historically that is yet to be financed.

	2018/2019 £'000	2019/2020 £'000
Opening Capital Financing Requirement	194,221	191,285
Capital Investment		
Property, Plant and Equipment (1)	7,612	11,588
Intangible Assets	72	111
Revenue Expenditure Funded from Capital under Statute (2)	656	909
Long Term Investments	15	0
Total Capital Expenditure	8,355	12,608
Sources of finance		
Grants and Other Contributions (3)	(1,445)	(890)
Major Repairs Reserve	(3,947)	(3,395)
Capital Receipts	(1,521)	(5,287)
Revenue	(570)	(3,036)
Repayment of Loans Fund Advances	(3,708)	(4,223)
Minimum Revenue Provision	(100)	(117)
Total Capital Financing	(11,291)	(16,948)
Closing Capital Financing Requirement	191,285	186,945
Movement		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(2,936)	(4,340)

1. This figure is the single entity additions in note 11 Property, Plant and Equipment assets.
2. Revenue Expenditure Funded from Capital under Statute is treated as capital for control purposes. However, it forms part of the (surplus) or deficit on the Comprehensive Income and Expenditure Statement.
3. Includes grants and contributions towards the Council's assets and non-Council owned assets.

14. Commitments under Capital Contracts

As at 31 March 2020, the major capital contracts entered into were as follows:

Contract	Purpose	Approximate value of remaining contractual commitment	Period of Investment
Housing Revenue Account	New Council Dwellings in Godalming	£'000 2,148	To 2020/21

15. Revaluation Information

Valuation of property assets carried at fair value

The Council carries out a rolling programme of revaluations ensuring that all property assets are revalued at least every five years. All valuations were carried out internally by the Council's Estates and Valuation team who are members of the Royal Institute of Chartered Surveyors. The following statement shows when the assets were most recently valued.

The basis for valuation is set out in the Statement of Accounting Policies at page 32.

Carrying Value at 31 March 2020	Council Dwellings £'000	Other Land and Buildings £'000	Trust Assets £'000	Total £'000
Valued at fair value in:				
2019/2020	429,816	17,840	7,737	455,393
2018/2019		28,442		28,442
2017/2018		8,381		8,381
2016/2017		15,094		15,094
2015/2016		2,624		2,624
Total	429,816	72,381	7,737	509,934

16. Investment Property

The Council's investment property portfolio comprises mainly industrial units together with miscellaneous properties including shops.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2018/2019 £'000		2019/2020 £'000
(1,504)	Rental Income	(1,375)
377	Direct Operating Expenses	362
(386)	Net (gains) or losses from fair value adjustments	1,042
(1,513)	Net (gain)/loss	29

The Council's ability to realise the value of its investment property has, in some circumstances, been restricted by the existence of long leases. However, there are no restrictions on the Council's right to the remittance of income and the proceeds of disposal.

The Council has no contractual obligations to purchase, construct or develop investment property.

Movement on Investment Property

Investment Properties are valued in accordance with the Accounting Policies 1.14 on page 29. There has been no change in the valuation techniques used during the year.

The following table summarises the movement in the fair value of investment properties for the year:

2018/2019 £'000		2019/2020 £'000
26,116	Balance at start of the year	26,502
386	Net gains or (losses) from fair value adjustments	(1,042)
0	Transfers (to)/from Property, Plant and Equipment	274
26,502	Balance at end of the year	25,734

17. Financial Instruments Balances

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council that are represented by cash or other instruments or a contractual right to receive cash or another financial asset.

Financial Liabilities

A Financial Liability is an obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or other financial assets to another entity or an obligation to exchange financial assets and liabilities with another entity under conditions that are potentially unfavourable to the Council.

The Balance Sheet shows the following categories of Financial Instrument:

31 March 2019 Balance			31 March 2020 Balance	
Long-Term £'000	Current £'000		Long-Term £'000	Current £'000
Financial Assets at amortised cost				
9,116	47,017	Investments	17,180	46,162
0	3,202	Trade Receivables (Debtors note 21)	0	4,024
0	9,924	Cash and Cash Equivalents	0	13,173
<u>9,116</u>	<u>60,143</u>	Total Financial Assets	<u>17,180</u>	<u>63,359</u>
0	5,760	Debtors that are not financial instruments	0	5,716
0	283	Other non financial instruments	0	9
<u>9,116</u>	<u>66,186</u>	Total	<u>17,180</u>	<u>69,084</u>
Financial Liabilities at amortised cost				
(175,617)	(4,296)	Borrowings	(171,314)	(4,375)
0	(6,859)	Trade Payables (Creditors note 23)	0	(10,815)
<u>(175,617)</u>	<u>(11,155)</u>	Total Financial Liabilities	<u>(171,314)</u>	<u>(15,190)</u>
0	(4,525)	Creditors that are not financial instruments	0	(6,829)
0	(1,177)	Provisions that are not financial instruments	0	(1,507)
<u>(175,617)</u>	<u>(16,857)</u>	Total	<u>(171,314)</u>	<u>(23,526)</u>

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

18. Financial Instruments Income, Expense, Gains and Losses

Gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to Financial Instruments are made up as follows:

2018/2019 £'000	Surplus or deficit on the provision of services (Single entity)	2019/2020 £'000
Restated	Interest revenue	
(668)	Financial assets measured at amortised cost	(905)
5,597	Interest expense *	5,538
<u>4,929</u>	Net (gain)/loss for the year	<u>4,633</u>

* The majority of interest paid was to the Public Works Loan Board (PWLB). 2018/2019 figure restated to reflect single entity expense only.

19. Fair Value of Financial Assets and Liabilities

The Council's financial assets and financial liabilities are carried in the Balance Sheet at amortised cost. However, the Council is required to disclose the fair value of each class of financial asset and financial liability for comparison.

The fair value of Financial Assets and Financial Liabilities that are not measured at fair value

The only Financial Instrument where the Fair Value differs materially from the Balance Sheet carrying amount is the loan portfolio from the PWLB. The fair value of the loan portfolio was provided by Link Asset Services, an external independent consultancy service, it was assessed by:

- i) calculating the amounts the Council would have had to pay (including penalty charges) for early repayment of these loans on the relevant dates (Premature Repayment Rate) and
- ii) comparing the terms of the Council's loans with PWLB new borrowing rates (New Loan Rate).

The final maturity date of this debt is scheduled to be 3 September 2040. This is a Level 2 valuation - "other significant observable inputs" (see accounting policy 1.21 on page 36).

31 March 2019			31 March 2020	
Balance			Balance	
Carrying amount	Fair value		Carrying amount	Fair value
£'000	£'000		£'000	£'000
		Financial Liabilities		
179,913		PWLB Borrowing	175,689	
	217,677	(i) Premature Repayment Rate basis		223,553
	200,457	(ii) New Loan Rate basis		190,727

In particular, relating to the (i) Premature Repayment Rate assessment, the Fair Value of the PWLB financial liability (Borrowings) is higher than the carrying amount because, should the Council wish to repay the loans early, the interest payable on the fixed rate PWLB loans is higher than the prevailing rates offered by the PWLB. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest above current market rates.

The Fair Value of Trade payables and Trade receivables is taken to be the invoice amount.

The Council's investment portfolio at the Balance Sheet date consisted entirely of call account deposits and fixed term deposits with Banks, Building Societies and Local Authorities. The maturity dates of all investments except four long term investments were within 12 months of the Balance Sheet date. Of the four long term investments three mature after April 2021 and one in 2022. None of the investments were impaired (ie considered at risk of default). The carrying amount is assumed to approximate to fair value.

20. Nature and Extent of Risks arising from Financial Instruments

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities.

Investments were made in compliance with the Council's Treasury Management Strategy Statement 2019/2020 which is based on CIPFA's latest Code of Practice on Treasury Management. Risk is mitigated through the Annual Investment Strategy (contained in the Treasury Management Policy) in compliance with the Ministry of Housing, Communities and Local Government's Investment Guidance for Local Authorities. The guidance emphasises that priority is to be given to security, liquidity and yield in that order.

The Council's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management, in relation to treasury management, is carried out by Senior Accountants in consultation with the Section 151 Officer under policies approved by the Council in the Treasury Management Policy.

The Council's Annual Investment Strategy (AIS) for 2019/2020, which reviews the arrangements and approved limits for the operation of the Council's Treasury Management Policy, can be found on the Council's website www.waverley.gov.uk (Council 19 March 2019 meeting).

The Council's activities expose it to a variety of financial risks:

- credit risk - the possibility that other parties might fail to pay amounts due to the Council.
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments.
- re-financing risk - the possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms; and
- market risk - the possibility that financial loss may arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

The Council's credit risk arises from deposits with banks and financial institutions as well as credit exposures to the Council's customers.

The Council manages risk through its Treasury Management Framework, which includes the Treasury Management Practices, to minimise risk. The Treasury Management Framework is approved at a full Council meeting prior to the financial year over which it will cover.

All of the Council's £74 million external investments (including £11 million within Cash and Cash Equivalents) as at 31 March 2020 (£69 million total investments as at 31 March 2019) were either in UK banks, building societies or Local Authorities.

The average number of days to maturity as at 31 March 2020 was 251 (201 as at 31 March 2019). The average rate of investment return in 2019/2020 was 1.12% (0.92% in 2018/2019).

Expected Credit Loss

Deposits with County Councils or other Local Authorities are not subject to the requirement to make a loss allowance as statutory provisions prevent default.

Credit risk for the deposits with banks and building societies is deemed to be low. Waverley has never experienced losses from its investments with bank and building societies despite the financial environment over the past decade. Any risk is mitigated by application of Waverley's approved Treasury Management Practices which sets out Waverley's approach to risk and includes restrictions on counterparties involved, limits on amounts invested, restrictions on investment periods, types of instruments used, credit ratings etc.

The Council has no experience of default on its investments and does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The table below summarises the nominal value of the Council's investment portfolio as at 31 March 2020 and confirms that all investments were made in line with the Council's Treasury Management Policy.

Counterparty Fitch credit rating when Investment placed	Credit Rating Criteria met when Investment placed	Credit Rating Criteria met on 31 March 2020	Balance Invested as at 31 March 2020			Total
			Instant access	up to 1 year	over 1 year	
			£'000	£'000	£'000	£'000
			Length of investment from date invested to maturity date			
Not rated ¹	LA	LA		31,000	17,000	48,000
A+ stable	Y	Y	10,650	4,000		14,650
A+ negative	Y	Y		6,000		6,000
A stable	Y	Y		2,000		2,000
A negative	Y	Y		3,000		3,000
Totals			10,650	46,000	17,000	73,650

1. Waverley had 11 deposits with other Local Authorities as at 31 March 2020, four of which are for over one year in duration. Local Authorities are not generally rated individually but are considered equivalent to Government institutions and fall within the Annual Investment Strategy.

The comparative figures for the Council's investment portfolio as at 31 March 2019 are below:

Counterparty Fitch credit rating when Investment placed	Credit Rating Criteria met when Investment placed	Credit Rating Criteria met on 31 March 2019	Balance Invested as at 31 March 2019			Total
			Instant access	up to 1 year	over 1 year	
			£'000	£'000	£'000	£'000
			Length of investment from date invested to maturity date			
Not rated ²	LA	LA		24,850	9,000	33,850
AA- stable	Y	Y	13,325			13,325
A+ stable	Y	Y				0
A stable	Y	Y		22,000		22,000
A- stable	Y	Y				0
Totals			13,325	46,850	9,000	69,175

2. Waverley had eight deposits with other Local Authorities as at 31 March 2019, two of which are for over one year in duration. Local Authorities are not generally rated individually but are considered equivalent to Government institutions and fall within the Annual Investment Strategy.

Trade Receivables

There are no material trade receivable debts which pose a credit risk to the Council at the Balance Sheet date which have not been covered by the impairment allowance (for bad debts).

The impairment allowances for trade receivables have been calculated using general past experience of default for the particular classes of debtor taking into account the age of outstanding debts and the economic climate at the balance sheet date (31 March 2020).

An invoice is generally 'past due' after it has been raised. The credit quality of the trade receivables, which are neither past due nor impaired, is considered good. Of the trade debtors that are not impaired, the amount that is past due for payment is considered fully recoverable and therefore risk is minimal on this amount.

Liquidity risk

The Council has a comprehensive cash-flow management process that seeks to ensure that cash is available as needed. If unexpected movements happen the Council has ready access to borrowings from the market and the PWLB and maintains a prudent amount invested on call at all times. There is no significant risk that it will be unable to raise finance to meet its commitments under Financial Instruments. In the event that the Council needs to raise additional finance to fund its capital plans, the Council would need to consider refinancing some of its long-term borrowing (PWLB loans repayable on maturity between 0.5 years and 21.5 years). The PWLB loans will be reviewed in the future as part of the Council's financial strategy.

All trade and other creditor payables are due to be paid in less than one year. It is considered that the Council has no material exposure to liquidity risk.

The maturity profile of the nominal value of the Council's debt was as follows:

31 March 2019 £'000	% of total debt portfolio	Years	31 March 2020 £'000	% of total debt portfolio
4,223	2%	Short Term Borrowing < 1 year	4,303	2%
25,846	14%	Long Term Borrowing ≥ 1 year ≤ 5 years	31,028	18%
52,772	30%	>5 years ≤ 10 years	55,914	32%
73,199	41%	>10 years ≤ 15 years	77,879	44%
20,562	11%	>15 years ≤ 20 years	3,255	2%
3,238	2%	>20 years ≤ 25 years	3,238	2%
179,840	100%	Total Borrowing	175,617	100%

Market risk - interest rate risk

The Council is potentially exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the market. For instance, a rise in interest rates would have the following effects on the Council:

- borrowings at fixed rates - the fair value of the liabilities borrowings will fall.
- investments at variable rates - the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise (the Council's practice is to deal only in fixed rate investments).
- investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest receivable on variable rate investments would be posted to the (Surplus) or Deficit on the Provision of Services and affect the General Fund Balance.

The Council's practice is to deal only in fixed rate sterling and fixed term investments. The Council's investments were all held at fixed rates as at 31 March 2020 and are due to mature within one year except for four investments totalling £17 million of which three mature in 2021, and one in 2022.

The Council received £905,000 interest on its external investments in 2019/2020 at an average interest rate of 1.12%. If the average rate had been 0.25% less (ie 0.87%) the Council would have received approximately £202,000 less income; a 0.25% rise in interest rates would similarly have produced approximately £202,000 more income.

The fair value (premature repayment rate) of the Council's fixed rate PWLB borrowings (carrying value £175,689,000) was £223,553,000 at 31 March 2020. If the discount rates (based on prevailing premature repayment interest rates) had been 1% less, the fair value of the Council's loans would have been £243,432,000 (£19,879,000 higher, but with no impact on the (Surplus) or Deficit on the Provision of Services or other Comprehensive Income and Expenditure). If the discount rates had been 1% higher the fair value of the loans would be £205,788,000 (£17,765,000 less, but again with no impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure). There would be an early repayment penalty incurred by refinancing of £47,864,000.

Interest Rate profile of financial liabilities	31/03/2019	31/03/2020
Total £'000	(179,913)	(175,689)
Weighted average interest rate (%)	3.1	3.1
Weighted average period (years)	10.4	9.3

Market risk - price risk

The Council does not invest in equity shares and therefore is not subject to any price risk (ie the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

Market risk - foreign exchange risk

The Council has no financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

21. Short Term Debtors

31 March 2019		31 March 2020 Balance		
Balance		Single	Group	Group
£'000		Entity	Activities	Total
		£'000	£'000	£'000
	Debtors			
3,221	Trade Receivables	4,024	18	4,042
397	Prepayments	868	0	868
5,363	Other Receivable Amounts	4,848	0	4,848
8,981	Total Debtors net of Impairment Allowance	9,740	18	9,758
2,094	Impairment Allowance	2,796		2,796

22. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2019		31 March 2020 Balance		
Balance		Single	Group	Group
£'000		Entity	Activities	Total
		£'000	£'000	£'000
5	Cash held by the Council	8		8
(3,406)	Bank current accounts	2,515		2,515
13,325	Short-term investments	10,650		10,650
182	Shottermill Recreation Ground Trust		220	220
1,313	Ewart Bequest		1,374	1,374
11,419	Total Cash and Cash Equivalents	13,173	1,594	14,767

'Short-term investments' are those held on 'call' with a bank rather than invested in longer term Fixed Deposits.

23. Short Term Creditors

31 March 2019		31 March 2020 Balance		
Balance		Single	Group	Group
£'000		Entity	Activities	Total
		£'000	£'000	£'000
	Creditors			
(6,859)	Trade Payables	(10,815)		(10,815)
(4,535)	Other payables	(6,829)	(9)	(6,838)
(11,394)	Total	(17,644)	(9)	(17,653)

24. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

25. Unusable Reserves

The Council has a number of unusable reserves in the Balance Sheet. These are required to be held for statutory reasons and to comply with proper accounting practice.

31 March 2019		31 March 2020	
Balance		Balance	
£'000		£'000	
(79,861)	Revaluation Reserve	See page 62	(92,346) Holds unrealised gains and losses on revaluation of assets
(263,102)	Capital Adjustment Account	See page 63	(258,754) Store of capital assets set aside to represent past expenditure
67,987	Pension Reserve	See note 36 from page 72	66,232 Balancing account to allow inclusion of Pensions Liability in the Balance Sheet
(142)	Collection Fund Adjustment Account		(52)
<u>(275,118)</u>	Total Unusable Reserves	<u>(284,920)</u>	

Explanation of Movements on Unusable Reserves

Revaluation Reserve

The Revaluation Reserve contains gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

The movement on the Revaluation Reserve is made up as follows:

2018/2019 Movement £'000		2019/2020 Movement £'000
(69,759)	Balance at 1 April	(79,861)
(15,373)	Upward Revaluations of assets	(13,378)
4,596	Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	527
(10,777)	(Surplus) or Deficit on revaluation of non-current assets not posted to the (Surplus) or Deficit on the Provision of Services	(12,851)
227	Difference between fair value depreciation and historical cost depreciation	238
448	Accumulated gains on assets sold or scrapped	128
675	Amount written off to the Capital Adjustment Account	366
(10,102)	Net Movement in year	(12,485)
(79,861)	Balance at 31 March	(92,346)
	Group (Surplus) or Deficit on revaluation of non-current assets not posted to the (Surplus) or Deficit on the Provision of Services (to CIES page 12)	
(10,777)	Single entity	(12,851)
(21)	Ewart Bequest	4
(10,798)		(12,847)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The movement on the Capital Adjustment is made up as follows:

2018/2019 Movement £'000		2019/2020 Movement £'000
(274,177)	Balance at 1 April	(263,102)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (see note 9):	
7,378	Depreciation of non-current assets	7,213
13,656	Revaluation losses & reversals on Property, Plant & Equipment	11,021
87	Amortisation of intangible assets	106
15	Impairment of intangible assets	24
0	Revenue expenditure funded from capital under statute	31
1,606	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,360
22,742		19,755
(675)	Adjusting amounts written out of the Revaluation Reserve	(366)
22,067	Net written out amount of the cost of non-current assets consumed in the year	19,389
	Capital financing applied in the year:	
(1,521)	Use of the Capital Receipts Reserve to finance new capital expenditure	(5,287)
(3,947)	Use of the Major Repairs Reserve to finance new capital expenditure	(3,395)
(789)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing Account	(12)
(3,808)	Repayment of borrowing	(4,340)
(570)	Capital expenditure charged against the General Fund and HRA balances	(3,036)
(10,635)		(16,070)
(386)	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,042
0	Donated Assets credited to the Comprehensive Income & Expenditure Statement	(13)
29	Other	
11,075	Net Movement in year	4,348
(263,102)	Balance at 31 March	(258,754)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed at the time the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

See Pensions note 36 for further detail

2018/2019		2019/2020
£'000		£'000
58,901	Balance at 1 April	67,987
5,713	Remeasurements of the net defined benefit liability/(asset)	(5,260)
6,931	Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	7,156
(3,558)	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,651)
<hr/> 9,086	Net Movement in year	<hr/> (1,755)
<hr/> 67,987	Balance at 31 March	<hr/> 66,232

26. Cash-Flow Statement - Operating Activities

The Cash-Flow Statement has been prepared using the indirect method. This method derives the revenue cash flow by adjusting the Net (Surplus) or Deficit on the provision of services in the Comprehensive Income and Expenditure Statement to a cash basis.

Adjustments are made for non-cash items which include depreciation and impairments, accruals and the non-cash element of the pensions liability (as set out in the Accounting Policies).

The cash-flows for operating activities includes the following items (on a cash basis):

2018/2019 £'000		2019/2020 £'000
5,572	Interest paid	5,502
(536)	Interest received	(847)

The (Surplus) or Deficit on the Provision of Services has been adjusted for the following non-cash movements:

2018/2019 £'000		2019/2020 £'000
(7,378)	Depreciation	(7,213)
(13,656)	Impairment and downward valuations	(11,021)
(87)	Amortisations	(106)
(15)	Impairment/Revaluation losses on Intangible assets	(24)
(407)	(Increase)/Decrease in Impairment Allowance	(702)
(1,616)	(Increase)/Decrease in Creditors	(5,876)
2,117	Increase/(Decrease) in Debtors	1,919
1	Increase/(Decrease) in Inventories	0
(3,373)	Pensions liability	(3,505)
(1,606)	Carrying amount of non-current assets sold	(1,360)
1,013	Provisions	(330)
386	Movements in the value of Investment Properties	(1,042)
0	Donated Assets	13
(24,621)	Total non-cash movements	(29,247)

The (Surplus) or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

2018/2019 £'000		2019/2020 £'000
668	Proceeds from Short-term Investments (cash interest on investments)	905
4,178	Proceeds from the sale of Property, Plant and Equipment	4,688
1,704	Grants received for financing of capital expenditure	2,855
6,550		8,448

27. Cash-Flow Statement - Investing Activities

2018/2019 £'000		2019/2020 £'000
7,913	Purchase of Property, Plant and Equipment and Intangible assets	11,316
87,650	Purchase of Short-term and Long-term Investments	75,000
(82,336)	Proceeds from Short-term Investments	(68,697)
(4,178)	Proceeds from the sale of Property, Plant and Equipment	(4,688)
(2,076)	Capital Grants and contributions received for the cost of purchasing Property, Plant and Equipment or Intangible assets	(3,545)
6,973	Net cash-flows from Investing Activities	9,386

28. Cash-Flow Statement - Financing Activities

2018/2019 £'000		2019/2020 £'000
3,708	Repayments of Short-term Borrowing	4,223
(222)	The difference between the preceptors' share of Council Tax cash collected and net cash paid to preceptors for their precept and settlement of the estimated (surplus)/deficit on the Collection Fund	(131)
(1,196)	The difference between Central Government and major preceptors' share of Business Rates income cash collected and net cash paid to Central Government and major preceptors	(118)
2,290	Net cash-flows from Financing Activities	3,974

29. Cash-Flow Statement - Major classes of gross cash receipts and payments

The gross cash receipts attributable to the Council and gross cash payments from operating activities are set out below:

2018/2019 £'000		2019/2020 £'000
(restated *)	Gross cash receipts	
(12,822)	Council Tax collected in the year attributable to the Council	(13,321)
(11,571)	Business Rates income	(14,674)
(31,254)	Grants	(27,814)
(15,903)	Housing Rents	(17,169)
(20,383)	Sales of goods and services	(19,008)
(91,933)	Cash inflows from operating activities	(91,986)
	Gross cash payments	
9,909	Waverley Business Rates tariff to Central Government	14,171
13,801	Cash paid to and on behalf of employees	14,164
14,513	Housing Benefit paid out	13,219
3,129	Precepts paid	3,267
759	Payments to the capital receipts pool	759
26,149	Cash paid to suppliers of goods and services	19,493
5,572	Interest paid	5,502
4,941	Other payments for operating activities	4,802
78,773	Cash outflows generated from operating activities	75,377
(13,160)	Net cash-flows from Operating Activities	(16,609)

* Sales of goods and services and Other payments for operating activities have been restated to remove Rent Rebates which are not a cash transaction.

30. Officers' Remuneration

The definition of remuneration here includes all amounts paid to or receivable by an employee other than employer's pension contributions and includes sums by way of taxable expense allowances and the estimated monetary value of any benefits.

The number of employees (including those whose remuneration has been disclosed individually in the Senior Officers table at the bottom of this page) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

2018/2019 Number of Employees	Remuneration Band	2019/2020 Number of Employees
11	£50,000 - £54,999	10
3	£55,000 - £59,999 ¹	3
4	£60,000 - £64,999	4
5	£65,000 - £69,999 ¹	2
1	£70,000 - £74,999	2
2	£75,000 - £79,999	2
1	£80,000 - £84,999	1
2	£85,000 - £89,999	2
0	£95,000 - £99,999	1
1	£105,000 - £109,999	1
1	£125,000 - £129,999	1
31	Total ²	29

Salary range bandings that are zero for both financial years have been omitted.

1. Remuneration for 2018/2019 included one exit package
2. The number remaining in post at year end 31st March 2020 is 29

The remuneration disclosures for designated Senior Officers (Management Board members) whose salary is less than £150,000 but equal to or more than £50,000 per year are for 2019/2020:
(The Council has no Senior Officers whose salary is £150,000 or more per year.)

2019/2020						
Post Title	Salary (including fees & allowances) £	Expense allowance £	Benefits in kind £	Total Remuneration £	Employers Pension Contributions £	Total cost to the Council £
Chief Executive	129,389	0	0	129,389	23,345	152,734
Strategic Director	106,199	0	187	106,386	17,553	123,939
Strategic Director	97,831	0	1,239	99,070	15,805	114,875

The comparative information for 2018/2019 relating to individuals in the 2019/2020 note is:

2018/2019						
Post Title	Salary (including fees & allowances) £	Expense allowance £	Benefits in kind (car and medical insurance) £	Total Remuneration £	Employers Pension Contributions £	Total cost to the Council £
Chief Executive	126,480	0	0	126,480	20,835	147,315
Strategic Director	99,756	0	5,267	105,023	16,345	121,368
Strategic Director (from 1 May 2018)	85,833	0	1,136	86,969	14,162	101,131

Exit Packages

The numbers of exit packages with total cost of compulsory and other departures per band are set out in the tables below. These payments comply with due entitlement under law and Council policy and typically comprise a payment to the employee and, where appropriate, a payment to the Pension fund.

2019/2020				
(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies	(c) Number of other departures agreed	(d) Total number of exit packages by cost band [(b) + (c)]	(e) Total cost of exit packages in each band £
£1 - £20,000	6	0	6	51,042
£20,001 - £60,000	2	0	2	76,395

2018/2019				
(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies	(c) Number of other departures agreed	(d) Total number of exit packages by cost band [(b) + (c)]	(e) Total cost of exit packages in each band £
£1 - £40,000	3	0	3	66,492

31. Members' Allowances

The Code requires the disclosure of all payments relating to the remuneration of Members, not just those formally described as 'allowances'.

Members' allowances totalling £396,975 were paid in 2019/2020 (2018/2019 £394,769). A detailed list of the allowances paid to each Member can be found on the Council's website and is summarised below:

2018/2019 £'000		2019/2020 £'000
271	Basic Allowance	277
108	Special Responsibility Allowance	108
13	Travelling and Subsistence Allowance	11
3	Internet Charges	1
395		397

32. External Audit Costs

The authority has incurred the following costs in relation to the audit of the Statement of Accounts:

2018/2019 £'000		2019/2020 £'000
41	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year *	49
18	Fees payable in respect of other services provided by Grant Thornton UK LLP during the year **	33
59		82

* The Council also received a refund from the Public Sector Audit Appointments (PSAA) of £5,020 in February 2020.

** The fees for other services payable in 2019/2020 related to the Housing Capital Receipts Claim and certification of Housing Benefit Grant Claims.

33. Capital Grants and Contributions Income

The table below shows the movement in the **Capital Grants Unapplied Account** in the year. The grant funding was used to finance capital expenditure in the year or transferred to the Capital Grants Unapplied Account to be used for future financing.

31 March 2019 Balance		2019/2020			31 March 2020 Balance
£'000		Credited to Taxation and Non-Specific Grant Income £'000	Credited to Service REFFCUS £'000	Used to Finance Capital Expenditure in Year £'000	£'000
(2,006)	Section 106 Contributions	(2,390)	(275)	275	(4,396)
0	Community Infrastructure Levy	(381)			(381)
(210)	Other Contributions	62		12	(136)
(732)	Disabled Facilities Grant (unused)	(146)	(603)	603	(878)
(2,948)		(2,855)	(878)	890	(5,791)

34. Related Parties

The Council is required to disclose material transactions with related parties (bodies or individuals) that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over some operations of the Council through legislation. It is responsible for providing the statutory framework within which the Council operates, provides key funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of the main transactions with Government Departments are set out in the note below.

Main transactions with Government Departments

Revenue grants and reimbursements on a cash basis:

2018/2019 £'000		2019/2020 £'000
(15,254)	Rent Allowances	(11,307)
(12,200)	Rent Rebates	(11,491)
(1,526)	Retained Business Rates grants	(2,515)
(1,231)	New Homes Bonus	(1,164)

Revenue expenditure on a cash basis:

2018/2019 £'000		2019/2020 £'000
9,909	Retained Business Rates tariff payment	14,171

Trusts

The Council is sole managing trustee of two charitable trusts:

- Bequest of Joseph Ewart (Charity Number 237580)
- Shottermill Recreation Ground and Swimming Pool (Charity Number 305060)

As the Council is sole trustee of both charities and has the ability to direct operating and financial policies, the accounts of these charities are consolidated into the group accounts of the Council. Accounts of the charities can be found at pages 92-95.

Pension Fund - is administered by Surrey County Council, details of the Pension Fund are shown in note 36 page 72.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. Councillors sit on committees and forums of a number of outside bodies, as Borough Council representatives. Details of payments made to these organisations are set out below.

Total Spend	2019/2020
	£
Brightwells Gostrey Community Centre	72,289
Citizens' Advice Waverley	214,445
Cranleigh Arts Centre Limited	73,541
Farncombe Day Centre	72,352
Farnham Maltings Council of Management	117,473
Godalming Museum Trust	53,000
Haslewey Community Centre	35,342
Rowleys Centre for the Community	55,370
South East Employers	7,832
The Clockhouse, Milford	53,142
Waverley Hoppa Community Transport	158,305

Every Member, Chief Officer and Head of Service is required to sign a related party transactions declaration. The Council must disclose any transaction that is material to either the Council or the organisation with which the transaction took place. Other than transactions listed above, no material related party transactions have been identified.

Details of councillor appointments to outside bodies can be found on the Waverley Borough Council website. Disclosures on Members' Allowances can be found in note 31 on page 69 and Officers' Remuneration in note 30 page 67.

35. Leases

The Council's activity as lessor:

Finance Leases

At 31 March 2020 the Council has one material asset, Brightwells Regeneration Scheme, for which in 2017/2018 it granted a 150 year finance lease to Surrey County Council. The Finance lease debtor was immediately extinguished by a premium.

Operating Leases

The Council leases out land and property under operating leases for the following purposes:

- economic development purposes to provide suitable accommodation for local businesses
- the provision of community, leisure and recreation facilities.

The Council as "lessor" retains the assets in its Balance Sheet and the rental income is credited to revenue as it becomes due.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2019		31 March 2020
£'000		£'000
1,423	Not later than one year	1,549
4,148	Later than one year and not later than five years	4,051
54,419	Later than five years	52,575
59,990		58,175

The minimum lease payments receivable do not include rents that are contingent on future events, such as adjustments following rent reviews.

36. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in The Local Government Pension Scheme (LGPS) which is administered by Surrey County Council. It is a funded defined benefit salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets in the long term. The current scheme operates under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Pension Board of Surrey County Council.

In order to ensure that funds are sufficient to cover potential liabilities Surrey County Council employs an actuary who undertakes a formal valuation of the Fund on a triennial basis. The actuary determines appropriate employer's contributions to the Fund to cover the service of current staff for the following three years and backfunding payments required to cover the shortfall relating to past service.

The figures disclosed below have been prepared by Hymans Robertson LLP, the Actuary to the Surrey Pension Fund, and have been produced in accordance with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, which came into force on 1 July 2017.

The Actuary has used the 'projected unit credit' method of valuation to project the valuation results of the latest formal valuation date forward to 31 March 2020 using approximation methods. The roll-forward allows for changes in financial assumptions, additional benefit accrual and estimated cash flows over the period.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note (1.7).

In the Council's opinion, the assumptions made by the Actuary, including rates of return on assets, discount rates, inflation and life expectancy are appropriate. There were no special factors regarding the Council's profile that would be likely to have a material impact upon the Actuary's figures.

Further information relating to the Surrey Pension Fund can be found in the Pension Fund's Annual Report which is available from Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston-Upon-Thames, KT1 2DN (website www.surreypensionfund.org).

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2018/2019
£'000

2019/2020
£'000

Comprehensive Income and Expenditure Statement

Cost of Services:		
4,740	Current Service Cost	5,469
652	Past Service Cost	44
Financing and Investment Income and Expenditure:		
1,539	Net interest expense	1,643
6,931	Total Post-employment Benefits charged to the (Surplus) or Deficit on the Provision of Services	7,156
Other Post-employment Benefits charged to Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
(3,675)	Return on assets (excluding the amount included in net interest expense)	14,086
0	Actuarial losses/(gains) arising on changes in demographic assumptions	(4,188)
9,314	Actuarial losses/(gains) arising on changes in financial assumptions	(12,920)
74	Other experience losses/(gains)	(2,238)
5,713	Total remeasurement of the net defined benefit liability loss / (gain)	(5,260)
12,644	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	1,896

Movement in Reserves Statement

General Fund Balance

(5,420)	Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post-employment benefits in accordance with the code	(5,489)
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Actual amount charged against the General Fund Balance:

2,494	Employers' contributions payable to scheme	2,578
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Housing Revenue Account Balance

(1,511)	Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post-employment benefits in accordance with the code	(1,667)
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Actual amount charged against the HRA Balance for pensions in the year:

1,064	Employers' contributions payable to scheme	1,073
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Balance Sheet Disclosures

Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

31 March 2019		31 March 2020	
£'000		£'000	
(183,051)	Estimated liabilities in scheme	(168,418)	
115,064	Estimated assets in scheme *	102,186	
(67,987)	Net asset/(liability) *	(66,232)	

The liabilities show the underlying commitments that the Council has to pay retirement benefits. The net liability of £66million has an impact on the theoretical net worth of the Council as recorded in the Balance Sheet. In order to reduce the deficit on the Council's element of the Fund, the Council is required to make annual backfunding contributions to the Fund in addition to contributions relating to current service.

* The Council's element of the Fund assets as at 31 March 2020 differs from the Actuary's estimate by £586,000 to reflect the actual cumulative payments made to the Fund. The net liability shown here is therefore £586,000 higher than the actuarial figure of £65.646million.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the 'projected unit credit' method, as required under IAS19.

The main assumptions used by the Actuary in the calculations have been:

31 March 2019		31 March 2020	
2.8%	Rate of increase in salaries	2.8%	
2.5%	Rate of increase in pensions	1.9%	
2.4%	Rate for discounting scheme liabilities	2.3%	
25%/63%	Take-up of option to convert annual pension into retirement grant (pre/post April 2008)	25%/63%	

Life Expectancy

Life expectancy is based on the Fund's VitaCurves, with improvements in line with the Chartered Management Institute (CMI) 2018 Model, an allowance for smoothing of recent mortality experience and long-term rates of 1.25% pa for males and females.

Longevity:

31 March 2019			31 March 2020		
Males	Females		Males	Females	
22.5 years	24.6 years	Current Pensioners	22.1 years	24.3 years	
24.1 years	26.4 years	Future Pensioners *	22.9 years	25.7 years	

* Figures assume members aged 45 as at the last formal valuation date

Pension scheme assets comprised

Assets in the Surrey Pension Fund are valued at bid value as required under IAS19. The figures for the Council represent a proportionate share of the Fund as a whole.

31 March 2019		Period ended 31 March 2020		
Assets Total		Quoted prices in active markets £'000	Assets Quoted prices not in active markets £'000	Total £'000
£'000				
	Equity investments			
3,131	Consumer	2,933		2,933
2,009	Manufacturing	2,189		2,189
1,782	Energy & Utilities	795		795
1,794	Financial Institutions	1,731		1,731
1,532	Health & Care	1,770		1,770
3,424	Information Technology	3,354		3,354
305	Other	58		58
	Debt Securities			
0	Corporate Bonds (investment gr	0		0
0	Corporate Bonds (non-investmer	0		0
0	UK Government	0	5,811	5,811
0	Other	0		0
6,855	Private Equity	0	8,222	8,222
	Real Estate			
5,485	UK Property	1,779	3,365	5,144
2,006	Overseas Property	0	2,258	2,258
	Investment Funds & Unit Trusts			
63,385	Equities	54,078	0	54,078
19,316	Bonds	11,962	0	11,962
	Derivatives			
0	Interest Rate	0		0
675	Foreign Exchange	(1,033)		(1,033)
3,938	Cash & Equivalent s	3,500		3,500
115,637		83,116	19,656	102,772

Actuary's Estimated Movements in Deficit during the Year

2018/2019 £'000		2019/2020 £'000
(58,346)	Opening Position as at 1 April	(67,414)
(4,740)	Current Service Cost	(5,469)
(652)	Past Service Cost	(44)
3,438	Employer Contributions	3,537
138	Contributions in respect of Unfunded Benefits	127
(1,539)	Net Return on Assets	(1,643)
	Actuarial Remeasurements:	
3,675	Actual Return less Expected Return on Pension Scheme Assets	(14,086)
0	Changes in Demographic Assumptions	4,188
(9,314)	Changes in Financial Assumptions	12,920
(74)	Other Experience	2,238
(67,414)	Deficit at end of Year	(65,646)

Reconciliation of present value of the scheme liabilities (Defined Benefit Obligation)

2018/2019 £'000		2019/2020 £'000
168,422	Opening Position as at 1 April	183,051
4,740	Current Service Cost	5,469
652	Past Service Cost	44
4,387	Interest Cost	4,406
	Actuarial Losses:	
0	Changes in Demographic Assumptions	(4,188)
9,314	Changes in Financial Assumptions	(12,920)
74	Other Experience	(2,238)
800	Member Contributions	827
(5,200)	Estimated Benefits Paid	(5,906)
(138)	Estimated Unfunded Benefits Paid	(127)
183,051	Defined Benefit Obligation at end of Year	168,418

Reconciliation of the movements in the fair value of the scheme assets

2018/2019 £'000		2019/2020 £'000
110,076	Fair Value of Employer Assets at beginning of Year	115,637
2,848	Interest Income on Plan Assets	2,763
3,675	Actual Return less Expected Return on Pension Scheme Assets	(14,086)
3,438	Employer contributions	3,537
138	Contributions in respect of Unfunded Benefits	127
800	Member Contributions	827
(5,200)	Estimated Benefits Paid	(5,906)
(138)	Estimated Unfunded Benefits Paid	(127)
115,637	Fair Value of Employer Assets at end of Year	102,772

Recognition in the Profit or Loss

31 March 2019 £'000		31 March 2020 £'000
4,740	Current Service Cost	5,469
4,387	Interest Cost	4,406
(2,848)	Expected Return on Employer Assets	(2,763)
652	Past Service Cost	44
6,931	Total	7,156

Summary of Scheme Position over past Five Years - Actuarial Figures

	31 March 2016 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2020 £'000
Fair Value of Assets	96,239	109,102	110,076	115,637	102,772
<u>Less Present Value of Liabilities</u>	<u>(141,696)</u>	<u>(166,760)</u>	<u>(168,422)</u>	<u>(183,051)</u>	<u>(168,418)</u>
Surplus/(Deficit) in Scheme	(45,457)	(57,658)	(58,346)	(67,414)	(65,646)

Projected Pension Expense for the Year to 31 March 2021

	31 March 2021	
	% of pay	£'000
Projected Current Service Cost	34.3%	4,118
Income Interest on Plan Assets	-19.5%	(2,348)
Interest cost on Scheme Obligations	32.1%	3,862
Total	46.9%	5,632

The Actuary estimates the Council's Employer's Contributions for the Year to 31 March 2021 will be £3,678,000.

Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in Assumptions at year ended 31 March 2020	Approximate % increase to Employer Liability	Amount £'000
0.5% decrease in Real Discount Rate	9%	14,353
0.5% increase in the Salary Increase Rate	1%	1,149
0.5% increase in the Pension Increase Rate	8%	13,099

The sensitivity analysis below shows the new Defined Benefit Obligation if the changes in assumptions were realised.

	Defined Benefit Obligation £'000
No change to assumptions	168,418
0.5% decrease in Real Discount Rate	182,771
0.5% increase in Salary Increase Rate	169,567
0.5% increase in Pension Increase Rate	181,517

37. Provisions, Contingent Liabilities and Contingent Assets

As at 31 March 2020 the Council has no material provisions, contingent liabilities or contingent assets. It does, however, have a small contingent liability relating to revenue losses in the leisure centres across the borough as at the Balance Sheet date, this potential liability increases in size during 2020/2021.

In addition to the above, the Council has a provision of £1,507,200 for losses on backdated Business Rates appeals relating to the 2010 and the 2017 Rating Lists. See also note 4 to the Collection Fund on page 90.

Supplementary Financial Statements

Housing Revenue Account (HRA)

The Collection Fund

Housing Revenue Account (HRA) Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with the legislative framework. This may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2018/2019 £'000		2019/2020 £'000
	Expenditure	
4,392	Repairs and Maintenance	4,063
6,487	Supervision and Management	6,539
263	Rent, Rates, Taxes and other charges	327
0	Negative Subsidy transfer to General Fund	0
13	Transitional funding of Supporting People	5
15,620	Depreciation, Impairment and Revaluations Losses of Non-Current Assets ¹	10,165
24	Debt Management Costs	32
26,799	Total Expenditure	21,131
	Income	
(28,441)	Dwelling Rents	(28,095)
(492)	Non-Dwelling Rents	(483)
(762)	Charges for services and facilities	(659)
(278)	Contributions towards expenditure	(237)
(29,973)	Total Income	(29,474)
(3,174)	Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	(8,343)
594	HRA services share of Corporate and Democratic Core	568
563	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	601
(2,017)	Net Expenditure or Income of HRA Services	(7,174)
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:	
(1,791)	(Gain)/Loss on disposal of HRA non-current assets	(1,851)
5,741	Interest payable and similar charges	5,671
(211)	Interest and Investment income	(284)
(99)	Investment Properties	(55)
369	Pension Interest Cost & Expected Return on Pension Assets	385
93	Impairment losses	95
(429)	Capital Grants and Contributions	0
1,656	(Surplus)/Deficit for the year on HRA Services	(3,213)

Notes to the Housing Revenue Account are contained in pages 82-87.

1. In 2018/2019 the Council's newly built Dwelling stock incurred a revaluation loss of £9 million reflecting the difference in construction cost and asset valuation for completed new build properties which are required to be valued at social housing value. In 2019/2020 the revaluation loss was £1.5 million.

Movement on the Housing Revenue Account Statement

2018/2019 £'000	2019/2020 £'000	£'000
(5,256) Balance on the HRA as at the end of the previous reporting period		(7,497)
1,656 (Surplus)/Deficit on the HRA Income and Expenditure Statement	(3,213)	
(6,873) Adjustments between accounting basis and funding basis under statute (note 6)	(39)	
<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (5,217) Net (increase) or decrease before transfers to or from reserves	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (3,252)	
2,976 Transfers to or (from) reserves (note 6)	3,805	
<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (2,241) (Increase) or decrease in year on the HRA		<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 553
<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (7,497) Balance on the HRA at the end of the current reporting period		<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (6,944)

Notes to the Housing Revenue Account

1. Housing Revenue Account - Asset Analysis

2019/2020 Movements in number of Assets	As at 1 April 2019	Reclass- ifications	Additions	Disposals/ Demolitions	As at 31 March 2020
Property, Plant and Equipment					
Council Dwellings	4,830	3	7	(14)	4,826
Other Land and Buildings	734	0	1	0	735
Total Property, Plant and Equipment	5,564	3	8	(14)	5,561
Investment Properties	6	0	0	0	6
Assets Held for Sale	0	0	0	0	0
Total HRA Assets	5,570	3	8	(14)	5,567

2018/2019 Movements in number of Assets	As at 1 April 2018	Reclass- ifications	Additions	Disposals/ Demolitions	As at 31 March 2019
Property, Plant and Equipment					
Council Dwellings	4,822	0	46	(38)	4,830
Other Land and Buildings	735	0	0	(1)	734
Surplus Assets					0
Total Property, Plant and Equipment	5,557	0	46	(39)	5,564
Investment Properties	6	0	0	0	6
Assets Held for Sale	1	0	0	(1)	0
Total HRA Assets	5,564	0	46	(40)	5,570

**Property, Plant and Equipment
Movements in 2019/2020**

	Council Dwellings £'000	Other Housing Land & £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation				
At 1 April 2019	422,418	7,576	365	430,359
Additions/enhancements	6,193	105	5,128	11,426
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,589	50	0	6,639
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,316)	(64)	0	(4,380)
Derecognition Disposals	(1,360)	0	0	(1,360)
Other Reclassifications	292	0	(292)	0
At 31 March 2020	429,816	7,667	5,201	442,684
Depreciation and Impairments				
At 1 April 2019	0	(802)	0	(802)
Charge for 2019/2020	(5,501)	(328)	0	(5,829)
Depreciation written out to the Revaluation Reserve	5,501	258	0	5,759
Depreciation written out on revaluation to Net Cost of HRA Services	0	53	0	53
At 31 March 2020	0	(819)	0	(819)
Balance Sheet amount at 31 March 2020	429,816	6,848	5,201	441,865

**Property, Plant and Equipment
Movements in 2018/2019**

	Council Dwellings (Restated) £'000	Other Housing Land & Buildings (Restated) £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation				
At 1 April 2018	419,893	6,808	8,636	435,337
Additions/enhancements	4,284	0	1,810	6,094
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,440)	770	0	(670)
Revaluation increases/(decreases) recognised in the Net Cost of HRA Services	(9,080)	(2)	0	(9,082)
Derecognition Disposals	(1,320)	0	0	(1,320)
Other Reclassifications	10,081	0	(10,081)	0
At 31 March 2019	422,418	7,576	365	430,359
Depreciation and Impairments				
At 1 April 2018	0	(597)	0	(597)
Charge for 2018/2019	(6,204)	(325)	0	(6,529)
Depreciation written out to the Revaluation Reserve	6,204	120	0	6,324
At 31 March 2019	0	(802)	0	(802)
Balance Sheet amount at 31 March 2019	422,418	6,774	365	429,557

Restatement - Council Dwellings and Other Housing Land and Buildings have been restated to reflect the treatment of the downward loss in value in 2018/2019 as a Revaluation Loss rather than an Impairment Loss.

General Notes

Valuation of Council Dwellings and other HRA Land and Buildings

The Council's Valuer carries out a full revaluation of at least 20% of the stock as at 1 April each year and the remaining 80% of the stock is revalued on a desk top basis in accordance with Government guidelines. Each year a different 20% of the stock will have a full revaluation on a five-year cycle. The basis of valuation is Existing Use Value (EUV) with a downward adjustment to reflect the use of the properties for social housing.

Asset disposals have been written out at their book value. In 2019/2020 14 properties were sold through the right-to-buy scheme.

Additions to the Council Dwellings category represent properties purchased, built and capital expenditure in the year on the housing stock.

2. The vacant possession value of dwellings within the Council's HRA

1 April 2019 £'000		1 April 2020 £'000
1,280,050	General Stock (including Fully Sheltered Dwellings) and Shared Ownership	1,302,472
1,280,050		1,302,472

Explanation of the Vacant Possession Valuation

The vacant possession valuation is based on the assumption that the property will be sold with vacant possession and not for social housing purposes. The difference between the valuation that appears in Waverley's Consolidated Balance Sheet, which is based on the assumption that properties will be sold for social housing purposes, and the vacant possession valuation reflects the notional economic cost of holding council housing at less than market rents.

3. Summary of total HRA capital expenditure during the year and its financing

2018/2019 £'000		2019/2020 £'000
	Capital Investment	
4,284	Council Dwellings	6,193
0	Other Housing Land & Buildings	105
1,810	Assets Under Construction	5,128
6,094		11,426
	Sources of finance	
(390)	Revenue Contribution	(3,036)
(375)	Other Grant	0
(1,382)	Capital Receipts Reserve	(4,995)
(3,947)	Major Repairs Reserve	(3,395)
(6,094)		(11,426)

4. Capital Receipts received in year

2018/2019 £'000		2019/2020 £'000
3,109	Right-to-Buy	2,820
216	Other Buildings	383
6	Land	8
3,331		3,211

5. Reconciling items for the Statement of Movement on the Housing Revenue Account

2018/2019 £'000		2019/2020 £'000
1. Adjustments between accounting basis and funding basis under regulations		
Transfers to/from the Capital Adjustment Account (CAA)		
(334)	Depreciation on other HRA Assets	(337)
(6,204)	Depreciation on Council Dwellings	(5,501)
(9,082)	Reversal of Impairment and Revaluation Losses	(4,327)
46	Reversal of movements in the fair value of Investment Properties	(5)
	Net of Gain/(Loss) on disposal of HRA non-current assets	
(1,540)	Amount of non-current assets written off on disposal to CAA	(1,360)
3,331	Sale proceeds (credited to the Capital Receipts Reserve)	3,211
1,791		1,851
6,538	Transfer depreciation to the Major Repairs Reserve	5,838
390	Capital charged against the HRA balance	3,036
375	Capital Grants and Contributions applied to capital expenditure	0
54	Capital Grants and Contributions unapplied	0
(1,511)	Net charges made for retirement benefits in accordance with IAS19	(1,667)
1,064	Actual amount charged against the HRA Balance for pensions in the year	1,073
(6,873)		(39)
2. Transfers to/(from) Earmarked Reserves		
2,154	Net transfer to/(from) New Affordable Homes Reserve	77
(556)	Net transfer to/(from) Stock Improvement Reserve	(17)
243	Movement in Major Repairs Reserve	3,880
(19)	Net Contribution to/(from) Uninsured Loss Reserve	(7)
(70)	Transfer to/(from) Revenue Grants Earmarked Reserve	(2)
1,224	Transfer to/(from) Earmarked Reserve	(126)
2,976		3,805

6. Analysis of the movement on the Major Repairs Reserve during the year

2018/2019 £'000		2019/2020 £'000
(874)	Balance Brought Forward as at 1 April	0
(6,538)	Depreciation transfer into the Major Repairs Reserve	(5,838)
3,947	Capital Expenditure: Dwellings	3,395
3,708	Payment of Principal	4,223
(243)	Transfer to/(from) HRA	(3,880)
874	Movement in Year	(2,100)
0	Balance Carried Forward as at 31 March	(2,100)

An Explanation of the Major Repairs Reserve

To meet the requirements of the Accounts and Audit Regulations 2015 the Major Repairs Reserve is credited and the HRA balance is debited with an amount equal to the depreciation charged to the HRA. In order to neutralise the impact on the HRA of this entry, a corresponding transfer is also required where the HRA balances are credited and the Capital Adjustment Account debited. Both these entries are reported in the Movement in Reserves Statement.

7. Rent Arrears

As at 31 March 2019			As at 31 March 2020		
Arrears £'000	% of annual debit		Gross Annual Debit £'000	Arrears £'000	% of annual debit
301	1.00%	Housing Stock	29,853	313	1.05%
3	1.80%	Shared Ownership	179	2	1.12%
304	1.00%	Total Arrears	30,032	315	1.05%

As at 31 March 2020, the impairment allowance for the provision for irrecoverable rent arrears was £187,000.
(31 March 2019 £130,000)

The Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as Waverley, to collect and redistribute revenue on behalf of other bodies. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and payments to Local Authorities and the Government of Council Tax and Business Rates.

2018/2019 £'000		Business Rates £'000	2019/2020 Council Tax £'000	Total £'000
Income				
(103,658)	Council Tax Receivable		(109,007)	(109,007)
(37,694)	Business Rates Receivable	(37,006)		(37,006)
(1,268)	Transitional Protection Payments Receivable	(692)		(692)
(142,620)	Total Income	(37,698)	(109,007)	(146,705)
Expenditure				
Apportionment of 2018/2019 Estimated Surplus/(Deficit) distributed to the major preceptors in 2019/2020:				
(957)	Central Government (Business Rates)	(552)	0	(552)
(686)	Waverley Borough Council	(188)	80	(108)
280	Surrey County Council	482	480	962
79	Police & Crime Commissioner for Surrey	0	80	80
(1,284)		(258)	640	382
Precepts, Demands and Shares:				
0	Central Government (Business Rates)	18,343	0	18,343
24,294	Waverley Borough Council (including parishes)*	14,674	13,235	27,909
103,478	Surrey County Council	3,669	79,461	83,130
12,820	Police & Crime Commissioner for Surrey	0	14,245	14,245
140,592		36,686	106,941	143,627
Charges to Collection Fund:				
1,081	Increase in impairment allowance for doubtful debts	1,436	2,227	3,663
(1,551)	Increase(decrease) in Provision for Appeals	(154)		(154)
177	Cost of Collection (Business Rates)	177		177
(293)		1,459	2,227	3,686
(3,605)	(Surplus)/Deficit arising during the year	189	801	990
2,320	(Surplus)/Deficit brought forward 1 April 2019	(524)	(761)	(1,285)
(1,285)	(Surplus)/Deficit carried forward 31 March 2020	(335)	40	(295)

* From this £14,674,000 transfer to Waverley Borough Council, a tariff of £14,171,000 is paid to the Government from the General Fund

Notes to the Collection Fund Accounts

1. Council Tax Base

For tax-setting purposes, the number of dwellings in each valuation band, converted to Band D equivalents and allowing for a collection rate of 99.0%, was estimated to be as follows:-

Chargeable Dwellings	2018/2019 Band D equivalents	Average Council Tax £	Band	Ratio to Band D	Chargeable Dwellings	2019/2020 Band D equivalents	Average Council Tax £
-	-	-	A (Disabled Relief)	5/9	-	-	-
627.18	413.9	1,255.10	A	6/9	635.36	419.3	1,304.11
1,995.35	1,536.4	1,464.28	B	7/9	2,040.70	1,571.3	1,521.46
7,026.34	6,183.2	1,673.47	C	8/9	7,115.00	6,261.2	1,738.81
10,349.78	10,246.3	1,882.65	D	9/9	10,419.00	10,314.8	1,956.16
8,365.09	10,121.8	2,301.02	E	11/9	8,443.47	10,216.6	2,390.86
6,302.54	9,012.6	2,719.38	F	13/9	6,353.40	9,085.4	2,825.56
7,791.60	12,856.0	3,137.75	G	15/9	7,842.18	12,939.6	3,260.27
1,929.71	3,820.8	3,765.30	H	18/9	1,949.93	3,860.9	3,912.32
44,387.59	54,191.0				44,799.04	54,669.1	

Individual charges are calculated by estimating the amount of income required to be paid from the Collection Fund in the year to the Police & Crime Commissioner for Surrey, Surrey County Council, Waverley Borough and Town and Parish Councils (£106,941,491), dividing this by the total Band D equivalents shown above (54,669.1) and rounding for administrative purposes. The resultant average charge at Band D of £1,956.16 is then multiplied by the proportion specified for a particular band to give an individual (average) amount due.

2. Business Rates

From April 2013 the Government implemented a new system of localised Business Rates. In 2019/20 Waverley paid 50% of the Business Rates it collected to the Government, 10% to Surrey County Council and retained 40%. Waverley also paid a tariff of £14,171,000 to the Government in 2019/2020 from the General Fund.

The amount due to be paid by a business is calculated by multiplying the rateable value of the property by the appropriate multiplier.

There are two multipliers: the standard non-domestic rating multiplier and the small business non-domestic rating multiplier. The former is higher to pay for small business rate relief. In 2019/2020 the standard national rate multiplier was 50.4p (2018/2019 49.3p) and the small business multiplier was 49.1p (2018/2019 48.0p).

The total rateable value of business premises in Waverley as at 31 March 2020 was £104,981,400 (compared with £105,947,242 on 31 March 2019).

3. Impairment of Debts

In 2019/2020, £433,958 of Council Tax arrears were written off to the Impairment Allowance for doubtful debts compared with £281,743 in 2018/2019. For Business Rates, £599,117 arrears were written off to the Impairment Allowance for doubtful debts in 2019/2020 compared to £1,693 credits written back in 2018/2019.

4. Allocation of Year-End Balances

Council Tax

The opening balance for the Council Tax element of the Collection Fund for 2019/2020 was a surplus of £761,269. Based on the estimated position in January 2019, a £640,000 surplus was distributed to the major preceptors in 2019/2020.

By the end of the 2019/2020 financial year there was a £40,042 deficit on the Council Tax element of the Collection Fund. £950,000 will be distributed to the major preceptors during 2020/2021 in proportion to their demand on the fund in 2019/2020. The overpayment of £990,042 will be adjusted with major preceptors in 2021/2022 in proportion to the 2020/2021 demands on the Collection Fund.

	Waverley Borough Council	Surrey County Council	Surrey Police & Crime Commissioner	Total
	£	£	£	£
Share of estimated £950,000 surplus	(117,570)	(705,885)	(126,545)	(950,000)
Share of £990,042 overpaid	121,559	736,619	131,864	990,042
Net share of outturn	3,989	30,734	5,319	40,042

Business Rates

The opening balance for the Business Rates element of the Collection Fund for 2019/2020 was a surplus of £524,492.

In January 2020 the estimate of the final accumulated Business Rates position for 2019/2020 was a deficit of £48,808 and the Council advised precepting authorities accordingly for statutory 2020/2021 budget-setting purposes. At the end of the 2019/2020 financial year there was, however, a surplus of £334,749 on the Business Rates element of the Collection Fund.

The Council will adjust for the estimated deficit of £48,808 during the 2020/2021 year based on the applicable proportions and the overstated deficit of £383,557 will be adjusted against the 2021/2022 proportionate shares of non-domestic rate income.

	Waverley Borough Council	Surrey County Council	Central Government	Total
	£	£	£	£
Share of £48,808 estimated deficit	97,757	(464,523)	415,574	48,808
Share of £383,557 overstated deficit	(153,423)	(38,356)	(191,778)	(383,557)
Net share of outturn	(55,666)	(502,879)	223,796	(334,749)

Provision for backdated Business Rates appeal costs

The Council has a provision for the losses on backdated Business Rates appeal costs at 31 March 2020 (relating to the 2010 and the 2017 Rating List) as follows:

	Waverley Borough Council	Surrey County Council	Central Government	Total
	£	£	£	£
Share of £3,768,000 provision for backdated Business Rates appeal costs:	1,507,200	376,800	1,884,000	3,768,000

Trust Accounts

Statement of Financial Activities

The Council are Trustees of the Shottermill Recreation Ground and the Trust's leisure centre, Haslemere Leisure Centre, was opened during 1998/1999. The management of the Haslemere Leisure Centre is wholly contracted out and the accounts represent the costs of the Trustee in its capacity as the client of the management contractors.

2018/2019		Unrestricted Funds £'000	2019/2020 Endowment Funds £'000	Total Funds £'000
	£'000			
	Incoming Resources			
	Incoming Resources from generated funds			
(1)	Investment Income (Interest on cash balance)	(2)		(2)
	Incoming resources from charitable activities			
(137)	Management Fee	(169)		(169)
(138)	Total Incoming Resources	(171)	0	(171)
	Resources Expended			
	Charitable activities			
2	Audit Fee	3		3
90	Management fee to Waverley Borough Council	101		101
28	Support costs	29		29
193	Depreciation and Revaluations		2,440	2,440
313	Total Resources Expended	133	2,440	2,573
175	Net (incoming)/outgoing resources	(38)	2,440	2,402
	Reconciliation of Funds			
(9,006)	Funds brought forward as at 1 April 2019	(189)	(8,642)	(8,831)
175	Net Movement in Funds	(38)	2,440	2,402
(8,831)	Funds carried forward as at 31 March 2020	(227)	(6,202)	(6,429)

Balance Sheet as at 31 March 2020

The assets in this Balance Sheet comprise the Haslemere Leisure Centre and its plant and equipment. These assets are not the property of the Council and are subject to a charitable trust.

31 March 2019

		31 March 2020		
		Unrestricted Funds £'000	Endowment Funds £'000	Total £'000
Fixed Assets				
8,539	Land and Buildings		6,125	6,125
103	Plant and Equipment		77	77
8,642	Total Fixed Assets	0	6,202	6,202
Current Assets				
11	Debtors	10		10
182	Deposits with Waverley Borough Council	220		220
193		230	0	230
8,835	Total Assets	230	6,202	6,432
Less: Current Liabilities				
(4)	Creditors	(3)		(3)
8,831	Total Assets less Current Liabilities	227	6,202	6,429
The Funds of the Charity:				
(189)	Unrestricted Funds	(227)		(227)
(8,642)	Endowment Funds		(6,202)	(6,202)
(8,831)	Total Charity Funds	(227)	(6,202)	(6,429)

Waverley Borough Council as Trustee of the Ewart Bequest

Statement of Financial Activities

The former Farnham Urban District Council inherited the bulk of the estate of the late Joseph Ewart in 1958. The monies were left in trust for the purchase of a piece of land in or near Farnham, the building and the subsequent maintenance of small dwellings suitable for elderly people of limited financial resources. In 2000/2001, following approval given by the Charity Commission, the Bequest financed the construction of a further three bungalows in Farnham, to provide additional accommodation on the same terms as the original Bequest. The three new bungalows were completed at the beginning of 2001/2002.

2018/2019 (Restated *) £'000		Unrestricted Funds £'000	2019/2020 Endowment Funds £'000	Total Funds £'000
	Incoming Resources			
	Incoming Resources from generated funds			
(13)	Investment Income (Interest on cash balance)	(15)		(15)
(83)	Rental Income	(81)		(81)
(45)	Contributions towards expenditure	0		0
(141)	Total Incoming Resources	(96)	0	(96)
	Resources Expended			
	Charitable activities			
17	Premises and fees	19		19
2	Audit Fee	3		3
6	Support Costs	10		10
36	Depreciation and Revaluations		39	39
61	Total Resources Expended	32	39	71
(80)	Net (incoming)/outgoing resources	(64)	39	(25)
	Transfers between funds			
0	Asset additions	3	(3)	0
	Other Recognised Gains/(Losses)			
(21)	(Gains)/Losses on the revaluation of fixed assets		4	4
(101)	Net Movement in Funds	(61)	40	(21)
	Reconciliation of Funds			
(2,866)	Funds brought forward as at 1 April 2019	(1,315)	(1,652)	(2,967)
(101)	Net Movement in Funds	(61)	40	(21)
(2,967)	Funds carried forward as at 31 March 2020	(1,376)	(1,612)	(2,988)

* Rental income includes Benefits paid and Benefits subsidy to give net rental income.

Balance Sheet as at 31 March 2020

The assets in this Balance Sheet comprise 16 dwellings in College Gardens, Farnham and 3 dwellings in Arthur Road, Farnham. These assets are not the property of the Council and are subject to a charitable trust.

31 March 2019		31 March 2020		
£'000		Unrestricted Funds £'000	Endowment Funds £'000	Total £'000
	Fixed Assets			
1,652	Other Land and Buildings - Trust dwellings		1,612	1,612
	Current Assets			
8	Debtors	8		8
1,313	Deposits with Waverley Borough Council	1,374		1,374
<u>1,321</u>		<u>1,382</u>	<u>0</u>	<u>1,382</u>
2,973	Total Assets	1,382	1,612	2,994
	Less: Current Liabilities			
(6)	Creditors & Receipts in Advance	(6)		(6)
<u>2,967</u>	Total Assets less Current Liabilities	<u>1,376</u>	<u>1,612</u>	<u>2,988</u>
	The Funds of the Charity:			
(1,315)	Unrestricted Funds	(1,376)		(1,376)
(1,652)	Endowment Funds		(1,612)	(1,612)
<u>(2,967)</u>	Total Charity Funds	<u>(1,376)</u>	<u>(1,612)</u>	<u>(2,988)</u>

Glossary of Terms and Abbreviations

Accruals This concept recognises income and expenditure as it is earned or incurred, not as money is received or paid.

AIS Annual Investment Strategy

Amortisation The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost The amount at which the financial asset or financial liability is measured at initial recognition adjusted for principal repayments, cumulative amortisation, and any allowance for impairment or un-collectability.

Arrears Money that is owed and should have been paid at an earlier date.

Asset Any object tangible or intangible, that is of value to its owner. Tangible assets include land and buildings, plant and machinery, fixtures and fittings & stock. Intangible assets include goodwill, patents, licences, copyrights and trademarks.

Business Rates Retention In April 2013 the Government introduced the business rates retention scheme which provides a direct link between business rates growth and the amount of money councils have to spend. Councils are able to keep a proportion of the business rates revenue and growth that is generated in their area.

Capital Expenditure Expenditure on the acquisition of a non-current asset or expenditure that adds to and not merely maintains the value of an existing non-current asset.

Capital Adjustment Account (CAA) An unusable reserve that absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction

or enhancement of those assets under statutory provisions.

Capital Receipts The proceeds from the disposal of non-current assets. Capital receipts can be used to pay off outstanding debt and to finance new capital expenditure within rules set down by Central Government, however they cannot be used to finance revenue expenditure.

Carrying amount/value The cost or value less depreciation and impairment.

Central Services to the Public This covers services to the public that are often provided by central departments and includes Local Tax Collection, Elections, Emergency Planning, Local Land Charges and General Grants.

CIPFA The Chartered Institute of Public Finance and Accountancy

Community Assets Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal eg Common Land.

Community Infrastructure Levy (CIL) Funds from developers when property is built to enable infrastructure improvements in the area.

Contingent Asset A potential asset that, at the Balance Sheet date, can be anticipated to exist if a particular event occurs. An example may be the expectation of a compensation payment dependant on the outcome of a legal case.

Contingent Liability An obligation that, at the Balance Sheet date, can be anticipated to arise if a particular event occurs. A typical example is a legal claim pending settlement where there is no clear precedent.

Contingent Rent That portion of a lease payment that is not fixed in amount but is based on a factor other than just the passage of time (eg price indices).

CPI Consumer Prices Index

Creditors A creditor is an organisation, body or individual from whom the Council has purchased goods or services but to whom payment has not yet been made at year-end.

Debtors Organisations, bodies and individuals who have received goods or services from the Council but from whom payment has not been received at year-end.

Deferred Credit This is income that has been received before the period or periods to which it relates. The income is shown in the Balance Sheet.

Deficit A deficit will arise where expenditure exceeds income. A deficit can be financed by reserves.

De Minimis a threshold which anything falling below is too small to be of concern.

Depreciated Replacement Cost (DRC) Asset valuation based on the replacement of the asset at the current level of service (the current gross replacement cost less allowances for physical deterioration or obsolescence)

Depreciation The decrease in value of a non-current asset due to use in the period. Depreciation is charged to services.

Derivatives A financial contract with a value which is determined by an underlying asset(s).

Effective Interest method A method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Effective Interest rate The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument

Existing Use Value (EUUV) This is a method of valuing property that achieves a valuation based on the current use of the asset.

Existing Use Value - Social Housing (EUUV-SH) Existing Use Value less an allowance to take account of the property being used for social housing (valuation basis for the Council's dwelling stock).

Fair Value The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Instrument A financial instrument is any contract that gives rise to a financial asset (a right to future economic benefit) to one entity and a financial liability (an obligation to transfer economic benefit) to another.

FRICS Fellow of the Royal Institute of Chartered Surveyors

FRS Financial Reporting Standard

General Fund This is the Council's main revenue fund to which the day-to-day costs of providing the services are charged. The fund covers all the services provided by the Council except for the provision of council housing which has its own separate fund known as the Housing Revenue Account.

Gross Book Value (GBV) The GBV of a non-current asset is the purchase or revalued value before any depreciation has been deducted.

Heritage Asset An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that

is held and maintained principally for its contribution to knowledge and culture.

Historical Cost The carrying amount of an asset as at 1 April 2007 (the date the Revaluation Reserve was created) or the date of acquisition if later, adjusted for subsequent depreciation or impairment (if applicable).

HMRC Her Majesty's Revenue and Customs

Housing Revenue Account (HRA)

The HRA is used to record the financial transactions involved with the provision of council housing (the 'landlord' function). The HRA is governed by the Local Government and Housing Act 1989, as amended and supplemented. The HRA is kept separate from the Council's other accounts (ring-fenced) and is required to be self-financing.

HRA Self-financing From the 1 April 2012 HRA self-financing replaced the Housing Subsidy system for all housing authorities. The Council has a 30 year business plan which includes financing and repayment of debt taken on to make a one-off payment to the Government.

IAS International Accounting Standard

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

Impairment Loss A significant decline in the value of an asset that is specific to that asset.

Infrastructure Assets Assets that form the fabric of the land and provide a valuable service, such as land drainage channels, footpaths and roads.

Intangible Asset These assets lack physical substance and represent purchased software and software licences.

Inventories Inventories is the value of consumable items which were unused at the end of the financial year. This includes paper etc from the internal print unit and canteen supplies.

Investment Property An asset that is used solely to earn rentals or for capital appreciation or both. For example, the Council-owned industrial estates.

Liability An obligation to transfer economic benefits (usually money) as a result of past transactions eg the purchase of services from a supplier will generate a liability to pay that supplier for those services.

Local Enterprise Partnership (LEP)

Voluntary partnership between Local Authorities and businesses to help determine local economic priorities and lead economic growth and job creation.

Long Term Investments Investments held for more than a year.

Major Repairs Reserve controls the capital resources and transactions required to be used on HRA assets.

Market Value This is generally applied to the valuation of non-current assets. It is the value that could be achieved if the asset were offered for sale with no restrictions that could affect its value.

Material/Materiality Materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

Minimum Lease Payments Those lease payments that the authority is, or can be required to make.

Net The term 'net' is used where income for a service has been taken into account (ie offset against expenditure) thus reducing the total cost of that service.

Net Book Value (NBV) The purchase value or revalued value of an asset less any depreciation that has been applied to that asset since its purchase or revaluation.

Net Current Replacement Cost Gross current replacement cost reduced to reflect obsolescence and environmental factors.

Net Realisable Value The existing use value of the (non-current) asset less any additional costs likely to be incurred in getting the assets into the ownership of the customer.

National Non Domestic Rates (NNDR) more commonly called Business Rates.

Non-Current Assets Tangible and Intangible assets that yield benefits to the Council, its customers & services provided, for a period of more than one year.

Non-distributed Costs This mainly relates to retirement benefits for former employees and charges in relation to non-operational assets.

Outturn Total actual income and expenditure in the financial year.

Payments in Advance (PIA) payments made for goods or services that will not be received until the next financial year.

Precept A levy made by an authority for whom the billing authority (Waverley) collects Council Tax.

Preceptor The Council's preceptors are Surrey County Council, the Police and Crime Commissioner for Surrey and the Town and Parish Councils.

Property, Plant and Equipment (PPE) Assets held, occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or a discretionary responsibility. For example, Waverley's leisure centres.

Provisions An amount set aside from revenue for a known liability of uncertain timing or amount.

Prudence An accounting principle which ensures caution is exercised in estimates and in the adoption of policies.

PWLB Public Works Loan Board

Receipts in Advance (RIA) These are payments that are received from debtors in advance of the start of the financial year to which they relate.

Remuneration Amounts paid to an employee for work carried out.

Revenue Expenditure Funded from Capital Under Statute (REFFCUS) Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of a Waverley owned non-current asset.

Revaluation Loss A decline in the value of an asset due to a fall in prices across the board.

Revaluation Reserve This reserve is built up from the upward revaluations of individual assets. An asset should not have a negative revaluation balance, no matter how much the Reserve overall might be in surplus.

Revenue Expenditure Day-to-day expenditure on the running of services. Includes staff costs, contracted services, electrical, water and gas charges, rent and business rates.

RICS Royal Institute of Chartered Surveyors

RPI Retail Prices Index

Revenue Reserve Fund (RRF) General Fund Reserve used for financing capital expenditure and supporting revenue.

SeRCOP Service Reporting Code of Practice

Section 106 (S106) Agreements with land owners and/or developers restricting the development or use of land, and/or specifying the activities to be carried out on it and/or the payment of a contribution to make development proposals acceptable.

Short Term Investments Investments held for less than a year.

Surplus A surplus will be generated where income exceeds expenditure. In some cases, a surplus will be transferred to an appropriate reserve.

Transaction costs Are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument (financial asset or financial liability). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

VAT Value Added Tax

Yields The earnings generated and realized on an investment over a period of time.

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Changes to Unaudited Accounts 2019/2020 following Audit

Page no	Note	Adjustment
7 Narrative Report		<p>Under Financial Statements the paragraph has been amended to say:</p> <p>The statement of accounts is subject to external audit scrutiny and opinion. This Narrative Report and the Annual Governance Statement, whilst outside the scope of this certification, are considered by the external auditors to confirm in their opinion they are materially consistent with their knowledge of the Council.</p>
20 Accounting policies	1.1 1.2	<p>Statement added to say accounts prepared on a going concern basis of accounting.</p> <p>Extra bullet point added under 'Accruals of Income and Expenditure' as per audit suggestion.</p> <ul style="list-style-type: none"> Revenue from council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
44	7.	EFA Expenditure and Income analysis amended for revised analysis
49	11.	<p>Classification of loss in asset valuation for leisure centres changed from 'Impairment Loss' to 'Revaluation Loss' to reflect the precedence of revaluation loss over impairment. Supporting notes updated to reflect change.</p> <p>There is no impact on accounting treatment.</p>
49 83	11. HRA 1.	<p>Loss in valuation of Council Dwellings reclassified as a Revaluation Loss rather than an Impairment Loss, in 2018/2019 and 2019/2020, to reflect the precedence of revaluation loss over impairment. Supporting notes updated to reflect change.</p> <p>There is no impact on accounting treatment.</p>
49 62 83 85	11. 25. HRA 1. HRA2.	<p>Indexation of 1.95%, as per the Nationwide indices, was applied to the HRA Dwelling Stock. This amounted to an increase in value of £8,221k.</p> <p>This then increases the vacant possession value.</p> <p>The increase in the value of Dwelling Stock feeds through the primary statements to increase the net assets on the Balance Sheet.</p>

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

Graeme Clark
Strategic Director
E-mail: graeme.clark@waverley.gov.uk
Direct line: 01483 523099
Ref: GC LOR
Date: 14 September 2020

Dear Sirs

**Waverley Borough Council
Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Waverley Borough Council and its subsidiary undertakings, Shottermill Recreation Ground and the Ewart Bequest, for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 (the Code); in particular the financial statements are fairly presented in accordance therewith.

1. We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the Code; in particular the group and parent Council financial statements are fairly presented in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
3. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on

- the group and parent Council financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
 5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
 6. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
 7. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
 8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
 9. All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
 10. We have considered the adjusted misstatements and disclosures changes included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements and disclosure changes.
 11. The group and parent Council financial statements are free of material misstatements, including omissions.
 12. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
 13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
 14. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that

current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

15. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic, from whom you determined it necessary to obtain audit evidence.
16. We have communicated to you all deficiencies in internal control of which management is aware.
17. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
18. We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
19. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the group and parent Council financial statements.
20. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
21. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
22. We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
23. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

24. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

25. The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 14 September 2020.

Yours faithfully

Signed :

Name : Graeme Clark,

Position : Strategic Director and Section 151 Officer

Date :

Signed :

Name : Councillor Peter Marriott

Position : Chairman of the Audit Committee

Date :

Signed on behalf of Waverley Borough Council

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

14 SEPTEMBER 2020

Title:

Annual Governance Statement 2019/2020

Portfolio Holder: Cllr John Ward, Leader of the Council; Cllr Paul Follow, Deputy Leader of the Council

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: No

Access: Public

1. Purpose and summary

The purpose of this report is for the Audit Committee to consider and approve the Annual Governance Statement (AGS) for the year ended 31 March 2020.

2. Recommendation

It is recommended that the Audit Committee approves the Annual Governance Statement for 2019/2020.

3. Reason for the recommendation

- 3.1 The Accounts and Audit Regulations 2015 require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with the published Statement of Accounts. That statement is the Annual Governance Statement (AGS).
- 3.2 The AGS reports publicly on how the Council has complied with the governance code, 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE.
- 3.3 The AGS describes how the corporate governance arrangements have been working over the year, describes any governance issues that have arisen and how they will be addressed. It also describes the arrangements put in place to ensure that the Council achieves its objectives and the means by which it gains assurances that those arrangements are working. The Audit Committee considered a draft at its March 2020 meeting and members have also had an informal run through on this latest statement in August. Each Audit Committee meeting agenda includes the opportunity for members to raise and discuss emerging governance matters.

- 3.4 The AGS will be included with the Statement of Accounts as part of the Annual Financial Report for 2019/2020.
- 3.5 The AGS is included with the Agenda as a separate document at Annexe 1.

4. Relationship to the Corporate Strategy and Service Plan

- 4.1 The aim of the AGS is to ensure that, in achieving the Council's corporate priorities, Waverley acts in the public interest at all times.

5. Implications of decision

5.1 Resource (Finance, procurement, staffing, IT)

There are no direct resource implications resulting from the AGS for 2019/2020.

5.2 Risk management

Corporate governance generally refers to the systems and processes by which organisations are directed, controlled, led and held to account. The AGS describes how the Council's corporate governance arrangements have been working during the year and the effectiveness of the systems of internal control and the assurances gained from those systems.

5.3 Legal

The AGS is required under the Accounts and Audit Regulations 2015..

5.4 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.

5.5 Climate emergency declaration

The Governance Framework ensures there is a sound system of governance and control when managing and delivering the vision set out in the Corporate Strategy. This includes the governance arrangements over the Climate emergency declaration.

6. Consultation and engagement

The Audit Committee were invited to attend a briefing session on the 20 August 2020 to go through the requirements of the Annual Governance Statement and their responsibilities in approving it ahead of the Audit Committee.

7. Other options considered

- 7.1 The AGS is required to be signed by the Leader of the Council and the Chief Executive on behalf of the Council and then approved by a delegated committee.

8. Governance journey

- 8.1 Once approved the AGS will form part of the Annual Financial Report and be

published on the Council's website.

Annexes:

Annexe 1 – Annual Governance Statement

Background Papers

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

CONTACT OFFICER:

Name: Rosie Plaistowe
Position: Accountant Manager
Telephone: 0148 3523255
Email: rosie.plaistowe@waverley.gov.uk

Agreed and signed off by:

Legal Services: date

Head of Finance: date

Strategic Director: date

Portfolio Holder: date

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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.

The AGS assesses governance in place during 2019/2020 so the majority of the year was unaffected by the coronavirus. The impact of the coronavirus is detailed at 5.4.

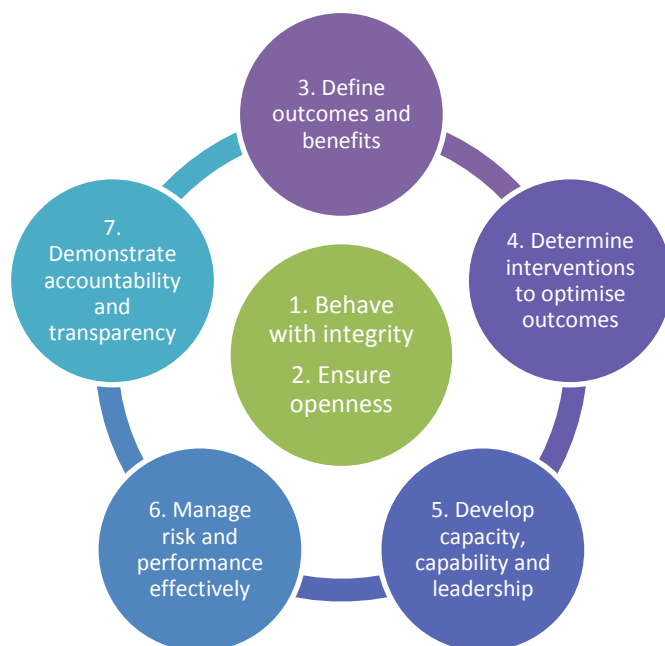
This AGS was considered by the Audit Committee at its meeting on 2 March 2020.

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



3. The Principles – A Summary

The Council aims to achieve good standards of governance by:

Principle 1 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

- 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.
- Ensuring compliance with relevant laws and regulations, internal codes, policies and procedures.
- Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function.

Principle 2 - Ensuring openness and comprehensive stakeholder engagement.

- Demonstrating, documenting and communicating the Council’s commitment to openness and accountability in acting in the public interest.
- Establishing clear channels of communication with the community and other stakeholders, and encouraging open consultation.
- Ensuring an effective scrutiny function is in place.

Principle 3 - Defining outcomes in terms of sustainable economic, social and environmental benefits.

- Developing and communicating a vision which specifies intended outcomes for residents and service users and is used as a basis for planning.

Principle 4 - Determining the interventions necessary to optimise the achievement of the intended outcomes.

- Translating the vision into courses of action for the Council, its partnerships and collaborations.
- Reviewing the effectiveness of the decision-making framework, including delegation arrangements and robustness of information.
- Quarterly performance monitoring of services and projects to ensure the Council achieves its agreed vision as planned.

Annual Governance Statement 2019/2020

Principle 5 - Developing the Council's capacity, including the capability of its leadership and the individuals within it.

- Defining clearly the roles and responsibilities of Councillors and Officers, with protocols to ensure shared understanding of roles.
- Providing inductions, training and development to give all the appropriate skills, knowledge, and support to fulfil their roles and responsibilities.
- Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function.

Principle 6 - Managing risks and performance through robust internal control and strong public financial management.

- Risk Management is an integral part of all activity and is considered in decision making in accordance with the Council's Risk Appetite Statement.
- Service delivery is monitored through financial management review and quarterly reporting to ensure service plan delivery is on target.
- Internal controls are independently reviewed by Internal Audit when carrying out assessments of key activity areas.

Principle 7 - Implementing good practices in transparency, reporting and audit to deliver effective accountability.

- Meetings and decisions are available on the Council's website along with other information such as quarterly performance reviews.
- Undertaking the core functions of an Audit Committee to provide good governance.
- The Council provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.

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)

Annual Governance Statement 2019/2020

- 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

5. The Council: How it works

All Councillors meet together as the Full Council around 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.

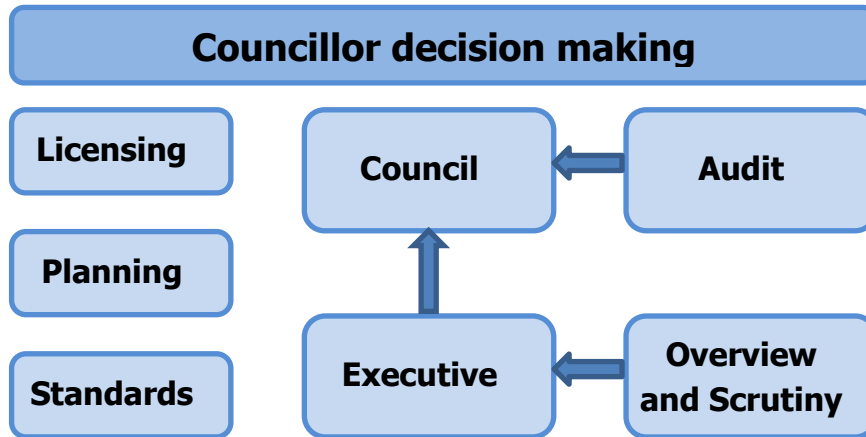
The 'Scheme of Delegation to Officers' sets out the basis on which Officers may take decisions under delegated authority. The Council also follows codes of Financial Management and Procurement and maintains codes of conduct for Councillors and Officers.

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, which includes the two Strategic Directors, one of whom is the Section 151 Officer. 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.

Annual Governance Statement 2019/2020

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.

5.1 Changes in governance during the year

Full borough council elections took place in May 2019, resulting in a 'no overall control' authority. 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, from different political groups, forming a new multi-party administration. Following the passing away of one councillor and the resignation of one councillor from the Conservative group, Council reviewed the allocation of seats again at the meetings of the Full Council.

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 councillors and monitored and reported regularly.

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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.

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 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:

Coronavirus pandemic – the AGS assesses governance in place during 2019/2020 so the majority of the year was unaffected by the coronavirus pandemic. A report to the Executive in May 2020 summarised how the Council was responding to this crisis and indicated the scale of potential risk to the Council’s financial sustainability. Further reports will be made regularly to the appropriate Council committees as the impacts and mitigations are determined.

Air quality – The court case concerning a former member of staff and the reporting of air quality data concluded in December 2019 with a conviction of the individual responsible. This issue was uncovered in August 2017, and updates on the improvements made to air quality monitoring and reporting were reported to the relevant Overview and Scrutiny Committee from then. This is also detailed in the Annual Governance Statement 2017/18. The outcomes of the court case and lessons drawn were reported the Audit Committee in March 2020.

Habitats regulations – Following concerns raised by a councillor and the workshops and external legal advice provided to councillors in 2018, a further workshop was held in 2019 to update councillors. The training brought all councillors up-to-date with current development in the area of Habitats regulations to ensure they have the requisite knowledge when considering relevant planning applications within Committee.

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.

Annual Governance Statement 2019/2020

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*.

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

Annual Governance Statement 2019/2020

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.

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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.

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

Signed

Signed

Leader of the Council

Chief Executive

Dated

Dated

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

14TH SEPTEMBER 2020

Title:

PROGRESS ON THE IMPLEMENTATION INTERNAL AUDIT AGREED ACTIONS

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

Head of Service: Graeme Clark, Strategic Director

Key decision: Yes

Access: Public

1. Purpose and summary

- 1.1 To inform the Audit Committee of Senior Management's progress in implementing the agreed actions 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.

3. Reason for the recommendation

To enable the Audit Committee to be informed of the status of agreed actions 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 agreed actions.

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 agreed actions 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 agreed actions.

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 agreed actions due for completion at the end of the month of the Audit Committee date.

Background Papers

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

CONTACT OFFICER:






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Position: Internal Audit Manager
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Agreed and signed off by:
Legal Services: 27/08/2020
Head of Finance: 27/08/2020
Strategic Director:
Portfolio Holder: N/A



Audit actions overdue or due within the end of the month after the AC 30 September 2020





Generated on: 4 September 2020



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



Head of Service Ellwood, Zac

IA20/08.001 Target Response Times						
Action Code & Description	Monitoring of response targets against those highlighted in the Enforcement Plan for the 3 priorities are not currently measured or reported: Priority One – Major – First contact or site visit within 1 working day from receipt of complaint Priority Two – Medium – First contact or site visit within 5 working days from receipt of complaint Priority Three – Low – First contact or site visit within 10 working days from receipt of complaint				Exit Meeting Date	15-Jan-2020
					Due Date	30-Jun-2020
Risk Level	Medium Priority				Risk RAG	
Audit Report Code and Description	IA20/08 Planning Enforcement					
Agreed Action	1.1 The measuring of response times to be incorporated into the incoming new Horizon programme that replaces ILAP. 1.2 The information for reporting will be available on request from the new Horizon programme that replaces ILAP. Risk -Performance issues may not be identified. (ZE)					
Status		Overdue	Progress	0%	Head of Service	Zac Ellwood
All Notes						


IA20/08.002 Out of Date Enforcement Plan						
Action Code & Description	There has been six years of operations since the Enforcement Plan was issued. Elements of the plan relating to key performance indicators and proactive working are out of date and no longer reflect operational activity.				Exit Meeting Date	15-Jan-2020
					Due Date	31-Jul-2020
Risk Level	Medium Priority				Risk RAG	
Audit Report Code and Description	IA20/08 Planning Enforcement					
Agreed Action	To update and agree the Local Planning Enforcement Plan Risk - Key policy document may be out of date and not reflect current operations. (ZE)					
Status		Overdue	Progress	0%	Head of Service	Zac Ellwood



All Notes		
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Action Code & Description	IA20/14.001 CIL Guide					Exit Meeting Date	01-Apr-2020
	<p>The Council has published a CIL Guide and FAQs on its website to ensure the planning applicants are made aware of what is required by the CIL Regulations. This document was updated in December 2018.</p> <p>However, changes to the CIL Regulations were implemented from 1st September 2019, and these have not been incorporated into the guidance. This includes:</p> <ul style="list-style-type: none"> . Form 0 Additional information has now become Form 1 - the link in the WBC guidance goes to the correct form . Form 1 Assumption of liability has now become Form 2 - the link in the WBC guidance goes to the Planning Portal where the correctly numbered form is listed. . Form 2 Relief for Charitable purposes and/or Social Housing has now become Form 10 - the link in the WBC guidance goes to the Planning Portal where the correctly numbered form is listed. . if no commencement notice is received prior to the development being commenced this no longer results in any relief having been granted being lost, instead the surcharge only applies. <p>Risk: Potential planning applicants could find the inconsistencies confusing.</p>					Due Date	01-Jun-2020
Risk Level	Medium Priority					Risk RAG	
Audit Report Code and Description	IA20/14 Community Infrastructure Levy						
Agreed Action	Update the CIL Guide and FAQs to align with the changes within the most recent amendments of the CIL Regulations and the CIL NPPG.						
Status		Overdue	Progress	0%	Head of Service	Zac Ellwood	
All Notes							



Action Code & Description	IA20/17.001.1 Reconciliation					Exit Meeting Date	16-Jun-2020
	<p>From our discussion with Planning and Accountancy teams, we noted that an overall reconciliation process does not take place between planning income received and that which is logged in the planning system, ILAP, and planning income recorded in the accounts.</p> <p>Such a process being in place would better enable the Council to demonstrate that income received is accurately reflected and would give additional reassurance to that effect.</p>					Due Date	03-Aug-2020
Risk Level	Medium Priority					Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income						
Agreed Action	Initiate reconciliation process using current systems.						
Status		Overdue	Progress	0%	Head of Service	Zac Ellwood; Peter Vickers	
All Notes							

Action Code & Description	IA20/17.001.2 Functionality of the new Planning Database					Exit Meeting Date	16-Jun-2020
	<p>From our discussion with Planning and Accountancy teams, we noted that an overall reconciliation process does not take place between planning income received and that which is logged in the planning system, ILAP, and planning income recorded in the accounts.</p> <p>Such a process being in place would better enable the Council to demonstrate that income received is accurately reflected and would give additional reassurance to that effect.</p>					Due Date	31-Aug-2020
Risk Level						Risk RAG	
Audit Report Code	IA20/17 Planning Fee Income						


and Description						
Agreed Action Development of new Planning database to ensure an automatic process is available.						
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood
All Notes						


IA20/17.002.1 Market Information						
Action Code & Description	Budgets were set, within the last few years, based on a consistently increasing housing market and using the assumption that status quo would apply to planning activity regardless of outside events which had direct effects on consumer confidence in the past.				Exit Meeting Date	16-Jun-2020
	Analysis of the market behaviour might, in future, inform a different outcome in terms of budget setting, and in turn mitigate the risk of setting too ambitious or too small an income target.				Due Date	30-Sep-2020
Risk Level	High Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action Inclusion of market information in the next budget review.						
Status		Unassigned	Progress	0%	Head of Service	Zac Ellwood
All Notes						

IA20/17.002.2 Recording of pre application advice						
Action Code & Description	Budgets were set, within the last few years, based on a consistently increasing housing market and using the assumption that status quo would apply to planning activity regardless of outside events which had direct effects on consumer confidence in the past.				Exit Meeting Date	16-Jun-2020
	Analysis of the market behaviour might, in future, inform a different outcome in terms of budget setting, and in turn mitigate the risk of setting too ambitious or too small an income target.				Due Date	30-Sep-2020
Risk Level	Medium Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action Record pre-application advice on larger applications likely to be supportable.						
Status		Unassigned	Progress	0%	Head of Service	Zac Ellwood
All Notes						



IA20/17.002.3 Development Timescales						
Action Code & Description	Budgets were set, within the last few years, based on a consistently increasing housing market and using the assumption that status quo would apply to planning activity regardless of outside events which had direct effects on consumer confidence in the past.				Exit Meeting Date	16-Jun-2020
	Analysis of the market behaviour might, in future, inform a different outcome in terms of budget setting, and in turn mitigate the risk of setting too ambitious or too small an income target.				Due Date	30-Sep-2020
Risk Level	Medium Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action Discussions with developers and landowners regarding timescales of sites coming forward.						
Status		Unassigned	Progress	0%	Head of Service	Zac Ellwood
All Notes						



Action Code	IA20/17.003.1 Planning Reference Number					
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& Description	Testing for the approval of refunds, from the ILAP system/documentation held, through to the finance system, Agresso, was completed on a reduced scale due to the inability of the ILAP system to run a report specifically on refunds.				Exit Meeting Date	16-Jun-2020
	<p>However, from filing completed earlier in the 2019/2020 financial year, we selected a sample of five refunds. For 2/5 we were unable to confirm that the request had approval for refund and we were also unable to confirm the date that the refund was requested in order to check it had been issued both appropriately and in a timely manner.</p> <p>Where refunds are issued it is important to retain an audit data trail and document authorisations, timings and reasons for refunds being made. For example, including an appropriate planning reference on Agresso payment records alongside.</p> <p>Risk: Risk of loss of income</p>				Due Date	31-Aug-2020
Risk Level	High Priority				Risk RAG	■
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action	Discussions with Finance Service over joint procedures to ensure that all records necessary are held on the Planning database and the Finance records hold the Planning reference for refunds.					
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood; Peter Vickers
All Notes						

Action Code & Description	IA20/17.003.2 Planning Procedure Note					
	Testing for the approval of refunds, from the ILAP system/documentation held, through to the finance system, Agresso, was completed on a reduced scale due to the inability of the ILAP system to run a report specifically on refunds.				Exit Meeting Date	16-Jun-2020
<p>However, from filing completed earlier in the 2019/2020 financial year, we selected a sample of five refunds. For 2/5 we were unable to confirm that the request had approval for refund and we were also unable to confirm the date that the refund was requested in order to check it had been issued both appropriately and in a timely manner.</p> <p>Where refunds are issued it is important to retain an audit data trail and document authorisations, timings and reasons for refunds being made. For example, including an appropriate planning reference on Agresso payment records alongside confirmation of the date of any refund paid would enable such a data trail to be captured.</p>				Due Date	31-Aug-2020	
Risk Level	High Priority				Risk RAG	■
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action	Update the Planning procedure note.					
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood
All Notes						



Action Code & Description	IA20/17.004.1 Automate payment extraction from portal					
	The interface between the Agresso and ILAP system relies on manual input. It is inevitable that errors will occur from time to time where they might not with a computer system interface.				Exit Meeting Date	16-Jun-2020
<p>Our review of a sample of 50 found that in terms of the receipt of income:</p> <ul style="list-style-type: none"> . Two records were unable to be located on ILAP. . Three amounts were recorded incorrectly on ILAP . In three further instances, a record of checks made on income which had been received had not been retained. <p>Whilst the errors were minor in comparison to the amount of income tested, this demonstrates the possibility of errors in recording information, and highlights that staff must remain vigilant when recording income to ensure</p>				Due Date	31-Aug-2020	

	accuracy of income recording.					
Risk Level	High Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action	Ensure the new Planning Database extracts the payment details directly from the Portal payment to remove manual entry of data.					
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood
All Notes						



	IA20/17.004.2 Spot Checks					
Action Code & Description	The interface between the Agresso and ILAP system relies on manual input. It is inevitable that errors will occur from time to time where they might not with a computer system interface.				Exit Meeting Date	16-Jun-2020
	Our review of a sample of 50 found that in terms of the receipt of income: . Two records were unable to be located on ILAP. . Three amounts were recorded incorrectly on ILAP . In three further instances, a record of checks made on income which had been received had not been retained. Whilst the errors were minor in comparison to the amount of income tested, this demonstrates the possibility of errors in recording information, and highlights that staff must remain vigilant when recording income to ensure accuracy of income recording.				Due Date	31-Aug-2020
Risk Level	High Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action	Ensure the new Planning Database extracts the payment details directly from the Portal payment to remove manual entry of data.					
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood
All Notes						

	IA20/17.004.3 Data on Systems					
Action Code & Description	The interface between the Agresso and ILAP system relies on manual input. It is inevitable that errors will occur from time to time where they might not with a computer system interface.				Exit Meeting Date	
	Our review of a sample of 50 found that in terms of the receipt of income: . Two records were unable to be located on ILAP. . Three amounts were recorded incorrectly on ILAP . In three further instances, a record of checks made on income which had been received had not been retained. Whilst the errors were minor in comparison to the amount of income tested, this demonstrates the possibility of errors in recording information, and highlights that staff must remain vigilant when recording income to ensure accuracy of income recording.				Due Date	31-Aug-2020
Risk Level	High Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action	Discuss with the Finance service ways to record more specific data regarding the applicant/site address/Planning reference for incoming payments and refunds on the Finance systems.					
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood; Peter Vickers
All Notes						



Action Code & Description	IA20/17.004.4 Procedure Notes				Exit Meeting Date	16-Jun-2020
	The interface between the Agresso and ILAP system relies on manual input. It is inevitable that errors will occur from time to time where they might not					

with a computer system interface.					
Our review of a sample of 50 found that in terms of the receipt of income: . Two records were unable to be located on ILAP. . Three amounts were recorded incorrectly on ILAP . In three further instances, a record of checks made on income which had been received had not been retained.		Due Date		31-Aug-2020	
Whilst the errors were minor in comparison to the amount of income tested, this demonstrates the possibility of errors in recording information, and highlights that staff must remain vigilant when recording income to ensure accuracy of income recording.					
Risk Level	High Priority			Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income				
Agreed Action	Ensure all procedure notes across different teams with the Planning Service that deal with the receipt of money (and refunds of payments) have the exact same procedure for recording the information in the relevant data bases.				
Status		Check Progress	Progress	0%	Head of Service Zac Ellwood
All Notes					



Head of Service Smith, Andrew


IA20/20.001 Formal Approval of Budget					
Action Code & Description	The overall budget for Wey Court, as per the monthly update reports to the Housing Delivery Board, was £4,738,170. However, we were unable to find evidence that this figure was formally approved.	Exit Meeting Date		26-Jun-2020	
		Due Date		31-Jul-2020	
Risk Level	Medium Priority			Risk RAG	
Audit Report Code and Description	IA20/20 Management of Major Construction Projects				
Agreed Action	Separate record will now be kept tracking from initial business cases, budget approvals by Executive / Full Council, Grey sheet approvals /carry forward/ reschedules/ supplementary for review and oversight by the Delivery Board as required.				
Status		Overdue	Progress	0%	Head of Service Andrew Smith
All Notes					

Head of Service Vickers, Peter

IA20/17.001.1 Reconciliation					
Action Code & Description	From our discussion with Planning and Accountancy teams, we noted that an overall reconciliation process does not take place between planning income received and that which is logged in the planning system, ILAP, and planning income recorded in the accounts. Such a process being in place would better enable the Council to demonstrate that income received is accurately reflected and would give additional reassurance to that effect.	Exit Meeting Date		16-Jun-2020	
		Due Date		03-Aug-2020	
Risk Level	Medium Priority			Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income				
Agreed Action	Initiate reconciliation process using current systems.				
Status		Overdue	Progress	0%	Head of Service Zac Ellwood; Peter Vickers
All Notes					

Action Code IA20/17.003.1 Planning Reference Number

& Description	Testing for the approval of refunds, from the ILAP system/documentation held, through to the finance system, Agresso, was completed on a reduced scale due to the inability of the ILAP system to run a report specifically on refunds.				Exit Meeting Date	16-Jun-2020
	<p>However, from filing completed earlier in the 2019/2020 financial year, we selected a sample of five refunds. For 2/5 we were unable to confirm that the request had approval for refund and we were also unable to confirm the date that the refund was requested in order to check it had been issued both appropriately and in a timely manner.</p> <p>Where refunds are issued it is important to retain an audit data trail and document authorisations, timings and reasons for refunds being made. For example, including an appropriate planning reference on Agresso payment records alongside.</p> <p>Risk: Risk of loss of income</p>				Due Date	31-Aug-2020
Risk Level	High Priority				Risk RAG	
Audit Report Code and Description	IA20/17 Planning Fee Income					
Agreed Action	Discussions with Finance Service over joint procedures to ensure that all records necessary are held on the Planning database and the Finance records hold the Planning reference for refunds.					
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood; Peter Vickers
All Notes						

Action Code & Description	IA20/17.004.3 Data on Systems					Exit Meeting Date	
	<p>The interface between the Agresso and ILAP system relies on manual input. It is inevitable that errors will occur from time to time where they might not with a computer system interface.</p> <p>Our review of a sample of 50 found that in terms of the receipt of income:</p> <ul style="list-style-type: none"> . Two records were unable to be located on ILAP. . Three amounts were recorded incorrectly on ILAP . In three further instances, a record of checks made on income which had been received had not been retained. <p>Whilst the errors were minor in comparison to the amount of income tested, this demonstrates the possibility of errors in recording information, and highlights that staff must remain vigilant when recording income to ensure accuracy of income recording.</p>					Due Date	31-Aug-2020
Risk Level	High Priority					Risk RAG	■
Audit Report Code and Description	IA20/17 Planning Fee Income						
Agreed Action	Discuss with the Finance service ways to record more specific data regarding the applicant/site address/Planning reference for incoming payments and refunds on the Finance systems.						
Status		Check Progress	Progress	0%	Head of Service	Zac Ellwood; Peter Vickers	
All Notes							

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WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

14 SEPTEMBER 2020

Title:

PROGRESS ON THE INTERNAL AUDIT PLAN FOR 2020-21

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

Strategic Director: Graeme Clark

Key decision: Yes

Access: Public

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 2020-21 are 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 2020-21 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 The progress report for 2020-21 Internal Audit Plan is detailed in Annexe 1. The original plan was agreed at the March 2020 Audit Committee. Detailed in section 7 of the plan includes reviews that have been added since the Audit Plan was agreed at the March 2020 Audit committee.

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. Budget information is provide in Section 8 of Annexe 1.

6.2 **Risk management**

The reviews included in this plan have been risk assessed as 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 2020-21

Background Papers

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

CONTACT OFFICER:

Name: Gail Beaton
Position: Internal Audit Manager
Telephone: 01483 523260
Email: gail.beaton@waverley.gov.uk

Agreed and signed off by:
Legal Services: 27/08/2020
Head of Finance:27/08/2020
Strategic Director:
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. The contractor has adopted the new CIPFA recommended standard terminology and definitions to be used in internal audit engagements across the whole Public sector and for a standard set of opinions and supporting definitions for internal audit service provider to use. This has resulted in minor amendments to those previously used by Southern internal Audit Partnership and adopted by the internal inhouse provision in accordance with best practice.

The recommended CIPFA classifications:-

Substantial A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited

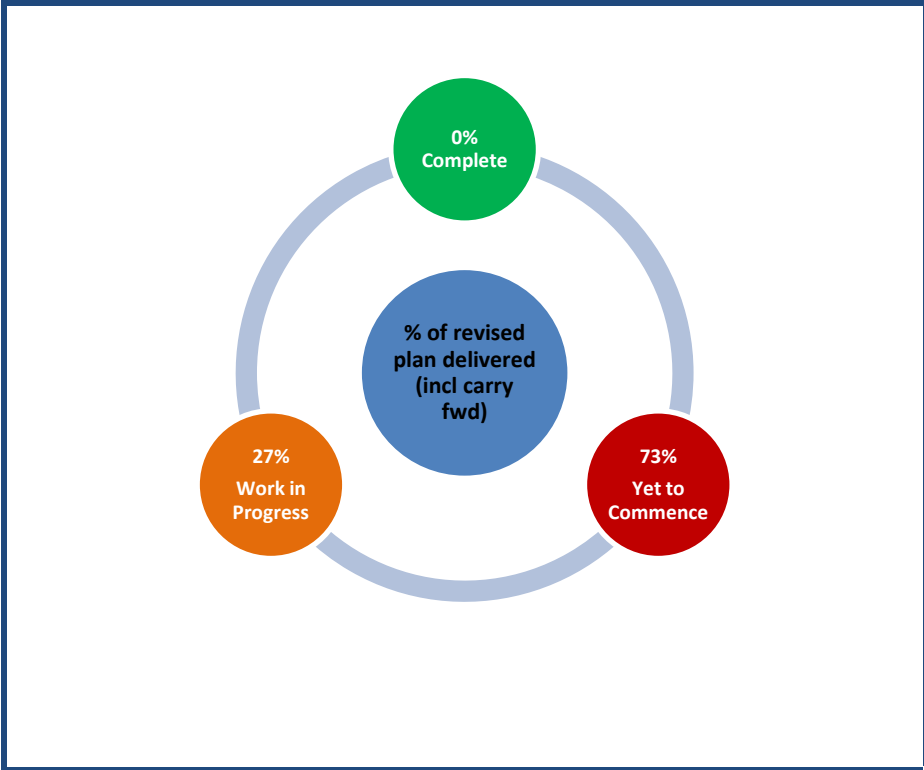
Limited Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited

No Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system

of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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. A new assessment is planned for 2020-21.

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

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

5. Planning & Resourcing

The internal audit plan for 2020-21 was approved by the Audit Committee in March 2020.

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 2020. 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
INFORMATION TECHNOLOGY											
IT Inventory Control and Licensing for Software (C)	HOBT	H	5	Q3							
APPLICATIONS SYSTEMS IN SERVICE AREAS											
BACS Process(C)	HOF & P AND OTHER HOS	H	5	Q1/2	✓	✓	✓				
Systems Administrator Activities (C)	ALL HOS	H	10	Q3							
KEY FINANCIAL SYSTEM											
Payroll (Deferred from 2019/20) (C)	HOP & G	H	10	Q2/4	✓	✓					
Main Accounting (Deferred from 2019/20) (C)	HOF&P	H	10	Q3/4							
Car Parking Income and PCN Write Offs	HOE& RS	H	10	Q2/4	✓	✓	✓				

IT programme / Audit Review	Audit Sponsor	Risk	Days	Qtr.	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Comment
(C)											
Rent Collection (C)	HOHO	H	7	Q1/2	✓	✓	✓	✓			
Post payment Business Grant compliance(C)	HOF&P	H	10	Q2/4							
SERVICE AREAS											
Service Charges - Leasehold Flats(C)	HOS	H	10	Q3/4							
Disability Facilities Grants Private Sector Housing (IA)	HOHD&C	H	10	Q3/4	✓	✓					
Film and Events (C)	HOCS	M	10	Q3/4							
Planning Housing Delivery Monitoring Process (IA)	HOP&ED	M	15	Q3/4							
Gas Servicing of boilers in council homes(IA)	HOHO	M	5	Q2	✓	✓					
Repair Recharges for Void properties to vacating tenants	HOHO	M	10	Q3/4							

IT programme / Audit Review	Audit Sponsor	Risk	Days	Qtr.	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Comment
process (C)											
Decant and Demolition of council homes process (C)	HOHO	M	10	Q1/2	✓	✓	✓				
CORPORATE/CROSS CUTTING											
Compliance monitoring for council owned buildings. (C)	HOF&P	M	7	Q1/2	✓	✓	✓				
Procurement levels with Suppliers (C)	HOF&P	H	10	Q1/2	✓	✓	✓				
Payments Process for new housing repairs contractor (C)	HOHO	H	10	Q2/3							
Safeguarding (C)	HOHD&C	H	7	Q3/4							
Health & Safety (C)	HOF&P & HOHO	H	7	Q3/4							
Ethics including Declaration of Interests, gifts and Hospitality (C)	HOG&P	H	10	Q4							
Positions with sole responsibility for a	Audit Committee	M	20	Q3/4							

IT programme / Audit Review	Audit Sponsor	Risk	Days	Qtr.	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Comment
service functions data to third parties – Risk mitigation strategies re (IA)											
No of Audit Plan days currently allocated			208								
Days currently allocated to Southern Internal Audit Partnership			158								
AP Days currently allocated to Internal Audit Manager			50								
Resource											

7. Adjustment to the Internal Audit Plan

Audit reviews deferred from the 2020-21 Audit plan

Audit reviews added to the 2020-21 Audit plan

Risk mitigation strategies re Positions with sole responsibility for a service functions including data provided to third Parties re Government or agency returns (AC)

20 Days

Total 20 Days

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8. Budget Expenditure to date

Cost Centre R0202 Internal Audit	Budget	Committed/Salaries and NI and service costs.	Remaining Balance	Estimated Number of Audit Days Planned to be delivered (Incl IAM)
Total Internal Audit Budget	£152,000	£74,000	£78,000	400 days

AUDIT COMMITTEE RECURRENT ANNUAL WORK PROGRAMME

Meeting	Item	Action	Responsibility
November 2020	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
March 2021	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
July 2021	External Audit Findings Report	Note	External audit
	Annual Governance Report	Endorse	External Audit
	Statement of Accounts (Deadline 31/07/2021)	Approve	Head of Finance, Peter Vickers
	Annual Governance Statement (Deadline 31/07/2021)	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
September 2021	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

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

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

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

Fraud Investigation Summary [To note].

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

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