

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

26 SEPTEMBER 2017

Title:

AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2016/17

Summary and Purpose

This report details the work undertaken by the Audit Committee over the municipal year 2016/17. The purpose of this annual appraisal of the work of the Committee is to help Members review the previous year's work and plan for the coming year.

The Committee met four times in June, September and November 2016 and March 2017. The membership was as follows:-

Cllr John Gray (Chairman)	Cllr Nicholas Holder
Cllr Richard Seaborne (Vice-Chairman)	Cllr Wyatt Ramsdale [to 18 October 2016]
Cllr Mike Band	Cllr David Round
Cllr Christiaan Hesse	Cllr Jerry Hyman [from 18 October 2016]

1. INTRODUCTION AND TERMS OF REFERENCE

1.1 At its first meeting on 21 June 2016, the Committee reviewed its terms of reference. Amendments were made to ensure that the Terms of Reference more accurately reflected the role of the Committee as well as current organisational wording and policies. 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 Amended terms of reference were adopted by full Council on 19 July 2016.

1.2 The Audit Committee reviews its terms of reference on an Annual basis, and these are included at this meeting as a separate agenda item.

1.3 Details of Members' attendance at Audit Committee meetings during 2016/17 are given at Annexe 1.

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

Standing items

1.5 The Audit Committee has a recurrent work programme, with the following items received at each meeting:

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

A summary of the work undertaken by the Committee in 2016/17 is set out in the following table:

Audit Committee work programme for 2016/17			
June 2016	September 2016	November 2016	March 2017
Review of progress on the Internal Audit Plans for 2015/16 and 2016/17	Review of progress on the Internal Audit Plan for 2016/17	Review of progress on the Internal Audit Plan for 2016/17	Review of progress on the Internal Audit Plan for 2016/17
Review and revision of the Internal Audit Charter	Update on the work being completed as part of the Surrey Counter Fraud Partnership	Update on the work being completed as part of the Surrey Counter Fraud Partnership	Approve proposed Internal Audit Plan for 2017/18
External Audit progress report and emerging issues and developments for the 2015/16 Accounts	Consider and approve the Statement of Accounts for the year ended 31 March 2016	Approve Anti-fraud strategy, Prosecution Policy, Anti-Money Laundering policy	External Audit grants and returns certification report
Review of the Audit Committee Terms of Reference for the year 2016/17	Approve the letter of representation to the external auditors for the financial statements year ended 31 March 2016	Review options for the appointment of external auditors from 2018/2019	Approve proposed Internal Audit Plan for 2017/18
Review the Annual Governance Statement for 2015/16	Recommend the approval of the Annual Governance Statement for 2015/16	Review the Risk Management Policy and Corporate Risk Register	
	Review and approve the Shottermill Trust and Ewart Trust Financial Accounts	Receive the External Audit Annual Audit Letter	
	Review the External Audit findings report		

A more detailed breakdown of items considered at each meeting is shown below.

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 21 June 2016

2.2.1 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.

2.2.1 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.

2.2.2 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.

2.2.3 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.

2.2.4 Having considered the information contained in Annexe 1 and identified the action to be taken, the Committee agreed the implementation date for recommendations listed in Annexe 2.

2.3 13 September 2016

2.3.1 Gail Beaton advised the Committee that its aim was to inform them of senior management's progress in implementing the recommendations raised by the Internal Audit Service following a review in their service areas. The Audit Committee was being asked to consider what action was required in respect of those recommendations that were overdue or appeared likely to be implemented later than the originally agreed target date.

2.3.2 Annexe 1 to the report contained three items regarding the I.T. Service Desk that were due by 30 September 2016. Updating the figure recorded, Gail explained that the items were now 75% complete and that she expected them to be achieved by the due date.

2.3.3 The remaining item related to Pest Control Fees and Charges. There was no completeness check being done to ensure that all referrals had been completed or cancelled. The information required from the contractor to monitor cancellation activity would take longer than originally envisaged to resolve.

2.3.4 The Committee was happy to agree the extension to 30 October 2016 as requested but asked that the financial amount involved be quantified and reported in the Minutes. The quantified total annual income for Pest Control was £20,000.

2.4 15 November 2016

2.4.1 The Committee received a report detailing the latest position regarding the implementation of Internal Audit Recommendations.

2.4.2 Members were advised that all items listed as overdue or due within the next month had now been completed since publication of the Agenda except item IA/26.003 'Training' in the DBS procedure. Research had been undertaken into fulfilling the agreed action but no training courses had been found. The Committee was invited to comment on the situation and suggest an alternative course of action.

2.4.3 Members felt that the best solution would be to bring in an external expert from another local authority to spend a couple of days with the responsible officer and train them that way.

2.5 21 March 2017

2.5.1 The Committee received the report outlining the progress that had been made on the implementation of internal audit recommendations. The Internal Audit Client Manager advised the Committee that since the agenda was issued there had been some further progress on implementation:

- IA16/17.003 (Job Description) – the Head of Finance had confirmed that the action to update the job description would be complete by 31 March 2017.
- IA17/11.008 (DBS clearance) – this recommendation had been issued in connection with Management of Contractors by Housing, and action had been taken in Housing to ensure that staffing updates were covered at all contractor monitoring meetings. However, this was also a corporate issue and the Property Services Manager had recommended that additional contract requirements for appropriate safeguarding provisions to Waverley's requirements be included in the current revision of the Council's Contract Procurement Rules. Accordingly, the deadline for this action had been extended to 30 April 2017.
- IA17/12.003 and IA17/12.008 – these recommendations had now been implemented.

2.5.2 The Head of Policy and Governance had asked that due date for five recommendations from the Information Security Governance audit review be extended to 1 July 2017, as resource constraints and competing urgent legal instructions had prevented the work to be completed.

2.5.3 The Committee was very disappointed that these recommendations had not been progressed further, and that the Council was potentially exposed to risk through the lack of up to date policies and procedures. The Committee was particularly unhappy about agreeing to extend the deadline for the Information Security Group to meet (IA16/22.007), as this should have been relatively simple to achieve.

2.5.4 The Committee agreed to extend the deadline for recommendations IA16/22.001, 002, 003, and 004 to 1 July 2017. However, the Committee agreed to extend the deadline for IA16/22.007 only until 30 April 2017.

2.5.5 The Committee asked the Strategic Director of Finance and Resources to impress on the Head of Policy and Governance the strength of the Audit Committee's concern that this action had not been completed, and that he and the Borough Solicitor would be asked to attend the next meeting of the Audit Committee if the actions remained outstanding at that time.

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 21 June 2016

3.2.1 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.

3.2.2 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.

3.2.3 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.

3.3 13 September 2016

3.3.1 Gail Beaton advised the Committee that, following feedback received at the last meeting, the spreadsheets associated with the Report had been simplified whilst at the same time included extra data (such as recording of the number of recommendations and the assurance opinion).

3.3.2 A new review was being included (shown in blue) on the plan for the Construction Industry Scheme to provide assurance that the system currently in operation was compliant with legislative and HRMC requirements.

3.3.3 Councillors were very happy with the revised spreadsheet format and explained that they found it much easier to navigate and understand.

3.3.4 The Committee noted the progress for the Internal Audit Plan 2016/17 as attached at Annexe 1 to the report and endorsed the proposed inclusion of the review shown in blue.

3.4 15 November 2016

3.4.1 The Committee received an update on the progress being made in achieving the Internal Audit Plan for 2016/17. Members were advised that report no. IA17-00 'Accuracy of Tenancy Information' and 'Corporate Governance' had now been completed.

3.4.2 Members asked that from the next meeting, they be given a brief overview of those items listed as 'partial assurance' and that the colour of items in the 'overall opinion' column be changed to match their status.

3.4.3 It was agreed that officers provide Cllr Holder with a copy of the final report on 'Recruitment of permanent and agency staff and performance management' (IA17-02) and feed back his observations to Cllr Gray before the next meeting.

3.5 21 March 2017

3.5.1 The Internal Audit Client Manager presented an update on the current status of the reviews scheduled in the Internal Audit Plan for 2016/17. A number of audits were due to start imminently, and these would be concluded in 2017/18. Two projects – Approval of Invoices on Agresso, and Data Protection – totalling 16 audit days, would not commence in the current year and it was proposed that these be deferred to 2017/18.

3.5.2 The audit review in relation to the approval of invoices between Orchard and Agresso had been delayed due to the implementation of the Agresso upgrade having been delayed as a result of the departure of the system administrator. This post had now been filled.

3.5.3 The Committee noted the progress of the Internal Audit Plan for 2016/17, and endorsed the deferral to 2017/18 of the audit reviews on the Approval of Invoices on Agresso, and Data Protection.

3.6 Proposed Audit Plan for 2017/18 – 21 March 2017

3.6.1 The Internal Audit Client Manager introduced the draft Internal Audit Plan for 2017/18, which had been prepared with reference to the Internal Audit Risk Assessment, as well as assessing the current control environment, operational risk register and through consultation with Heads of Service.

3.6.2 The Plan proposed to allocate 230 days to the contractor RSM for 2017/18, the same as currently. This gave coverage to the key known issues facing Waverley

in the coming 12 months, with a 21-day contingency to address issues that might arise during the year.

3.6.3 The Chairman reminded the Committee that they had explored the wider audit universe previously, and made suggestions for risk areas to be included in the Plan.

3.6.4 With regard to the proposed audit of Tree Management, the Committee asked that this include lease conditions where the Council has leased land to third parties.

3.6.5 The Committee resolved to approve the draft Audit Plan for 2017/18.

4. REPORTS BY EXTERNAL AUDITORS

4.1 External Audit Update Report – 21 June 2016

4.1.1 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.

4.1.2 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.

4.1.3 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.

4.2 External Audit Findings Report – 13 September 2016

4.2.1 Iain Murray of Grant Thornton introduced the External Audit Findings Report to the Committee. He was very happy to see the good work done by the Council in embracing the early close agenda and expected to have a full dry run in 2017/18 prior the mandatory earlier reporting regime coming into effect for 2018/19.

4.2.2 He explained that the Report highlighted the key issues affecting the results of Waverley Borough Council's Group and Council financial statements for the year ended 31 March 2016.

4.2.3 He praised the Council for the very high standard of the financial statements; for providing them in advance of the statutory deadline; and for supporting them with an excellent set of working papers. Some non-material issues had been identified but none of the adjustments had impacted the Council's reported position.

4.2.4 Three issues of deficiency had been identified in the Council's financial report. This included:

1. Housing Revenue Account (HRA) asset register;

The HRA asset register included five assets with a total value £297k, which had been demolished, converted or where ownership had transferred during the year. There was a risk that the HRA asset register had not correctly reflected the HRA asset base.

2. Pension Fund Liability;

The actuary (Surrey County Council Pension Fund) had provided Waverley with an incorrect estimation of 2015/16 benefits paid. The risk was that incorrect values provided by the actuary lead to a material misstatement of the Council's pension fund assets and liabilities.

3. Short term debtors and HRA rent arrears;

The total HRA tenant rents and cost debtor disclosed in the financial statements as £540k agreed to the trial balance from the general ledger but was not supported in full by the corresponding report from the Orchard internal I.T. system. This showed a balance of £455k. Officers were unable to provide a reconciliation for the £85k balance during the audit. The risk was that the housing rent arrears debtor in trial balance had been misstated.

4.2.5 It was noted that management had agreed to take the action proposed by Grant Thornton to rectify these issues as follows:

1. Housing Revenue Account (HRA) asset register;

Regular reconciliation of the properties on the HRA asset register to the Orchard housing system.

2. Pension Fund Liability;

Review information provided by Actuary to ensure it is was reasonable, in line with expectations and comparable with the prior year if appropriate.

3. Short term debtors and HRA rent arrears;

Carry out a reconciliation between the HRA tenants rent arrears control account and the Orchard rent system. Consider whether there were items on the general ledger control account which should be cleared and/or written off.

4.2.5 In response, Members asked that the management response to pension fund liability issue be strengthened in order that all third party data is comprehensively checked for accuracy.

4.2.6 Graeme Clark would strengthen the management response to the pension fund liability issue recorded in the Report.

4.2.7 Councillors also expressed concern at the cumulative general fund budget shortfall of £3m identified as a significant risk. Officers explained that the shortfall was mainly due to the changes to funding under consideration by central

government. It was noted that the Audit and Corporate Overview & Scrutiny Committees would need to work closely together on keeping a track on the issue.

4.2.8 The Chairman agreed and informed the Committee that he had already been in contact with the Leader of the Council to ensure the work of each committee was co-ordinated.

4.2.9 Closing with their 'value for money' conclusion, Iain Murray explained that Grant Thornton were satisfied that, in all significant respects, Waverley had the proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

4.3 External Audit Annual Audit Letter – 15 November 2016

4.3.1 Iain Murray of Grant Thornton introduced the Annual Audit Letter to the Committee.

4.3.2 The purpose of the letter was to summarise the key findings arising from the work that they had carried out for the Council for the year ended 31 March 2016. A number of risks had been identified in the audit plan, namely;

- Fraudulent transactions included in the revenue cycle
- Management over-ride of controls
- Operating expenses
- Valuation of property, plant and equipment
- Valuation of pension fund net liability

4.3.3 Grant Thornton had focused their work on these areas and did not identify any significant issues to report from some revisions to the accounts to correct the overstatement of the pension fund liability in the balance sheet.

4.3.4 Iain Murray confirmed that Grant Thornton were satisfied that they had been provided with all the information they asked for, including minutes of meetings, and that the Council had put in place appropriate measures to mitigate the risks identified.

4.3.5 Cllr Jerry Hyman disagreed with the Value for Money findings and conclusions of the Annual Audit Letter specifically relating to the Local Plan and the Brightwell's development and wanted this to be recorded in the Minutes.

4.4 Grant Thornton Audit of 2015/16 Housing Benefit Subsidy Return – 21 March 2017

4.4.1 Iain Murray and Sophia Brown, from external auditors Grant Thornton, introduced the Committee to its certification work for the Housing Benefit Subsidy return for the year 2015/16.

4.4.2 They explained that they were required to certify certain claims and returns submitted by Waverley. The only claim requiring auditor certification for

2015/16 was the Council's claim for housing benefit subsidy, and the report summarised the outcomes of this work.

- 4.4.3 As part of their work, Grant Thornton had identified a small 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.
- 4.4.4 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. The outcome was that the 2015/16 claim was amended prior to certification, with the impact of the amendments being to reduce the total subsidy claimed by a net £119. The number of errors was similar to previous years, and there was nothing of significance or cause for concern.
- 4.4.5 Iain Murray explained that the nature of this certification work was heavily prescribed by the Department of Work & Pensions (DWP), and there was no threshold of materiality; therefore a qualification letter had been sent to the DWP.
- 4.4.6 The Committee asked about the possible causes of the errors. The Strategic Director of Finance and Resources, responded that these related to the classification of data, and there was a subjective element to the interpretation of guidance that could lead to data entry errors. Regular quality checks were conducted within the department, and the total value of the errors were relatively small in the context of the overall claim of £29.6m.
- 4.4.7 Iain Murray explained that the additional sampling work undertaken would have an impact on the final fee, and this had been agreed with the Head of Finance.
- 4.4.8 The Committee therefore agreed to note the Certification report for 2015/16.

4.5 External Audit Plan 2016/17 – 21 March 2017

4.5.1 The Committee was presented with the latest draft version of the Grant Thornton External Audit Plan for the Council for 2016/17 which gave an overview of the planned scope and timing of the audit.

4.5.2 Iain Murray drew the Committee's attention to the business context for the audit plan (developments, key challenges and financial reporting changes); materiality thresholds, which remained the same as for 2015/16; significant risks, as defined by professional standards; other financial risks (key areas of outgoings, valuation of fixed assets and pension liability, changes to the presentation of the accounts); Value for Money considerations; and the independence check.

4.5.3 In completing his summary of the Plan, Iain Murray advised the Committee that a family member of a Waverley councillor was employed by Grant Thornton; however, that employee had not, and would not, work on the Waverley Audit, and had no access to the Waverly audit files.

4.5.4 Cllr Hyman expressed a concern that the risk identified in relation to development and regeneration and the response relied on information provided by the Council, and he felt that there were additional issues that Grant Thornton should be aware of including the validity of the planning consent for the Brightwells development.

4.5.5 Iain Murray responded that the role of the External Auditors was to assess how the Council identified and managed risks in relation to policy decisions, and they were not qualified to assess if the planning consent was valid.

4.5.6 The Chairman pointed out that Cllr Hyman's views were different to those of the Council, and suggested that he could forward a letter to the External Auditors if Cllr Hyman wrote to him setting out his concerns.

4.5.7 With regards to the Local Plan, Iain Murray explained that in contrast to the previous two years, significant progress had been made with the submission of the Draft Local Plan for examination. It was felt that the key issue now was the decision in relation to the Dunsfold Park planning application, which had been called-in. The statement of risks in relation to the Local Plan and Dunsfold Park could be re-visited if circumstances changed during the course of the audit process, but the Audit Plan represented the view as at the time of writing.

4.5.8 In response to questions from the Committee, Iain Murray confirmed that the External Audit Plan was in line with the requirements of the Local Audit and Accountability Act 2014 and in accordance with the National Audit Office Code of Practice 2015. The Value for Money conclusion was based on criteria set out in National Audit Office guidance for 2016/17 issued in November 2016.

4.5.9 Cllr Hyman advised that Waverley's Opposition Group had concerns in relation to performance against the sub-criteria detailed in the Audit Plan.

4.5.10 With regard to the audit timeline, the Chairman noted that it was very tight, and it was important that the Committee had the report on the final accounts in time to review them thoroughly before the Audit Committee meeting on 24 July. Iain Murray agreed that the timetable was ambitious, but he was confident that they could meet it. The aim was to provide the audited accounts two weeks before the Committee meeting, and a meeting had been scheduled for the Committee to review the unaudited accounts on 9 June.

5. ANNUAL GOVERNANCE STATEMENT

5.1 Draft Annual Governance Statement 2015/16 – 21 June 2016

5.1.1 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.

5.1.2 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.

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

5.1.4 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.

5.1.5 The Committee therefore resolved that the draft Annual Governance Statement be deferred until the next meeting in order to allow officers time to make the requested changes.

5.2 Annual Governance Statement – 13 September 2016

5.2.1 Graeme Clark advised the Committee that the AGS was a statutorily required document that had to be approved alongside the Statement of Accounts. Its purpose was to provide a summary of the beliefs and methods of the Council in the way in governed itself.

5.2.2 Councillors had spent a number of weeks developing the AGS with officers through several draft stages since the last meeting in June 2016. Cllr Hesse believed that the AGS lacked thoroughness; processes were not adequately described and that the use of language was poor.

5.2.3 Iain Murray reiterated that the AGS was not meant to be a thorough, technical document. The content was heavily prescribed by CIPFA and Grant Thornton was happy that the AGS presented at the meeting complied with requirements and was in keeping with the External Audit Findings Report. In light of the assurance received from officers and Iain Murray, Cllr Hesse explained that a lot of his earlier concerns had been allayed.

5.2.4 Overall, Members felt that the Annual Governance Statement was an opportunity to better convey the good work done in financial management and control, and would thus like to see improvements next year, especially with regard to reassurance on issues or situations that have been highlighted in public.

5.2.5 The AGS would undergo a final proof read before publication and it would be forwarded to Cllr Hesse for comment. The Committee therefore resolved to approve the AGS for 2015/16.

6. COUNTER FRAUD

6.1 Counter Fraud Report – 21 June 2016

6.1.1 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.

6.1.2 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.

6.1.2 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.

6.1.3 The Committee 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.

6.2 Counter Fraud Investigation Summary – 13 September 2016

6.2.1 Gail Beaton advised the Committee that the value of financial savings detailed in Annexe 1 for Quarter 1 of 2016-17 was £225,000 based on Audit Commission notional figures. However, these 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 then allocated to those on our housing waiting list who fulfilled the necessary criteria. Therefore, the investigation activities had resulted in savings of £800,000, not being required to replace those properties.

6.2.2 The Committee was very pleased with the progress being made and thanked Gail for the adjustments made to the formatting of Annexe 1 and the inclusion of financial values.

6.2.3 The Committee therefore resolved to note the success of the investigation activity and continues to support the work being completed to safeguard Waverley's assets and ensuring that only those that are legitimately eligible to receive our services are successful; and to note the Council's participation in the National Fraud Initiative to assist in identifying fraudulent activities.

6.3 Counter Fraud Investigation Summary – 15 November 2016

6.3.1 The Committee was advised that the value of financial savings detailed in Annexe 1 for Quarter 2 of 2016-17 was £443,661 based on Audit Commission notional figures.

6.3.2 The Committee was very pleased with the progress being made and asked officers to add the previous quarter's figures to the bottom of Annexe 1 from the next meeting to help Members to identify the trend. They also asked that they be provided with the progress report relating to the Surrey Counter Fraud Partnership Data hub referred to in the report.

6.3.3 The Committee therefore resolved that the success of the investigation activity be noted and to continue to support the work being completed to safeguard Waverley's assets and ensure that only those that are legitimately eligible to receive our services are successful; and that the Council's participation in the National Fraud Initiative and the Surrey Counter Fraud Partnership Data Hub to assist in identifying fraudulent activities be noted.

6.4 Fraud Investigation Summary – 21 March 2017

6.4.1 The Committee received an update on the fraud investigations being undertaken in relation to Housing Tenancy Fraud.

6.4.2 In the 9 months to 31 December 2016, 10 council properties had been relinquished and made available to be re-let to tenants on the waiting list. Based on Audit Commission notional figures this represented a nominal financial saving of £591,745, although the value to Waverley of retaining 10 council properties was much higher.

6.4.3 The Committee discussed the progress summary of data matches identified through the National Fraud Initiative (NFI), shown in Annexe 2 of the report, and the Strategic Director of Finance & Resources explained how the data was used to investigate possible incidences of fraud.

6.4.4 The Committee resolved to note the success of the fraud investigation activity and the outcomes achieved, and encouraged officers to publicise this positive news widely.

7. REVIEW OF OTHER ITEMS CONSIDERED BY THE AUDIT COMMITTEE IN OPEN SESSION 2016/17

7.1 Internal Audit Charter

7.1.1 The Internal Audit Charter was presented to the Committee at its meeting on 21 June 2016. 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.

7.1.2 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.

7.1.3 The Committee approved the Internal Audit Charter, after requesting some format changes to include dates being published on each version of the document agreed by Officers.

7.2 Internal Audit Annual Report 2015/16 Activity

7.2.1 The Internal Audit Client Manager, Gail Beaton, presented the Internal Audit Activity Report for 2015/16 to the Committee at its meeting on 21 June 2016. 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.

7.2.2 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.

7.2.3 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.

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

7.2.5 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. The committee noted the report and requested that officers provide the Committee with the additional explanatory detail requested at the next meeting.

7.3 Update on Internal Audit Annual Report 2015/16 Activity Exception Report

7.3.1 At the meeting on 13 September 2016, Gail Beaton explained that at the previous Audit Committee meeting on 21 June 2016, Members had noted that the information contained in the Internal Audit Annual Report for 2015-16 had been comprehensive. However, they had requested an update on the current position of the areas raised in the Report designated as 'partial assurance' (amber red) as there had not been any 'no assurance' (red) areas given in the year being reported on.

7.3.2 Members were happy with the update but asked whether a column could be added to include due dates and persons responsible to the Report. Cllr Hesse was dissatisfied with the phrases and information used in the Report and expressed

concern that the 'covalent' system used to produce the data was not comprehensive enough. Officers explained that some of the wording and classifications used may be different to those experienced by Cllr Hesse in his work outside of the council but that they were sure risks were being captured correctly and managed. Gail Beaton agreed to hold a one to one session with Cllr Hesse to show him around the covalent system.

7.3.3 The Committee resolved to note the status and progress made to strengthen the control environment as part of the activity completed by the Internal Audit Service in 2015-16.

7.4 Statement of Accounts

7.4.1 At the meeting on 13 September 2016, Graeme Clark introduced the Committee to the Statement of Accounts for the financial year ended 31 March 2016.

7.4.2 He thanked officers for their hard work in producing the Accounts to meet the early closure requirements without any major issues. Any learning identified would be fed into how the Finance Team handled the production of next year's statements. He also explained that he would be liaising with Iain Murray of Grant Thornton to ensure they too were able to complete a dry run of the early close requirements during 2017/18.

7.4.3 Graeme explained that the purpose of the Accounts was to help demonstrate the Council's accountability for public funds. They supported the Council's key objective of providing good value for money by showing how its resources had been utilised. There were three recommendations associated with the Accounts under the agenda item.

7.4.4 Recommendation 1 was to approve the Statement of Accounts. The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. These regulations incorporated a statutory requirement to be approved by a resolution of a Committee of the relevant body by 30 September 2016.

7.4.5 It was also a requirement that the Council issued a Letter of Representation to its external auditors at the conclusion of the accounts (Recommendation 2).

7.4.6 Recommendation 3 fulfilled the obligation placed on the Council by International Audit Standards requiring the Committee to confirm that the 2015/16 accounts had been prepared on a 'going concern' basis. Graeme explained that this concept was one of the core principals underpinning local authority accounting practice and referred to the assumption made that, when the Accounts were prepared, the organisation would continue to operate for at least 12 months following the accounting period in question.

7.4.7 The fourth recommendation under the agenda item was to agree to move the Audit Committee date in June 2017 to a date in late June or early July in order to carry out a dry run of the early close requirements that were to become mandatory in 2018/19.

7.4.8 Members were positive about the dry run but did ask that a backup date be pencilled in to allow the June 2017 meeting to go ahead a couple of weeks later if required due to unforeseen circumstances preventing the earlier schedule being met. An alternative date for the June 2017 meeting would be arranged to allow for any unforeseen circumstances preventing the earlier schedule being met.

7.4.9 The Committee approved the recommendations as set out in the report and agreed to move the Audit Committee date in June 2017 to July 2017 in order to carry out a dry run of the early close requirements that become mandatory in 2018/19.

7.5 Observations of the Trustee Reports and Financial Statements

7.5.1 At its meeting on 13 September 2016, Graeme Clark advised the Committee that the meeting of the full Council was the trustee for both accounts and that its AGM takes place each October after the meeting of full Council. Following a request in 2015, the Audit Committee had been given the right to see each set of draft trust accounts prior to the AGM so that it may forward its observations to the trusts before they those accounts were approved.

7.5.2 Councillors were confused by the bracketing of large numbers in the accounts. Officers reassured them that it was a quirk of these accounts that bracketed numbers stood for positive figures rather than negative for which brackets are often used.

7.5.3 Iain Murray explained that Grant Thornton had looked at aspects of the trust accounts that had had a material impact on Waverley's own accounts as part of the External Audit Findings Report.

7.5.4 Members requested that one of the observations to be passed on to the trusts be that the 'reserves policy' in each set of accounts be more specific than 'reasonable' in order to be more meaningful.

7.5.5 The Audit Committee resolved that its observations be recorded in the Minutes of the meeting and agreed the Chairman present these observations as part of the presentation of the Minutes of this meeting to the next full Council and at the Trusts AGM on 18 October 2016.

7.6 Appointment of External Auditors

7.6.1 At its meeting on 15 November 2016, the Committee received a report on the Appointment of External Auditors. As part of closing the Audit Commission the Government novated external audit contracts to Public Sector Audit Appointments which is a sector-led body set up by the Local Government Association, on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

7.6.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of

one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointing person regime through the sector-led body.

7.6.3 PSAA have been specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a not for profit company owned by the Local Government Association.

7.6.4 Option 1 – To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the Panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former Members (or officers) and their close families and friends. This means that Members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefits

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances.

The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by Members.

7.6.5 Option 2 – Set up a Joint Auditor Panel/local joint procurement arrangements

The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice will be required on the exact constitution of such a Panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

The costs of setting up the Panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger, combined contract value to the firms.

Disadvantages/risks

The decision making body will be further removed from local input, with potentially no input from Members where a wholly independent Panel is used or possibly only one Member representing each Council, depending on the constitution agreed with the other bodies involved.

The choice of auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for that council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the Panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

7.6.6 Option 3 – Opt-in to a sector led body

The LGA successfully lobbied for councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The sector-led body is the Public Sector Audit Appointment (PSAA).

Advantages/benefits

The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

The main advantages of using PSAA are set out in its prospectus and are copied below.

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality

- Operate on a not for profit basis and distribute any surplus funds to scheme members.

Disadvantages/risks

Individual Members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need councils to indicate their intention to opt-in before final contract prices are known. It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

7.6.7 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). The Committee therefore recommended that Waverley opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 2018/19.

7.6.8 The recommendation of the Committee was approved by Council at its meeting on 13 December 2016.

7.7 Revised Governance Policies

7.7.1 At its meeting on 15 November 2016, the Committee received the revised governance policies and was advised that changes were mainly minor including those that were required to reflect changes in job titles, and suggested changes from best practice guides from professional institutions.

7.7.2 The Committee felt that the terminology contained within the reports was wrong and were concerned that there was confusion and overlap between policies, strategies and plans. They also highlighted some further concerns about the perception of the public reading the documents, inconsistencies, and areas of vagueness. Many felt it very important that the correct language be used.

7.7.3 Members asked about the effectiveness of the plans and what sanctions were in place for handling failure to adhere to them. Officers responded that they could look at incorporating details on possible penalties but that there was scope for the use of judgement within the documents.

7.7.4 The Committee therefore asked officers to re-draft the documents following receipt of further observations of Members and agreed to revisit this at the next meeting in March 2017.

7.8 Revised Anti-Fraud and Corruption Policy

7.8.1 The Committee received the revised Anti-Fraud and Corruption Policy, and the subsidiary policies, which had been reviewed in the light of the Committee's comments at the November 2016 meeting.

7.8.2 Cllr Hyman expressed concern that complaints involving Members could be relayed verbally and did not have to be put in writing. Cllr Hyman also asked how the external auditors might be called upon to carry out an independent investigation into fraud, corruption or bribery.

7.8.3 The Chairman advised that the procedures in relation to complaints involving Members were set out in the Code of Conduct, and the Anti-Fraud and Corruption Policy merely reflected the Code. And, anyone could make representations to the external auditors if they felt that there was something that needed to be investigated.

7.8.4 The Chairman thanked the Internal Audit Client Manager for her work to bring together the Committee's comments on the various policies following the November Committee meeting.

7.8.5 The Committee therefore resolved to endorse the revised policies and asked that these be published on Waverley's website and cascaded to staff, Members and Council suppliers to reinforce Waverley's stance of zero tolerance to fraud and corruption.

8. RISK MANAGEMENT

8.1 The Audit Committee's detailed consideration of the Risk Registers is conducted in Exempt session. An overview of the Committee's work in open session relating to Risk Management is set out below.

8.2 Risk Management Policy – 15 November 2016

8.2.1 The Committee received the Risk Management Policy report and the Process Document. Members were advised that local authorities, with their wide-ranging responsibilities and duties, faced a significant number of risks. A risk was the threat that an event or action would adversely affect an organisations ability to achieve its objectives. The effective management of risk was an essential element in the overall operation of the Council and the delivery of its services.

8.2.2 Members noted that local authorities were required to demonstrate to their residents that managing risk was at the heart of their governance framework and that they had effective arrangements in place to identify and respond to them. The Risk Policy and Process, including the format of the Register, had been produced in conjunction with the Audit Committee in recent years.

8.2.3 Officers then moved on to discuss the Risk Management Report by Zurich Municipal. The Audit Committee resolved that the Committee revisit this item at the next meeting in March 2017 following an informal risk workshop with Zurich Municipal in January 2017.

8.3 Risk Management Policy Update – 21 March 2017

8.3.1 The Chairman reminded the Committee that they had considered the Risk Management Policy and Corporate Risk Register at the meeting in November 2016, and had agreed to revisit this matter at the March meeting following an informal risk workshop with Zurich Municipal in January 2017.

8.3.2 The Committee had met with Zurich to understand the methodology for producing the corporate risk register, and had heard from the Strategic Director of Finance & Resources and the Risk & Insurance Officer about how the register was updated.

8.3.3 Cllr Hyman advised that from a residents' perspective there was a perception that risks were not assessed at a practical level. However, as a member of the Audit Committee he could now see that there was no substantive problem, but he did have concerns about policy gaps in key areas leading to risk exposure for the Council.

8.3.4 The Committee discussed the specific role of the Audit Committee in reviewing the risk register, and agreed that their purpose was to seek assurance that there were arrangements in place to identify and assess risks, and that these were working effectively. It was not the Audit Committee's role to make a quantitative or qualitative assessment of risks, or to question the quality of decision-making; the Overview and Scrutiny Committees had the remit to do this.

8.3.5 The Committee discussed whether there was a strong risk management culture across all levels of staff. The Strategic Director of Finance & Resources advised that whilst the external auditors did not form a specific view on the risk culture in the organisation, the Strategic Review undertaken by Cratus had looked at the risk culture: they had concluded that the officer team was too risk averse, and too focussed on keeping Waverley safe.

8.3.6 Cllr Hesse referred to his work on the Overview & Scrutiny review of the Leisure Centre contract management: conversations with Places for People managers at Waverley's leisure centres led him to understand that they had a strong understanding of their risk management system. In contrast, he had not got the same sense of understanding from Waverley officers working on the contract client management.

8.3.7 The Strategic Director of Finance and Resources and the Internal Audit Client Manager advised that they felt that colleagues did have good risk awareness, although they might not articulate that understanding in risk management terms.

8.3.8 The Chairman agreed that there was not one 'right' approach to risk management, and Waverley's arrangements could still be adequate whilst being different to those that members were familiar with in a different context. His perception was that this was the case.

8.3.9 Cllr Band agreed that his experience as Finance Portfolio Holder was that risk had been discussed in project management meetings, and he was confident that this

was still happening, although it might not be in the way that Cllr Hesse would expect it to be discussed.

8.3.10 The Committee concluded that Waverley had the essential elements of a risk management system, and that Members might have to accept that it looked different to other arrangements with which they were familiar. The Committee did feel that it might be helpful to work through the risk management process for a specific area of the Council's work in a pre-meeting. The Committee also asked for a briefing on the LEAN systems work being undertaken in Benefits.

9. BRIEFING SESSIONS

9.1 In addition to formal committee meetings, several briefing sessions were held for the Committee throughout the year, these included:

- 14 June 2016 – Accounts Briefing
 - 21 June 2016 – Audit Universe Training
 - 23 August 2016 – Briefing Session on the Annual Governance Statement
 - 10 January 2017 – Risk Briefing with Zurich Municipal
-

Recommendation

It is recommended that the work carried out by the Audit Committee in 2016/17 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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ANNEXE 1

ATTENDANCE AT AUDIT COMMITTEE MEETINGS 2016/17

The Audit Committee met four times, on 21 June, 13 September and 15 November 2016, and 21 March 2017. The membership and attendance at meetings is detailed below:

	21 June 2016	13 Sept 2016	15 Nov 2016	21 March 2017
Cllr John Gray (Chairman)	✓	✓	✓	✓
Cllr Richard Seaborne (Vice Chairman)	✓	✓	✓	✓
Cllr Mike Band	Apols	Apols	✓	✓
Cllr Christiaan Hesse	✓	✓	✓	✓
Cllr Nicholas Holder	✓	✓	✓	Apols
Cllr Wyatt Ramsdale	✓	✓		
Cllr David Round	✓	Apols	Apols	Apols
Cllr Jerry Hyman			✓	✓

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.

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.