

WAVERLEY BOROUGH COUNCIL

MINUTES OF THE AUDIT COMMITTEE - 21 JUNE 2016

SUBMITTED TO THE COUNCIL MEETING – 19 JULY 2016

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

Present

Cllr John Gray (Chairman)	Cllr Nicholas Holder
Cllr Richard Seaborne (Vice Chairman)	Cllr Wyatt Ramsdale
Cllr Christiaan Hesse	Cllr David Round

Apologies

Cllr Mike Band

Also Present

Julian Gillett from Grant Thornton

1. APPOINTMENT OF CHAIRMAN (Agenda item 1.)

The Committee confirmed the appointment of Cllr John Gray as the Chairman of the Audit Committee for the council year 2016/17.

2. APPOINTMENT OF VICE-CHAIRMAN (Agenda item 2.)

The Committee confirmed the appointment of Cllr Richard Seaborne as the Vice-Chairman of the Audit Committee for the council year 2016/17.

3. MINUTES (Agenda item 3.)

The Minutes of the last meeting of the Audit Committee held on 15 March 2016 were agreed and confirmed as a correct record.

4. APOLOGIES FOR ABSENCE (Agenda item 4.)

Apologies for absence were received from Cllr Mike Band.

5. DISCLOSURE OF INTERESTS (Agenda item 5.)

There were no disclosures of interest received from Members.

PART I - RECOMMENDATIONS TO THE COUNCIL

Background Papers

Unless specified under an individual item, there are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to the reports in Part I of these minutes.

6. AUDIT COMMITTEE TERMS OF REFERENCE FOR 2016/17 (Agenda item 8.)

The Committee was invited to agree the proposed changes to the Terms of Reference for the Audit Committee for 2016/17, as well as to make any further amendments. Officers explained that the proposed changes were minor and had been requested in order that the Terms of Reference more accurately reflected the role of the Committee, current organisational wording and policies.

Members agreed the changes requested but asked for clarification that the use of the word `approve` in relation to item 1.6 and item 3.3 was appropriate. Officers responded that this was the correct term to use. The Audit Committee had a number of powers delegated to it by the Council regarding governance and this included the approval of the Council's Annual Governance Statement and the Internal Audit Service Plan. Once the Audit Committee had approved these documents, the decision could not be overruled by the Council.

The Terms of Reference, showing the proposed changes, are set out at Annexe 1. The Committee, having reviewed the document now

RECOMMENDS that

- 1. the proposed changes to the Terms of Reference, highlighted in red, be agreed and the revised Terms of Reference for the Audit Committee be adopted.**

PART II - MATTERS OF REPORT

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

7. AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2015/16 (Agenda item 7.)

Robin Pellow, Monitoring Officer, introduced the Annual Activity Report and explained that its purpose was to provide a summary of the key work of the Audit Committee over the previous year.

Members found the report very useful and suggested that it should be circulated more widely than just the Audit Committee. It was agreed to attach the report as an Annexe to these minutes which would be submitted to the Council meeting.

With regard to the (Exempt) information contained within the report, Members asked whether all of the content needed to remain exempt or whether some items might be included in the open document. Officers responded that, following some discussion, it was likely that the content of paragraph 4.2 could now be made open since press releases had been published regarding the incidents covered. The contents of paragraphs 4.3 and 4.4 however described events that were still live and so they could not be made public.

Officers agreed to move the content of paragraph 4.2 into the open section of the Annual Activity Report, attached as Annexe 2.

RESOLVED that the work carried out by the Audit Committee in 2015/16 be noted.

8. PROGRESS ON THE INTERNAL AUDIT PLANS FOR 2015/16 AND 2016/17
(Agenda item 9.)

The Internal Audit Client Manager, Gail Beaton, tabled updated Annexes to the report that provided details on the current position of the Internal Audit reviews for 2015/16 and 2016/17 as at 21 June 2016.

The Committee asked for more details about the deferral of the review of the Councils 'Sharepoint' I.T. system from the 2015/16 to the 2016/17 review. Officers responded that the system allowed documents to be amended across the organisation from one central point. The delay in conducting the review had been caused by contractor staffing issues within their I.T. services and a lack of technical knowledge of Sharepoint. Having now obtained alternative resources from Spelthorne Borough Council, the review had commenced and would be completed in Q1 2016/17.

Members also remarked on the format of the information presented in the annexes and made several suggestions as to how it could be improved. Officers responded that they were open to feedback and eager to ensure that presentation of information met the needs of the Committee. Members were invited to forward their ideas to Officers with a view to revising the format for the next Audit Committee meeting in September.

RESOLVED that the progress of the Internal Audit Plan for 2015/16 and 2016/17 be noted.

9. PROGRESS ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (Agenda item 10.)

Gail Beaton, Internal Audit Client Manager, presented an updated report and annexes on the progress on the implementation of Internal Audit recommendations to the Committee.

Members asked for clarification about the request to revise the implementation date of IA16/14.001 (Contract Procedure Rules) and the situation regarding the value of contracts that were required to be included on the Contract Register. Officers responded that the action recommended by the Internal Audit Service was to align the Contract Procedure Rules (that required contracts greater than £25k be included on the Contract Register) with the Transparency Code (that required contracts greater than £5k be included). It was remarked that the recommendation was a paper exercise because contracts of £5k and over were already being included on the Contract Register as the Council had implemented the full requirements of the Transparency Code when it had passed into law. As a result, the proposed delay would have had no material effect.

The Committee also raised the issue of IA16/05.001 (Deed of Variation). This item had been completed at the time of the meeting and so had not been included on the updated annexe provided by the Internal Audit Client Manager at the meeting. Members were pleased that this had been completed but expressed concern at the length of time it had taken and that the Contract Procedure Rules currently in place

could allow such a delay. Officers responded that they shared those concerns and would work with those involved to ensure lessons were learnt.

Members requested that information included in the `all notes` section in Annexe 1 to the report should be more explanatory. Officers agreed to keep this in mind when producing future reports.

RESOLVED that, having considered the information contained in Annexe 1 and identified the action to be taken, the implementation date for recommendations listed in Annexe 2 be agreed.

10. INTERNAL AUDIT CHARTER 2016-17 (Agenda item 11.)

The Internal Audit Charter was presented to the Committee. Officers explained that the Council was required to have an Internal Audit Charter that formally defined the purpose, authority and responsibility of the internal audit activity and that clearly laid out the roles and duties of those involved.

Officers were asked about how often the Charter would be reviewed and it was agreed that it would be reviewed by the Internal Audit Client Manager annually. If changes were required it would be brought to the Audit Committee for approval. However, if no changes were required, then the Internal Audit Charter would be presented every 2 years for approval.

Members requested some format changes to include dates being published on each version of the document agreed by Officers.

RESOLVED that the Internal Audit Charter be approved.

11. EXTERNAL AUDIT UPDATE REPORT (Agenda item 12.)

Julian Gillett from Grant Thornton, the Council's external auditor, introduced the Committee to its progress and update report on the position of the external audit work completed.

Good progress had been made and the Audit was on track against the plan with the Fee Letter, Accounts Audit Plan and Interim Accounts audit all having been completed earlier in the year.

It was expected that the opinion of the external auditor and its value for money conclusion would be given before the 30 September 2016 deadline. Three risks had been identified in relation to the VFM conclusion including the Council's financial position, the progress of the new Local Plan, and the Brightwells development in Farnham. Work proposed to deal with these risks included a review of the Council's financial strategy, consideration of the current progress and impact of the new Local Plan, and monitoring performance and governance of the Brightwells development.

RESOLVED that the External Audit Update Report be noted.

12. INTERNAL AUDIT ANNUAL REPORT 2015/16 ACTIVITY (Agenda item 13.)

The Internal Audit Client Manager, Gail Beaton, presented the Internal Audit Activity Report for 2015/16. The report was a summary of the work carried out by Internal Audit during the year and also provided an assurance opinion to support the Council's Annual Governance Statement on the organisation's control environment.

The Committee was informed that the report, produced by RSM, had concluded that Waverley had an adequate and effective framework for risk management, governance and internal control. It had though identified further enhancements to the framework of risk management, governance and internal controls to ensure that it remained adequate and effective.

A total of 23 assignments had been completed in 2015/16. 7 were amber green, 10 were green, 5 were amber red, 0 red and 1 assurance review classified as reasonable assurance. In terms of the level of assurance that could be taken, 5 had been classified as partial, 7 as reasonable and 10 as substantial.

The Committee expressed concern at the RSM report and were frustrated with the lack of explanatory information and detail provided. Comments were also made about the document being hard to understand.

Officers responded that they would take the comments on board and engage in an exercise to revise the report and provide the further detail requested.

RESOLVED that the progress and activity completed by the Internal Audit Service for 2015-16 be noted and that officers provide the Committee with the additional explanatory detail requested at the next meeting.

13. DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16 (Agenda item 14.)

Peter Vickers, Head of Finance, presented the draft Annual Governance Statement for 2015/16. He explained to the Committee that Waverley was responsible for ensuring that its business had been conducted in accordance with the law and proper standards, and that public monies were safeguarded and properly accounted for, and had been used economically, efficiently and effectively.

In discharging that overall responsibility, the Council was required to put into place proper arrangements for governing its affairs to help it exercise its functions, which included arrangements for managing risk. Waverley's Code of Corporate Good Governance accorded with the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". The draft Annual Governance Statement had been prepared in accordance with the proper practices as defined in the Code.

The purpose of the draft Annual Governance Statement was to explain how Waverley had complied with the principles of the Code.

The Committee expressed concern that the headings used in the document were too general and that the content should better reflect the good work being done to ensure proper governance arrangements were in place. Officers were asked to take the comments of Members on board and present an updated version to the next meeting.

RESOLVED that the draft Annual Governance Statement be deferred until the next meeting in order to allow officers time to make the requested changes.

14. COUNTER FRAUD REPORT (Agenda item 15.)

The Committee was presented with the Counter Fraud Report that provided an update on the progress made by Waverley on the work completed as part of the Surrey Fraud Partnership. The work had been supported with funding from the Department for Communities & Local Government to assist with combating fraud.

Officers explained that £1,073,710 of savings had been achieved based on Audit Commission notional 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. When tenancies were relinquished, they were allocated to those on the housing waiting list. Seven tenancies had been recovered equating to £1.4million not being required to replace those properties.

The Committee was pleased with the savings being achieved and welcomed the Report as good news for the Council and its residents. Members did also ask about those investigations that had not lead to a positive outcome and remarked that it would be helpful to know the reasons why. It was suggested that Officers carry out a simple analysis of those cases that had not resulted in a successful outcome to see if there were opportunities for refining the counter fraud process.

RESOLVED that this investigation activity should continue to be supported and the successes being achieved in safeguarding Waverley's assets and ensuring that only those that are legitimately eligible receive housing services be recognised.

The meeting commenced at 7.00 pm and concluded at 9.19 pm

Chairman

AUDIT COMMITTEE TERMS OF REFERENCE FOR 2016/17

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~~" "**Whistleblowing**" and the anti-fraud and anti-corruption strategy **and the Council's complaints handling process.**
- 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~~ **approve** 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~~ **approve** 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~~ **service areas** 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.

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.

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

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.

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.

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

5. REVIEW OF OPEN ITEMS CONSIDERED BY THE AUDIT COMMITTEE 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 brought 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 effect 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 than the previous 'use value' of the asset.
- The replacement of the 'Explanatory Forward' 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 than 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 than 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 series 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 than 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 than 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 Osborne 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 proactive 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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EXEMPT ANNEXE 1

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE – 21 JUNE 2016

REPORT TO THE COUNCIL MEETING – 19 JULY 2016

Title:

AUDIT COMMITTEE ANNUAL REPORT 2015/16 AND TERMS OF REFERENCE

EXEMPT ITEMS

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

4.1 Risk Management

4.1.1 15 September 2015

4.1.2 The Committee received an updated Corporate Risk Register as refreshed by Heads of Service and considered the risk matrix.

4.1.3 The Committee believed that the risk profile impact of No.12 – New Council Homes was such that it should be moved from significant to critical as there would be considerable amount of impact by not delivering sufficient council homes.

4.1.4 Regarding Risk Profile 10 – Emergency Planning, members were concerned that this risk in relation to an incident at the Council's offices was very high as the Council offices had been designated a SEVERE risk. Therefore, members would like consideration to be given to raising the risk level of this issue from critical to devastating and the likelihood rating raised above low. Officers would report back to the Heads of Service team for consideration.

4.1.5 Officers advised that Senior Management drew up the risk management grid and it was periodically brought to Audit Committee for views and challenges. Members said it would be helpful if changes to the grid from a previous report be identified by up/down/level arrows and requested that they are incorporated in the next report.

4.1.6 Members requested that the Police be asked to give an independent assessment of the risk level associated with the Council offices.

4.2 Update On Fraud Investigation

4.2.1 At its meeting on 15 March 2016, the Committee received a verbal update from the Director of Finance & Resources in relation to the Internal Audit Investigation and noted the comprehensive minute from the November 2015 meeting that was circulated to all councillors in the December 2015 full Council Agenda.

4.2.2 He explained that matters were continuing to progress and that the Council's lawyers were in communication with the Council's Bank in attempting to recover the remaining monies.

4.2.3 The person accused of committing the fraud had been charged by the Police and would be appearing at Crown Court in the near future.

4.3 Update On Pay By Phone Contract

4.3.1 The Director of Finance & Resources and the Borough Solicitor provided the Committee with an update on the `pay-by-phone` contract.

4.3.2 In early 2015, the Council had entered into a contract (based upon a Surrey County Council framework agreement) with Benrose to provide a pay-by-phone service in the authority's car parks across the Borough.

4.3.3 Three other local authorities in Surrey had engaged the services of Benrose including Guildford, Elmbridge and Spelthorne.

4.3.4 During August 2015 the Council had experienced problems receiving the money collected by Benrose from residents using the pay-by-phone service.

4.3.5 Following unsuccessful discussions with the company, the Council issued a notice to terminate its contract in November 2015.

4.3.6 The Council has appointed a litigation team to continue legal discussions with Benrose to secure full reimbursement and these discussions were ongoing at the time of the meeting.

4.3.7 An alternative supplier of a similar pay-by-phone parking service had been found, Cobalt Telephone Technologies (using the Ring-Go system) and the Council was in the late stages of agreeing to procure their services.

4.3.8 Members were reassured that no third party would handle any monies under the new contract and that it would require all parking charges collected to be paid directly into the Council's accounts at the end of each day.

ANNEXE 2

AUDIT COMMITTEE CHAIRMAN ROLE DESCRIPTION

Purpose

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

Duties and responsibilities

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

AUDIT COMMITTEE CHAIRMAN PERSON SPECIFICATION

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

Providing leadership and direction:

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

Promoting the role of the Audit Committee:

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

Internal governance, ethical standards and relationships:

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

ANNEXE 3

AUDIT COMMITTEE MEMBER ROLE DESCRIPTION

Purpose

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

Duties and responsibilities

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

AUDIT COMMITTEE MEMBER PERSON SPECIFICATION

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

Understanding the nature of the Audit Committee:

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

Governance, ethical standards and relationships:

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

ANNEXE 4

The Audit Committee met four times, on 23 June, 15 September and 17 November 2015, and 15 March 2016. The membership and attendance at meetings is detailed below:

	23 June 2015	15 Sept. 2015	17 Nov. 2015	15 March 2016
Cllr Jim Edwards (Chairman)	X	X	X	X
Cllr John Gray (Vice-Chairman)	X	X	X	X
Cllr Andrew Bolton		X	X	X
Cllr Jenny Else		X	X	X
Cllr Ged Hall	X	X		X
Cllr Stephen Hill	X	X	X	X
Cllr Richard Seaborne	X		X	X

X = In attendance.

■ = Not in attendance.

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