WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE – 21 JUNE 2016

REPORT TO THE COUNCIL MEETING – 19 JULY 2016

Title:

AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2015/16

Purpose:

This report details the work undertaken by the Audit Committee over the municipal year 2015/16. An audit of the Audit Committee suggested that an annual appraisal of the work of the Committee would be beneficial. It would help Members review the previous year's work and plan for the coming year.

The Committee met four times in June, September and November 2015 and March 2016. The membership was as follows:-

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

Please find a summary of the key work of the Committee during 2015/16 below:

Summary:

Meeting 1 – 23 June 2016

- Reviewed its Terms of Reference for 2016/17 and requested amendments be made to reflect the risk management aspects of the Committees role.
- Noted the progress and activity completed by the Internal Audit Service for 2014/15, and the outcomes being achieved by investigating housing issues and working collaboratively between services and other organisations.
- Received the Annual Governance Statement for 2014/15 and requested amendments be made.

Meeting 2 – 15 September 2016

- Agreed the changes to its Terms of Reference for 2016/17 which were later adopted by the full Council on 20 October 2015.
- Received the Annual External Audit Findings Report from Grant Thornton for the year ended 31 March 2015.
- Received and approved the Statement of Accounts for the year ended 31 March 2015 confirming that the accounts had been prepared on a going concern basis.

- Received and approved the Letter of Representation for 2014/15.
- Approved the Annual Governance Statement for 2014/15.
- Received the updated Risk Management Framework

Meeting 3 – 17 November 2016

- Received and approved the annual Audit Letter from Grant Thornton.
- Received a presentation from the Surrey County Council Pension Fund.
- Received a verbal update from the Head of Finance & Resources on an internal audit investigation.
- The Committee agreed to make a request to full Council that the Audit Committee be given a role in the pre-scrutiny of the Trust accounts and this was adopted on 15 December 2015.

Meeting 4 – 15 March 2016

- Received the findings of the Grant Thornton Audit of Waverley's Housing Benefit Subsidy Return.
- Noted the External Audit Plan for 2015/16 from Grant Thornton.
- Adopted the Internal Audit Plan for 2015/16 subject to amendments requested by Members during the meeting.
- Received an update on the Counter Fraud Investigation that had recovered £543,310 based on notional Audit Commission figures.
- Received a verbal update from the Head of Finance & Resources on an internal audit investigation.
- Received a verbal update from the Head of Finance & Resources on the pay by phone contract.

Standing items on the agendas of all meetings included:

- Updates from Grant Thornton on the progress being made with the External Audit
- Updates on the progress in the implementation of Internal Audit Recommendations
- Updates on the progress in achieving the Internal Audit Plan.

Please find a detailed breakdown of items considered at each meeting and its corresponding minute overleaf.

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

Details of Members' attendance at Audit Committee meetings during 2015/16 are given at Annexe 4.

Detail:

1. INTRODUCTION

1.1 At its first meeting on 23 June 2015, the Committee reviewed its terms of reference and asked for them to be amended to clearly reflect that the scope of the Committee was not just financially orientated but also included risk management.

1.2 Amended terms of reference were presented and agreed by the Committee at the second meeting on 15 September 2015 and then adopted by full Council on 20 October 2015. The Audit Committee's Terms of Reference are set out below:

Audit Committee

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

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

8.03 **Terms of Reference**

The Terms of Reference are as follows:

1. Corporate Governance

1.1 To consider the Council's arrangements for corporate governance and recommend necessary actions to ensure compliance with best practice as set out in the current CIPFA/SOLACE Framework "Delivering Good Governance in Local Government" and any revision thereof.

1.2 To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

1.3 To consider the Council's compliance with its own and other published regulations, standards and controls, covering both financial and general issues.

1.4 To monitor Council policies in "Raising Concerns at Work" and the anti-fraud and anti-corruption strategy.

1.5 To monitor the effective development and operation of internal control in the Council with particular reference to all aspects of risk management.

1.6 To consider the Council's Annual Governance Statement and, if thought fit, recommend its adoption by the Council.

1.7 To consider any reports published by bodies, other than the external auditor, charged with inspecting the Council's performance or arrangements for corporate governance.
1.8 To review any issue referred to it by the Head of Paid Service or a director or any Council body.
1.9 To request a report from any Head of Service relating to an outstanding internal audit recommendation issue.

2. External scrutiny
2.1 To consider whether appropriate accounting policies have been followed in the preparation of the annual statement of accounts.
2.2 To consider all communications from the external auditor to the Audit Committee, including:
2.2.1 the audit letter;
2.2.2 the report on issues arising from the audit of the accounts; and
2.2.3 any other reports requested by the Audit Committee from the external auditor.
2.3 To consider whether there are concerns that need to be brought to the attention of the Council that arise from:
2.3.1 the audit; or
2.3.2 the accounts.
2.4 To consider and, if thought fit, approve the annual statement of accounts.
2.5 To comment on the scope and depth of external audit work and to ensure that it gives value for money, especially with regard to reports dealing with risk management and performance matters.
2.6 To oversee all aspects of risk management, including Waverley's Corporate Risk Registers

3. Internal audit
3.1 To consider the Annual Review of the system of Internal Audit.
3.2 To consider the Internal Audit Client Manager's Annual Report.
3.3 To consider the annual Internal Audit Service Plan.
3.4 To consider the current Internal Audit Plan and summaries of internal audit activity by department and consider the level of assurance this can give concerning the effectiveness of the Council's corporate governance arrangements.
3.5 To consider internal audit reports detailing recommendations not implemented within the specified timescale.
3.6 To consider proposed internal audit activity and the range of departments to be covered and the level of assurance this can give concerning the effectiveness of the Council's corporate governance arrangements.
3.7 To commission work or reports from the Internal Audit Service.
3.8 To consider any specific internal audit reports requested by the Audit Committee.
3.9 To monitor the progress of any specific internal audit projects.
3.10 To consider reports dealing with the management and performance of the providers of internal audit services.

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

8.04 Composition of Audit Committee

(a) Membership and Meetings

The Audit Committee will

be composed of seven councillors, with no members from the Executive;

meet four times per year, as set out in the Calendar of Meetings, and on an ad hoc basis when necessary.

(b) Quorum

The quorum for meetings will be three Councillors.

2. REVIEW OF PROGRESS IN IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

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

2.2 23 June 2015

2.2.1 The Committee received a report outlining internal audit recommendations overdue or due within the next month. The Internal Audit Client Manager tabled an updated Annexe 1 which provided the current position on recommendations due for completion by 31 July 2015 and was updated by Heads of Service as actions were completed.

2.2.2 The Committee asked questions on those actions that were overdue including an extension request for the Safeguarding Children and Safeguarding Adults Policies. This had been due to the internal staff appraisals process occurring at the same time which had resulted in a delay in completion.

2.2.3 Some questions were asked as to why it would appear that Housing actions regularly dropped behind schedule and whether this might be due to a lack of staff resources. The Internal Audit Client Manager explained that although she could not comment on staffing issues, the Housing Service had recently been restructured and there were many different areas of work being undertaken to improve its processes. The recommendation in the report target date had been delayed due to IT resource availability on the proposed integration of the Asset Management Database.

2.2.4 Members were advised that it was hoped that savings would be made available as a result of work undertaken as part of the Surrey Counter Fraud Partnership, a joint arrangement of seven Surrey Boroughs and Districts and Surrey County Council which received funding from the Department for Communities and Local Government. The largest monetary area for fraud was deemed to be tenancy fraud, particularly Right to Buy.

2.2.5 The Committee noted the progress on the implementation of internal audit recommendations and agreed to extend the implementation dates as requested in Annexe 2.

2.2.6 The Committee considered it would be helpful to identify within the Progress of Implementation of Internal Audit Recommendations report whether the impact of delayed actions on recommendations would be low, medium or high.

2.3 15 September 2015

2.3.1 The Committee noted that in respect of IA15/14 (request to revise due date of the approval of purchases by the vacant Financial Services Manager) an internal candidate had been appointed to the post of Financial Services Manager so that the stated due date could be bought forward. Regarding IA15/03.001 (interface between the Orchard and Keystone I.T. systemes), Members were advised that an interface was in place and that the target had been achieved.

2.3.2 The Committee noted the progress on the implementation of internal audit recommendations and agreed to extend the implementation dates as requested in Annexe 2.

2.4 17 November 2015

2.4.1 Members requested that officers reviewed the presentation format of the information and suggested use of colours/coding to ensure that members can see the current status of actions at a glance. An idea to use a black coloured spot to identify overdue items might be useful.

2.4.2 Members also asked that the cause of an issue be included on the report in the form of a couple of words such as `staffing` or `legal delays` for example. It was felt that the current format presented effects but not causes and that it was important to understand the cause before agreeing to requests to change implementation dates.

2.4.3 Officers responded that they were happy to make any presentational changes requested to help Members with their work and would look at adding causes to the reports where changes in implementation dates was being requested.

2.4.5 Members requested that further information regarding recommendation ref. IA16/05/001 (request for extension for the issue of a Deed of Variation in relation to kitchen and bathroom basket rates) be provided to the Committee from the Head of Housing and Borough Solicitor.

2.4.6 With regard to IA15/28/001 (Legionella, Electrical and Fire Checks) it was agreed that the Chairman of the Committee be advised when the action had been completed given the need to move from 16% to 100% by 30 November 2015.

2.4.7 The Committee noted the progress on the implementation of internal audit recommendations and agreed to extend the implementation dates as requested in Annexe 2.

2.5 15 March 2016

2.5.1 In relation item IA15/28.002 (Legionella, Electrical and Fire Checks) Members asked about the reason why the due date for the recommendation had been changed. Officers responded that contracts for electrical and fire checks were already in place but that the contract for Legionella checks had not yet been procured. Members were reassured that Legionella checks were continuing to be carried out under the existing contract and that the delay requested was for the procurement of the contract and not the actual checks themselves. The Committee agreed that the Head of Housing, Hugh Wagstaff, provide the Committee with details on the specific reasons for the delay in procuring the Legionella checks.

2.5.2 The Committee were concerned by the amount of time it had taken for the Legal Service to issue the Deed of Variation in regards to item IA16/05.001 (kitchen and bathroom basket rates). The Borough Solicitor, Dan Bainbridge, explained that staffing issues had been the reason for the delay. The Committee agreed that the Head of Housing, Hugh Wagstaff, should attend the next meeting to allow Members to discuss any general concerns that they may have.

2.5.3 The Committee noted the progress on the implementation of internal audit recommendations and agreed to extend the implementation dates as requested in Annexe 2.

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3. INTERNAL AUDIT PLAN

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

3.2 23 June 2015

3.2.1 The Committee was pleased to note that the work that had been agreed the previous year had predominately been completed.

3.2.2 The Internal Audit Client Manager explained that the request to defer work on Asbestos in Waverley Properties had been proposed by the Head of Service to enable the conclusion of work carried out by external consultants, as previously agreed at the March 2015 meeting. The deferral was of low impact but the issue itself was of-course highly important.

3.2.3 The Committee noted the progress for the Internal Audit Plans for 2014/15 and 2015/16.

3.3 15 September 2015

3.3.1 The Internal Audit Client Manager circulated an updated version of Annexe 1 to the report, which showed that several reviews from the 2015/16 Audit Plan had now been completed or were in progress.

3.3.2 The Committee noted that most Quarter 1 and Quarter 2 reviews had been achieved on target and that it was anticipated that those outstanding in Quarter 3 and Quarter 4 would be completed by the end of the financial year. If any were still outstanding at that time they would be bought back to the Committee for agreement to carry over.

3.3.3 The Committee noted the progress for the Internal Audit Plans for 2015/16.

3.4 17 November 2015

3.4.1 Officers summarised the progress on the Internal Audit Plan for 2015/16 which included the use of contingency for three new reviews on Section 106 agreements, payroll & return to work policies, and revenue premises visits which would be added to the Audit Plan.

3.4.2 Following the verbal summary, Members commented that the format of the Plan would benefit from having information presented in groups relating to specific Heads of Service and Executive portfolio holders to help Members better analyse the data and develop constructive responses.

3.4.3 Officers explained that some issues fell into the remit of more than one Head of Service/Executive portfolio holder. However, these could be placed at the bottom of the Plan with grouped items above and that this format could be introduced for the next meeting.

3.4.4 The Committee noted the progress for the Internal Audit Plan 2015/16 and endorsed the inclusion of the new reviews.

3.5 15 March 2016

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

3.5.2 Councillor John Williamson (in attendance as a non-committee member using his constitutional right to attend as a fellow councillor) asked about the proposal to defer the review of the Councils internal I.T. system, `Sharepoint`, to 2016/17 and Members also expressed similar concerns. Officers explained that this had been requested due to contractor staffing issues within I.T. services and a lack of technical knowledge of `Sharepoint`. Members were reassured that the aim was to complete the review in Q1 of 2016/17 by obtaining alternative resources.

3.5.3 The Committee noted the progress for the Internal Audit Plan 2015/16 and approved the deferral of the `Sharepoint` review to be completed in 2016/17 by another service provider with the necessary expertise.

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4. REVIEW OF EXEMPT ITEMS CONSIDERED BY THE AUDIT COMMITTEE 2015/16

Please see Annexe 1 for a review of exempt items considered by the Audit Committee during 2015/16.

4.1 Risk Management

4.2 Update on Fraud Investigation

4.3 Update on Pay-By-Phone Contract

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5. REVIEW OF OPEN ITEMS CONSIDERED BY THE AUDIT COMMITTTEE 2015/16

5.0 Internal Audit Investigation

5.0.1 At its meeting on 17 November 2015, the Committee received a verbal update from the Director of Finance & Resources in relation to the Internal Audit Investigation. The key points were as follows:

- In April 2014 the Council was the victim of fraud by a fraudster posing as one of our suppliers.
- Two payments totalling £233,000 were paid into the fraudster's bank account.
- As soon as the Council became aware of the fraud, the Police, Bank and our external auditors, Grant Thornton, were informed.
- A majority of the funds has been recovered and officers are actively pursuing the balance of funds.
- The following Councillors were informed about the fraud and that included all members of the Executive and Audit Committee at the time:

    - Cllr. Brian Adams
    - Cllr. Carole King
    - Cllr. Robert Knowles (Leader of the Council)
    - Cllr. Tom Martin
    - Cllr. Donal O`Neill
    - Cllr. Julia Potts (Deputy Leader of the Council)
    - Cllr. Stefan Reynolds
    - Cllr. Adam Taylor-Smith
    - Cllr. Simon Thornton
    - Cllr. Keith Webster
    - Cllr. Richard Gates (Chairman of the Audit Committee at the time)
    - Cllr. Tony Gordon-Smith

- Cllr. Stephen Hill
- Cllr. Peter Isherwood
- Cllr. Jennifer O`Grady
- Cllr. Wyatt Ramsdale
- Cllr. Stewart Stennett
- Cllr. Jenny Else
- Cllr. Mike Band

5.0.2 The Audit Committee at the time were informed and updated at all 4 meetings in 2014/15 and the incident was noted in the Audit Findings of the External Audit Report by Grant Thornton.

5.0.3 Immediately after the incident, the Head of Finance and Internal Audit Client Manager reviewed and implemented strengthened procedures. These include regular on the spot and ad-hoc checks to monitor adherence.

5.0.4 Grant Thornton had been happy with the measures put in place by the Council to prevent similar occurrence's happening in the future.

5.0.5 Attending the meeting to speak on this item, Councillor John Fraser of the Farnham Residents group expressed dissatisfaction with how the fraud incident had been handled.

5.0.6 Waverley's Monitoring Officer informed the Committee that the priority when the fraud was discovered was to recover the money lost and to strengthen the Council's procedures. As the incident was at the time, and still is, subject to an active police investigation the chances of achieving a successful prosecution would have been greatly damaged by any public open discussion of it. Such disclosure would also have breached rules around exempt information prescribed by Schedule 12A of the Local Government Act 1973.

5.0.7 Cllr. Ramsdale, as a former member of the Audit Committee in 2014/15 emphasised the point that the Audit Committee had been kept constantly updated with investigation into the incident and was very happy with the extra layer of checks and controls regarding the changing of bank account details and payments.

5.0.8 Cllr Else, as a member of the Audit Committee at the time the fraud occurred confirmed that she was happy with the management of the process completed by officers.

5.0.9 On closing, the Chairman commented that the new members of the Committee should have been given a briefing on the matter following the elections in May 2015.

5.1 External Audit Plan 2015/16

5.1.1 Iain Murray, the Grant Thornton External Audit Engagement Lead was present at the meeting on 23 June 2015 and introduced the report on the External Audit Plan for 2015/16.

5.1.2 The Committee noted that work on planned dates for January and March 2015 had been completed on time and work on the 2014-15 final accounts audit planned for July 2015 was on track for the completion date. The Value for Money (VFM) conclusions were being finalised and would be presented to the September meeting. There were no key issues to bring to the Committee's attention at this stage.

5.1.3 The Committee's attention was drawn to the impact of welfare reform on local government and the Council should be made aware of the financial pressures this could bring to local authorities. The impact of the introduction of Universal Credits, a new benefit for people of working age, was at present a grey area and difficult to assess what the impact on the Council might be. The DWP was in discussion with local authorities to keep them updated with their policies.

5.1.4 Councils would need to look how to reduce costs, generate income and improve efficiency by introducing commercial structures and Grant Thornton drew attention to their report that looked at the use of alternative models to protect and develop services. The report focused on the setting up of Local Authority Trading Companies (LATC) for alternative service delivery.

5.2 External Audit Progress Report

5.2.1 At the meeting on 17 November 2015, Iain Murray of Grant Thornton provided the Committee with a verbal update on the progress of the External Audit Report.

5.2.2 Current work included the certifying of housing benefits claims and auditing the two charities of which the Council was a trustee. It was expected that the Report would be completed and that the Audit Plan would be bought to the next meeting of the Committee in March.

5.2.3 Members were also updated on the Local Audit & Accountability Act. This new legislation would require authorities to procure their own external auditor and had been due to take affect from 2017/18. A 1 year extension on current providers had subsequently been introduced meaning that Grant Thornton would remain as the Council's external auditor until 2018. A new procurement procedure would need to be arranged by the end of 2017 to ensure cover from the 2018/19 financial year.

5.2.4 After the update, Members expressed concern regarding Trust accounts. There was some confusion around whether the signing off of accounts by the Committee for 2014/15 at the last meeting had included the Trust accounts.

5.2.5 Officers explained that it was not within the terms of reference of the Audit Committee to provide an audit function on the Trust accounts. These were separate from the Waverley accounts and were considered by the full Council sitting as Trustees.

5.2.6 Members felt that there was a role for the Audit Committee in the pre-scrutiny of these accounts and officers advised that a request could be made to the Trusts to

ask this and it was agreed to do so at the next meeting of the full Council in December 2015.

5.3 External Audit Plan 2015/16

5.3.1 At the meeting on 15 March 2016, the Committee was presented with the latest draft version of the Grant Thornton External Audit Plan for the Council for 2015/16 which gave an overview of the planned scope and timing of the audit.

5.3.2 Iain Murray described the major challenges and opportunities facing the Council, namely:

- 24% reduction in central government funding to local government over 5 years as announced by the Chancellor in his Autumn Statement 2015.
- Requirement to identify an additional £800,000 savings for 2016/17 and further savings in 2017/18 and 2018/19.
- The Autumn Statement also included a 1% reduction in local authority housing rents and changes to Right-to-Buy that would have a significant impact on the Council's housing revenue account business plans.
- Major developments across the Borough including Brightwells and regeneration plans for Farnham together with the recently received significant planning application from Dunsfold Park.
- The Local Plan was last formally updated in 2001 and the Council has not yet been able to agree a new version with central government. It is critical that a new Local Plan is formulated and agreed as it will play a key part in decisions about how the Council develops the local area and its communities.

5.3.3 Key sector developments that will need to be considered were also identified and included:

- The adoption of a new fair accounting standard (IFRS 13) to apply from 2015/16. This will have a particular impact on the valuation of surplus assets within property, plant and equipment which were now required to be valued at `fair value` rather then the previous `use value` of the asset.
- The replacement of the `Explanatory Foreward` by the new `Narrative Statement` as required by the Accounts and Audit Regulations 2015.
- Councils involved in pooled budgets and alternative delivery models are required to be accounted for in their financial statements. Waverley produces group accounts to include Shottermill Recreation Ground and Ewart Bequest.
- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

5.3.4 Iain Murray also summarised the significant potential risks identified in the Plan including:

- Presumed risk under ISA 240 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 related revenue recognition.
- Presumed risk under ISA 240 that management over-ride of controls is present in all entities.

5.3.5 Other potential risks identified included:
- Understatement of operating expenses.
- Understatement of employee remuneration.
- Valuation of property, plant and equipment.
- The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.

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

5.3.7 The guidance identified that for local government bodies, auditors are required to give a conclusion on whether the proper arrangements have been put in place. The criteria used to evaluate this were listed on page 13 of the draft Plan.

5.3.8 Following the presentation, as part of the Council's Rules of Debate that allow any member of the Council to attend and speak at a committee for which they are not a member, provided they had made the request to speak by 12pm on the day of the meeting, Councillor John Williamson was given 4 minutes to remark on the draft Plan.

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

5.3.10 During the discussion, the Committee requested an update on when they will be able to view the Shottermill Recreation Ground and Ewart Bequest Trust accounts.

5.3.11 Officers explained that it had not been within the terms of reference of the Audit Committee to provide an audit function on the Trust accounts. These were separate from the Waverley accounts and were considered by the full Council sitting as Trustees and formed part of the Group accounts.

5.3.12 Members felt that there was a role for the Audit Committee in the pre-scrutiny of these accounts as they did impact two lines on the Waverley accounts.

5.3.13 Due to scheduling differences between the Group and Waverley accounts, the timings of when the Committee would be able to scrutinise them was different.

5.3.14 It was agreed that Members would be provided with a schedule to enable them to plan forward to ensure that they meet agreed deadlines for approving accounts.

5.3.15 Members also asked about the concept of `materiality` as set out on page 7 of the draft Audit Plan. In performing their audit, Grant Thornton applied the concept following the requirements of the `International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in Planning and Performing an Audit`.

5.3.16 The standard states that `misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements`.

5.3.17 Grant Thornton had determined materiality for the statements as a whole proportion of Waverley's gross revenue expenditure. For the purposes of planning the audit, they had determined the Council's overall materiality to be £1,598k, equating to 2% of the prior year gross revenue expenditure.

5.3.18 Members were surprised at the high figure with Iain Murray responding that 2% was an industry wide standard and that only substantial errors were considered material. In the case of the Council, this meant that anything under £80k would not be considered material.

5.3.19 ISA 320 also required Grant Thornton to determine separate, lower, materiality levels where there were `particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts then materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users`.

5.3.20 Grant Thornton had not identified any items where separate materiality levels would have been appropriate.

5.4 Annual Governance Statement

5.4.1 At its meeting on 23 June 2015, The Head of Finance introduced the Annual Governance Statement to the Committee. He explained that the Annual Governance Statement (AGS) was part of the final accounts process and drawn up in accordance with the CIPFA/SOLACE framework. The AGS explained the processes and controls that comprised the Council's governance framework, as explained in Section 3. It also showed the corporate involvement by Waverley's Corporate Management Team, S151 Officer and Monitoring Officer, Heads of Service and the Audit Committee in drawing up the document. The AGS 2014/15 was complete and would be signed off by the Leader of the Council and the Executive Director in September.

5.4.2 The Head of Finance advised that no specific governance issues had been identified but officers continued to identify scope for further improvement in the future. The key areas under review were identified in Section 7.

5.4.3 Members asked whether the Council undertook anonymous third-party staff surveys as members considered this would give useful feedback on any issues that might be raised and could be addressed in the following year. Officers advised that staff surveys were undertaken and the Committee felt it would be helpful to include councillors in the survey.

5.4.4 The Head of Finance confirmed that the corporate plan was assessed by Audit and Star Chamber and the procurement comparison through Value for Money reviews built into the procurement process.

5.4.5 The Committee agreed that they would like to have further time to read the AGS and they would send any comments to the Head of Finance before finally approving the AGS at the September meeting of the Committee.

5.4.6 The Committee approved the Annual Governance Statement subject to comments received from Members and approval of the final Annual Governance Statement for 2014/15 was agreed at the meeting on 15 September 2015.

5.5 External Audit Findings Report 2014/15

5.5.1 At the meeting on 15 September 2015, Iain Murray and Matthew Dean from Grant Thornton presented their External Audit Findings Report for the year ending 31 March 2015 as set out on pages 11 to 42 of the Agenda.

Section 1: Executive Summary

It was affirmed that the draft Group and Council financial statements had been produced to a very high standard and that this had resulted in a minimal level of issues arising from Grant Thornton's work. These statements had been supported by an excellent set of working papers and the input of Members and Officers had been gratefully received.

They anticipated that an unqualified opinion in respect of the financial statements could be provided and that no adjustments affecting the Group and Council's reported financial position were required. It was also stated that the Council's strong financial reporting process meant that it was likely the accounts and audit process would be delivered earlier then deadlines planned for 2018.

Section 2: Audit Findings

Supplementary to the report, the key findings of the audit were highlighted including the following:

- No issues identified in respect of revenue recognition with accounting policy in line with the requirements of the CIPFA Code.
- No evidence of management override of controls and no significant issues in respect of journal controls and entries.

- No significant issues identified in terms of operating expenses and employee remuneration.
- Stated critical judgements and estimation uncertainties were in line with the CIPFA Code. The Councils approach regarding Business rate appeals provision and the calculation of depreciation of Council Housing stock was appropriate and satisfactory.
- The management's assessment of the Council and its services as a going concern were assessed as satisfactory and appropriate.
- A review of accounting policies had not identified any issues.
- Regarding Property, Plant & Equipment (PPE) estimates and judgements; it was stated that Grant Thornton were happy with the Council's approach. They did however highlight the importance of revisiting this at the end of each year where a full revaluation of PPE does not take place.
- Internal controls were found to have been operating effectively with no matters to report to the Committee.

Section 3: Value for Money

It was explained that Grant Thornton's work had highlighted that the Council had robust financial management arrangements in place and that the Medium Term Financial Plan was updated on an annual basis.

However, the audit had identified the need for the Council to find an additional £900,000 of savings between 2016-17 and 2017-18. It was acknowledged that the Council had a proven track record of delivery cost savings, £10m since 2007-08. But, steps to achieve the needed savings had to be identified if the risk presented to medium term financial health was to be removed.
It was found that the Council's arrangements to challenge economy, efficiency and effectiveness by prioritising resources, improving efficiency & productivity were sound. However, two key areas of residual risk had been identified that would need to be managed closely to ensure that they did not have any adverse impact on the organisation. These were the development of the Local Plan, and the progress of the Brightwells Development in Farnham.

In their assessment, Grant Thornton believed that the decisions that had to be taken on both issues within the forward 6 month period would have a significant effect on the Council's financial position. Due to the size, scale and resource requirement of both, it was key that a successful outcome in both could be achieved.

In summary, it was restated that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. As a result, Grant Thornton confirmed its ability to propose an unqualified Value for Money conclusion.

Resulting Members Questions

During the presentation, the Committee expressed concern that only material Group accounts were included in the Grant Thornton report.

Iain Murray and Matthew Dean explained that this was normal and that the Trust appointed their own external auditors to consider the full Group accounts. Officers explained that the role of the Audit Committee was to consider only the Council accounts, and any material Group accounts, but not all of them. This Committee did not approve the Trustees' accounts. Those were taken to Council (acting as Trustees) for approval.

Members also raised the issue of the number and size of short term debts as reported in the Annual Financial Report 2014-2015 (Agenda Item 7, Annexe 1) asking for the external auditors opinion on the situation.

Iain Murray and Matthew Dean explained that this had been reviewed as part of the external audit process and that they were satisfied with the level and size of short term debts as well as with the Impairment Allowance provision. Members were informed that the Council's situation was not unique and that many other District and Borough Councils held similar levels of short term debt.

Officers described some of the causes for the debt such as overpayment of benefits due to slow central Government processes and notification from the Department for Work & Pensions. Also recipients not advising of changes in their personal circumstances and some debts being repaid by nominal weekly amounts as a result of Court Orders were also cited.

P31 Certificate

In concluding the presentation, Iain Murray explained that he would be required to keep the P31 Certificate open as a question from a member of the public regarding the Brightwell's Development had been received. Time needed to be given to allow him to reply and to give the questioner a chance to respond before he would be able to close the Certificate. It was anticipated that this would not take longer than a few weeks. Iain Murray confirmed that this letter did not include any matters relating to the 14/15 Accounts and therefore there was no reason why it should prevent the Committee from approving the Accounts.

5.6 Statement of Accounts 2014/15

5.6.1 The Committee received a report that asked them to consider and approve the Statement of Accounts for the year ended 31 March 2015 (Annexe 1) and to approve the letter of Representation for 2014/15 at their meeting on 15 September 2015.

5.6.2 The Committee were content that the Statement of Accounts had undergone sufficient scrutiny via a serious of meetings and e-mail exchanges with officers in recent weeks and were also content with the answers to questions from the auditors and members.

5.6.3 Members raised concern about the size of the current Pension Fund deficit and asked Matthew Dean and Iain Murray from Grant Thornton for their opinion.

5.6.4 Grant Thornton stated that they had looked at the issue as part of the audit process and found nothing significant to report. Surrey County Council administered the Pension scheme used by Waverley and Grant Thornton were happy with the assumptions made by the Actuary. It was emphasised that Waverley's position was not unique in relation to other similar sized District and Borough Councils, such as Mole Valley, and that the appropriate disclosures had been made.

5.6.5 Officers advised Members that representatives from Surrey County Council Pension Scheme would be attending the next meeting of the Audit Committee in November to answer any further questions they had.

5.6.6 The Committee approved the Statement of Accounts and the Letter of Representation for 2014/15 and confirmed that the accounts had been prepared on a going concern basis.

5.7 Annual Audit Letter from Grant Thornton for 2014/15

5.7.1 Iain Murray, from the external auditor Grant Thornton, briefly summarised the Annual Audit Letter for 2014/15 at the meeting on 17 November 2015.

5.7.2 There had been no new messages to relay since the last meeting and the key issues and recommendations had remained the same. However, Mr Murray updated Key Issue no. 3 and confirmed its status was a medium priority item.

5.7.3 Members asked for clarification of the term `best consideration` as used in the recommendation for key issue no.3. Iain Murray advised that the term referred to the appointment of an independent property company to produce a report that considered how to obtain the best value from the disposal of authority land in landowner mode. Their specialist view would take more then just money into account and act as a crucial piece of evidence to support any subsequent decision made by the Council.

5.7.4 The Committee also asked Iain Murray to define the use of the term `significant recommendations` in relation to the key issues. It was explained that the procedure for weighting recommendations was prescribed by the Audit Commission. The measurement took into account such matters as strategic planning, budgeting, assessment of risk and arrangements to achieve economy and efficiency.

5.7.5 The Committee agreed the approval of the Annual Audit Letter for 2014/15.

5.8 Internal Audit Annual Report 2014/15 Activity

5.8.1 At its meeting on 23 June 2015, the Committee received the Internal Audit Annual Report which was required under the Accounts and Audit Regulations to maintain an adequate and effective internal audit of accounting records and control systems.

5.8.2 With regard to the Internal Audit Opinion, the Committee noted that the direction of travel had remained the same but Risk Management and Control were amber, unlike green for Governance, which recognised the need to work on improvement for Risk Management and Control. However, the Committee noted that overall excellent progress had been made in implementing agreed recommendations.

5.8.3 With regard to Fraud Prevention, Detection and Investigation, an analysis of the work carried out by the Housing Benefits Investigation Team together with progress being made in other Housing Tenancy Fraud investigations was reported. The Committee noted that work had been accelerated through funding provided by the Department of Communities and Local Government to form the Surrey Counter Fraud Partnership and to appoint a temporary Fraud Investigator to initially focus on housing tenancy fraud.

5.8.4 The Committee noted the figures of reported fraud cases over a 4-year period and following a question from the Internal Audit Client Manager the Committee concurred that reporting cases over a 4-year period was of value and this period should not be extended.

5.8.5 Regarding service performance the Committee noted that the contractors had not undertaken any work or activity during 2014/15 that would lead them to declare any conflict of interest. The Committee noted service performance during 2014/15 across a range of indicators and were disappointed to see the increase in the average number of days between the IACM Exit meeting and obtaining management comments and the issuing of Final Report. Members asked that Heads of Service be advised that this was not satisfactory.

5.8.6 The Committee noted the progress and the activity completed by the Internal audit Service for 2014-15 be noted, and the outcomes being achieved by investigating housing issues and working collaboratively between services and other organisations.

5.9 Pensions Presentation From Surrey County Council

5.9.1 At the meeting on 17 November 2015, Phil Triggs of the Surrey Pension Fund at Surrey County Council, gave a presentation for Members on the Actuarial Valuation of the fund which would be revalued in 2016.

5.9.2 The LGPS Deficit in 2013 stood at £47bn but with the inclusion of CPI +3% this reduced to £27bn. The options for reducing this deficit included increased contributions, improved investment returns and strategic management of liabilities.

5.9.3 The revaluation in March 2016 would take into account 5 key assumptions:

1. Discount Rate
    - Reflects how the value of money decreases over time
    - Based on the CPI base rate 8 (which stood at 0.5% for 81 consecutive months) +3%.
    - The higher the discount rate, the lower the valuation of the scheme's liabilities.

2. Longevity
    - Increased life expectancy meant that pensions would be drawn for longer.
    - A single year added to life expectancy resulted in a 3% reduction in funding level.

3. Inflation
    - Index linking of pensions to inflation would be likely to help reduce the pension fund liability in the current environment of -0.1% inflation.

4. Earnings/salary growth

5. Investment Strategy

In reaching the valuation, two calculations would be made. A valuation conducted by the pension fund Actuary and another based on the standardised assumptions specified by the Scheme Advisory Board. These would then be compared to create a final valuation. The 2013 calculation carried out by the Actuary of the Surrey fund came out at 72.3%, more pessimistic then the 79.3% figure coming from a valuation based on the standardised CPI+3% discount rate. It was commented that this reflected the prudence of the Surrey fund.

Other factors impacting the fund included the quality of data used in calculations; the stability and affordability of contributions; monetary based deficit payments; early retirement, ill health, significant salary increases and employer risk.

On closing the presentation, Members were invited to ask questions. Key concerns included the Chancellor's (RH George Osbourne MP) plans to reduce the number of LGPS schemes by requiring them to merge leaving between 5 and 10 schemes nationally holding around £30bn each.

Phil Triggs explained that the Surrey scheme had already begun scoping possible mergers to pool assets and had held preliminary conversations with both the Cumbria and East Riding LGPS schemes. These had similar good governance arrangements and were seen as suitable potential partners. A further 9 funds had been approached.

Councillor Denise Le-Gal, speaking as the Chairman of the Surrey County Council Pension Fund Committee, also explained that these early discussions reflected a desire on Surrey's part to determine their own destiny. The Chancellor had stated that schemes that failed to pool resources could be forced to do so via back ended legislation. A combined Surrey/Cumbria/East Riding scheme would be valued at around £25bn.

Members also asked about the ability of the scheme to be pro-active in managing future strains on the fund. Phil Triggs replied that the adaption of investment strategies, together with the smoothing out of contributions to allow for peaks and troughs in conditions were key to cushioning the fund from such strains.

It was agreed that a graph would be sent to members of the Committee sharing Surrey's current position.

5.10 Grant Thornton Audit of 2014/15 Housing Benefit Subsidy Return

5.10.1 Iain Murray and Matthew Dean from Grant Thornton introduced the Committee to its certification work for the Housing Benefit Subsidy return for the year 2014/15 at the meeting on 15 March 2016.

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

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

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

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

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

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

5.11 Proposed Internal Audit Plan 2016/17

5.11.1 At the 15 March 2016 meeting, the Internal Audit Manager introduced the draft Proposed Audit Plan for 2016/17 and invited the Committee to comment before adopting the Plan.

5.11.2 She explained that a different approach had been taken to previous years whereby the services of an internal audit contractor, RSM, in consultation with Heads of Service and the Corporate Management Team, had been involved in the preparation of the Plan.

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

5.11.4 As part of the Council's Rules of Debate that allow any member of the Council to attend and speak at a committee for which they are not a member, provided they had made the request to speak by 12pm on the day of the meeting, Councillor John Williamson was invited to use his 4 minutes to remark on the Plan.

5.12.5 He expressed concern about two major projects, namely the SPA Avoidance Strategy and the Brightwells development in Farnham.

5.11.6 Members of the Committee made several requests regarding the risk areas identified on pages 18 to 22 of the draft Plan. This included amendment of wording to items such as `Health and Safety policy`, `Recruitment of permanent and agency staff and performance management`, and `Planning applications and building control` to make the description of any action and scope of the work to be carried out more explicit.

5.11.7 Additional risks to be considered were also suggested including scrutiny of the performance of sub-contractors working on behalf of contractors engaged by the Council and of procurement.

5.11.8 Karen Williams agreed to make the requested changes and reassured Members that the Plan was a fluid document that was not set in stone and could be amended throughout the period of its life.

5.11.9 Members also raised concerns about how the priorities for the Plan had been selected and asked for sight of the wider `audit universe` to enable them to see what items have been included and those that have not.

5.11.10 It was agreed that Karen Williams of RSM would make the requested changes to the draft Internal Audit Plan, that the Internal Audit Manager would provide the Committee with the `audit universe`, and that the Plan be adopted for 2016/17 subject to the amendments requested.

5.12 Counter Fraud Investigation

5.12.1 The Internal Audit Manager provided the Committee with an update on the progress that had been made on work being completed as part of the Surrey Counter Fraud Partnership at the meeting on 15 March 2016 as at 31 December 2015 at the third quarter. This included the investigation of all types of fraud barring Housing Benefit fraud which is now investigated by the Department for Work & Pensions. 1 Year of work had been supported in full with funding from the Department for Communities & Local Government to assist in combating fraud.

Key findings included:

- 5 Council properties that had not been occupied by the tenant in accordance with the Tenancy Agreements terms and conditions being recovered and subsequently made available to be re-let to residents on the waiting list.

- 3 housing applications and 5 right-to-buy applications had been refused as the information provided to the Council did not reflect the true circumstances of the applicant.

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

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

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

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

5.12.6 It was agreed that the Committee continue its support of such work and the Internal Audit Manager will provide each meeting of the Audit Committee going forward with a quarterly summary of current progress of the continuing counter fraud investigation.

Recommendation

It is recommended that the work carried out by the Audit Committee in 2015/16 be noted.

Background Papers

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

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