

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE

25 SEPTEMBER 2018

Title:

AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2017/18

Summary and Purpose

This report details the work undertaken by the Audit Committee over the municipal year 2017/18. 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 July, September and November 2017 and March 2018. Additional informal briefing sessions were held throughout the year and are detailed at section 9 of this report. The membership of the Committee was as follows:

Cllr John Gray (Chairman)	Cllr Nicholas Holder
Cllr Richard Seaborne (Vice-Chairman)	Cllr Jerry Hyman
Cllr Mike Band	Cllr Anna James
Cllr Christiaan Hesse [until September 2017]	Cllr Pat Frost [from September 2017]

At the Council meeting on 17 October 2017, it was agreed that the size of the Audit Committee be increased from seven to eight members. Subsequently, from its November meeting the membership of the Committee was:

Cllr John Gray (Chairman)	Cllr Nicholas Holder
Cllr Richard Seaborne (Vice-Chairman)	Cllr Jerry Hyman
Cllr Mike Band	Cllr Anna James
Cllr Pat Frost	Cllr Stephen Mulliner

1. INTRODUCTION AND TERMS OF REFERENCE

- 1.1 At its meeting on 26 September 2017, the Committee reviewed its terms of reference. It agreed that a number of amendments were required in order to clarify some of the wording, and to confirm the Committee's remit in relation to that of the Standards Panel. Officers therefore were asked to review the wording of the Terms of Reference to ensure that it accurately reflected the Committee's responsibilities.
- 1.2 The updated Terms of Reference were received by the Committee at its meeting on 20 November 2017 and approved by Council on 20 February 2018.
- 1.3 The Audit Committee reviews its terms of reference on an Annual basis, and these are included at this meeting as a separate agenda item.

1.4 Details of Members' attendance at Audit Committee meetings during 2017/18 are given at Annexe 1.

1.5 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

1.6 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 made with the External Audit
- Updates on work undertaken as part of the Counter Fraud Initiative.

A summary of the work undertaken by the Committee in 2017/18 is set out in the following table:

July 2017	September 2017	November 2017	March 2018
Review the progress of the Internal Audit Plans for 2016/17 and 2017/18	Review the progress of the Internal Audit Plan for 2017/18	Review the progress of the Internal Audit Plan for 2017/18	Review the progress of the Internal Audit Plan for 2017/18
Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations
Review Contract Procurement Rules and Recommend adoption to Council	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	Update on the work being completed on Housing Tenancy Fraud – SCF Partnership
Review the External Audit Findings Report	Review of the Corporate Risk Register	Review of the Corporate Risk Register	Comment on the proposal of internal Audit service delivery form April 2019.
Consider and approve the Statement of Accounts for year ended 31 March 2017	Review and revision of the Internal Audit Charter	Review Financial Regulations and Recommend adoption to Council	Approve proposed Internal Audit Plan for 2018/19
Consider and approve the Letter of Representation for 2016/17	Note the appointment of External Auditor	Receive the External Audit Annual Audit Letter	Receive the External Audit Grants and Returns Certification Report
Review and approve the Annual Governance Statement for 2016/17	Review of the Audit Committee Terms of Reference	Review and recommend amendments to the Audit Committee Terms of Reference	Review External Audit proposed External Audit Plan for 2018/19
Review the Annual Internal Audit Report	Note Audit Committee Activity Report	Interim consideration of Annual Governance Statement issues	Note updated Financial Reporting Standards for Statement of

		Accounts
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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 area. 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 24 July 2017

2.2.1 Officers provided an update on the three overdue recommendations relating to Information Security Governance; they explained that the Information Security Group had now met, however it had become apparent that the current resourcing for this role was not sufficient to do it justice. Some catch-up work would be required and there was a need to maintain good policies and procedures. A new Information Governance Board had now been established and would be chaired by the Strategic Director – Finance and Resources.

2.2.2 Officers emphasised that the Council did manage its data well, and had passed all government requirements such as PSN compliance. However, the existing resource didn't have sufficient capacity to satisfy the growing demands and new legislation, and there was a need to invest more in order to move forward. The Committee felt it was important that the Council was seen to be prioritising information governance and therefore agreed to forward their concerns over this matter to Executive, endorsing any requests for additional resource/growth that may be required in order to take this forward.

2.2.3 In relation to the recommendation regarding Financial Regulations and CPRs, it was explained that a lot of work had already been completed by the Procurement Officer, but that the Financial Regulations also required updating. The Audit Committee would be involved in this process, with a briefing to be scheduled in due course. The updated Financial Regulations would be presented to the Audit Committee in November and Council in December 2017. The Committee agreed, that given the fact that the new Financial Regulations would be approved in December 2017 and the implementation of the enhanced Agresso functionality would be in place by the end of January 2018, the deadline for this recommendation (IA16/12.001) be extended to 31 January 2018.

2.3 26 September 2017

2.3.1 At this meeting, the Committee received a request for a time extension for three recommendations relating to data protection and information governance. Members expressed concern over the continuing delay in

relation to these actions, noting that the issues appeared to be resource-driven, and felt that the Committee needed assurance that adequate resources would be deployed in order to meet the proposed date before agreeing to it. The Chairman agreed, stating that more details and a plan for implementation was required before the Committee could agree to the extension.

2.3.2 Graeme Clark explained that this was being treated as a high priority and that a report would be submitted to the Executive in October seeking approval to procure a new resource in the form of an external specialist. The specialist would work alongside an internal project manager to ensure that the council met its GDPR requirements in time.

2.3.3 The Committee reiterated that this was an essential piece of work as the council had a statutory deadline to comply with. It felt that it was unable to agree to an extension to the deadlines without having some evidence that a plan was in place. Members therefore asked that a detailed update be provided at the Committee's November meeting and that if this was unsatisfactory they would escalate the issue to full Council.

2.4 20 November 2017

2.4.1 At its last meeting the Committee had expressed concern in relation to the amount of progress that had been made towards three recommendations regarding data protection. Officers provided an update that since the last meeting the Executive had approved £50,000 of resource to support GDPR implementation and an external consultant been appointed to complete an information audit. Additionally, an action plan was in place, GDPR 'champions' had been appointed across the organisation and briefings had been held for all staff. The Council would also be working in partnership with East Hampshire on technical issues.

2.4.2 The Committee thanked officers for the update and asked whether any further resources were required to progress this. Graeme Clark responded that the internal project manager and external specialist were working well, however in the long term there would be the requirement to appoint an Information Manager and this would be put forward as a growth bid from Robin Taylor, Head of Policy and Governance.

2.4.3 The Committee was generally pleased with the progress that had been made, but felt that the situation needed to be closely monitored going forward and asked that officers bring an update to the next meeting on the progress made relating to the implementation of GDPR requirements.

2.5 27 March 2018

2.5.1 At its last meeting, the Committee had asked for an update on the progress made on several recommendations relating to information governance. An update from the Head of Service was set out in the report; this included a comprehensive project plan being put in place and Information Governance

Board meetings being led by Graeme Clark, Strategic Director. Additionally, there would be briefings for Councillors on GDPR to be held on 30 April.

- 2.5.2 Gail Beaton also drew the Committee's attention to two recommendations relating to Housing, which were due to be implemented by the end March. She assured the Committee that these recommendations would be implemented on 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 reviews within the plan.

3.2 24 July 2017

- 3.2.1 Gail Beaton updated the Committee on progress with the 2016/17 and 2017/18 Audit Plans. There were only two reviews outstanding from the 2016/17 plan; the approval of invoices on Agresso had been carried forward to the 2017/18 plan, and the report on data protection was now available.

- 3.2.2 In regard to the 2017/18 plan, Members noted that the review of petty cash was considered to be a high priority. Gail Beaton explained that it had been given this rating was because it was an area that had not been reviewed for some time, rather than being an area of specific concern. It was also queried why the Agresso review, which had been deferred from the previous year had been scheduled for Quarter 4 rather than earlier in the year. Peter Vickers explained the Finance Service was currently implementing a programme of improvements with the financial systems, and that as the integration with the housing 'Orchard' system was not yet up and running, it would therefore be more appropriate to conduct the review in Quarter 4 when the integration was in place.

- 3.2.3 The Committee noted the proposed inclusion of a review of Fire Safety Assessment Checks. Gail Beaton explained that there was ongoing reporting of Fire Safety Assessments to Management Board, however the Head of Housing Operations had sought further assurance by requesting an audit opinion. The Committee therefore suggested that the auditor's report draw out the fact that several measures were already in place, and the purpose of the review was more for assurance purposes.

3.3 13 September 2016

- 3.3.1 The Committee received a report outlining the latest position on the reviews included within the 2017/18 Audit Plan. Gail Beaton advised the Committee of some changes that would be made to the agreed schedule, namely; the tree management review that was scheduled for Q1/2 would now be completed in October; similarly the responsive repairs and voids review would also be completed in Q3 rather than Q1/2.

3.4 20 November 2017

3.4.1 A change to the 2017/18 Audit Plan was proposed that would defer the Agresso review to the 2018/19 Audit Plan, and use the days allocated to review income streams instead. Gail Beaton, Internal Audit Client Manager, also reported that the contractor was making good progress and that some reports which were shown to be at draft stage were now final.

3.4.2 Cllr Frost expressed concern about the roll-out of Universal Credit and the effect this could have on rent collection. Members suggested that this could be included as a review in the 2018/19 Audit Plan and Gail agreed to meet with Hugh Wagstaff, Head of Housing Operations, and Nicky Harvey, Benefit Manager to discuss this further. Cllr Gray advised that the Value for Money and Customer Service O&S Committee was also looking into the impact of Universal Credit.

3.5 27 March 2018

3.5.1 The Committee was pleased to note that the majority of planned reviews had now been completed; some reports were still at draft stage but were progressing well. Gail Beaton, informed the Committee that the review of email server and virus protection had not been required, as this was already covered by the requirements of PSN compliance; this had therefore been removed from the plan.

3.5.1 Members were concerned to note that no assurance had been given in relation to the management of keys for garages. Gail confirmed that the review had found that very weak controls were in place, and this had resulted in nine audit recommendations. The majority of these recommendations had now been implemented or were due to be implemented in the near future. When no assurance could be given as a result of a review, the target date for implementing the recommendations would be much shorter. The outcome of the review had been reported to the relevant Head of Service and the Directors also had access to the report. Members were keen to know that adequate action had been taken, and Cllr Band agreed to review the report and actions on behalf of the Committee.

3.6 Proposed Audit Plan for 2018/19 – 27 March 2018

3.6.1 Gail Beaton presented the proposed Audit Plan for 2018/19 to the Committee. She explained that she carried out a risk assessment and consulted with Directors and Heads of Service in order to identify items to include in the plan. Gail welcomed the Committee's views on any further items to be included in the audit plan.

3.6.2 Cllr Holder noted that a new IT system was being introduced in the Planning service, and suggested that this be included as a review. Gail agreed to look into this, and determine whether it would be appropriate to review it now or once it was more bedded in. Members had several concerns about the new

online planning record system; they found it difficult to locate documents and felt that there had not been sufficient testing. It was also felt that guidance and training should have been provided before the system was implemented, not afterwards. Cllr Gray suggested that, in view of the number of queries from members of the public, this might also be a worthwhile Overview and Scrutiny review.

- 3.6.3 The audit plan for 2018/19 included the review of the Agresso interface that had been deferred from the 2017/18 plan. Cllr Hyman queried whether the interface was now fully implemented as it seemed to have been taking a long time. Officers reported that the interface was now in place and working, the audit would be undertaken in Quarter 1 to ensure that it was working as expected. Cllr Hyman had some further concerns regarding the IT systems used to monitor housing stock and ensure that properties met the decent homes standard; he suggested that further audit work be carried out on the accuracy of data in the Orchard system and the way it worked alongside the Keystone system.

4. REPORTS BY EXTERNAL AUDITORS

4.1 External Audit 2016/17 Audit Findings Report – 24 July 2017

- 4.1.1 Sophia Brown, Grant Thornton Engagement Manager, presented the 2016/17 Audit Findings Report to the Committee. She explained that since its publication, some of the areas shown as outstanding in the report had now been completed; these included work on plant, property and equipment; and work on financial instruments. The key messages of the report were that the draft financial statements had been prepared to a very high standard and that a minimal level of issues had been identified. Sophia added that Waverley was well placed to meet the earlier statutory accounts deadlines from next year.
- 4.1.2 It was queried whether from next year some areas would be able to remain outstanding as they did in this report. Sophia Brown clarified that this would be acceptable at this stage next year, as there were certain pieces of work that could only be completed at the end of the process. Iain Murray, Grant Thornton Engagement Lead, added that the County Council had been signing off their accounts at the end of July for the last two years, so there were no problems anticipated in respect of linking up with the County.
- 4.1.3 The Committee was informed that the Grant certification work on the Council's Housing Benefit subsidy on behalf of the DWP would be completed by the end of November and that time had been allocated in October to undertake this. Iain Murray added that Grant certification work had not been included within the recent procurement process for the Council's auditors and therefore this would need to be undertaken separately.
- 4.1.4 There had been no significant issues identified in regard to the risks as set out in the report, additionally Sophia Brown updated the Committee that there were no significant issues identified in relation to valuation of plant, property

and equipment; or valuation of pension fund net liability as this work was shown as still outstanding at the time of producing the report.

- 4.1.5 One internal control issue had been identified regarding to related party transactions. At the time of drafting the report, eight declarations from councillors had been outstanding, however they had since all been received. Sophia Brown explained that this was still an issue as they should have been received before the financial statements were drafted, however, now that all declarations been received, there was no longer a need to include a specific reference to this in the letter of representation. Graeme Clark added that there had been a change to the way the information had been collected this year, using an online survey method. The response to this had been very good overall however inevitably there were some members who needed to be reminded. An ideal opportunity would have been to remind councillors at the April Council meeting, and this would be done in future years. It was also agreed that next year Graeme Clark and Cllr Gray would write a joint email to all councillors emphasising the importance of completing the declaration promptly.
- 4.1.6 The report set out the impact of one uncorrected misstatement from the prior year. This had been in relation to assets that had been incorrectly included in the Housing Revenue Account asset register. Cllr Holder queried how the new properties at Ockford Ridge were being recorded on the asset register. Graeme Clark explained that these were considered 'assets under construction' and he confirmed that any demolished properties had been removed from the register. Graeme added that the housing accountant worked very closely with the development team to ensure that everything was correctly recorded at year end.
- 4.1.7 In regard to Value for Money, two key risks had been set out in the audit plan, and the key findings in relation to these were set out in the report. The overall conclusion was that the council had proper consideration for Value for Money.
- 4.1.8 In conclusion, Graeme Clark stated that working to the new timetable had been a challenge, but that the Council had maintained a good relationship with the external auditors and he was pleased with the overall outcome. Iain Murray added that the accounts were of a high quality, and he had no concerns going forward. He complimented the Council on its ability to present the accounts in a clear and reader-friendly manner, which was particularly challenging given the frequently changing requirements for disclosure.

4.2 External Audit Annual Audit Letter – 20 November 2017

- 4.2.1 Iain Murray from Grant Thornton presented the Annual Audit Letter 2016/17 to the Committee. The Letter provided a summary of the messages that the Committee had received at its meeting in July and didn't include any new information. The key areas to draw out were that the Council had successfully delivered its final accounts in accordance with the earlier timetable and that Grant Thornton had issued an unqualified Value for Money conclusion.

- 4.2.2 Members noted that the level of materiality was £1,629k, which was 2% of the Council's gross revenue expenditure, and felt that this was quite high. Iain Murray responded that Grant Thornton used a number of thresholds to drive their audit work and this included setting a materiality benchmark. 2% was the highest level of materiality they set and this reflected the Council's good track record. Anything above the lower threshold of £81k would be reported to the Audit Committee in the Audit Findings Report; and anything below this would be considered trivial. Cllr Hyman asked how the lower threshold was calculated and Iain responded that this was 5% of the materiality figure.
- 4.2.3 Cllr Hyman queried whether the ongoing audit into Waverley's Air Quality reporting would affect the Letter. Graeme Clark responded that if any governance issues were identified in the investigation then these would be reported through the Annual Governance Statement process. The audit was being undertaken by an independent auditor and the findings would be shared with Grant Thornton in due course. They would then decide whether this needed to be taken into account when preparing their Annual Audit Letter for 2017/18.
- 4.2.4 The Committee also noted that Homes and Communities Agency Compliance Audit was new for 2017/18 and queried how this had come about. Graeme Clark responded that the Council had received a financial contribution from the HCA for the development at Wey Court and a requirement of this was that the Council commission a third party audit. Iain Murray added that the low fee for this work was indicative of the minimal work involved.
- 4.2.5 Iain Murray also presented a progress report which updated the Audit Committee with the most recent progress on the 2016/17 and 2017/18 audits. The Trust Accounts Audit was complete, as was the HCA Audit. The Audit of Housing Receipts was ongoing, and a delay had been caused due to awaiting the terms of reference from DCLG. The Certification of Housing Benefits was on track to be delivered by the end of November. Grant Thornton was just starting to plan for the 2017/18 Audit and an initial timetable was set out in the report. The rest of the document signposted the Committee to useful publications for information.

4.3 External Audit 2016/17 Certification Letter – 27 March 2018

- 4.3.1 Sophia Brown from Grant Thornton presented the 2016/17 Certification letter to the Committee. Grant Thornton had certified the Housing Benefit subsidy return and issued a qualification letter. The certification work had identified a number of issues, however these were considered relatively insignificant and the claim had not been amended. The Council would carry out some additional testing in three areas as set out in the letter.
- 4.3.2 The Committee noted that an additional 940 cases would be tested in relation to rent allowances and queried how many had been tested in the first instance. It was explained that 20 cases had been tested to begin with and one error had been found. The Council had then looked at the population where the error had been found, and as this was 940, had decided to undertake 100% testing. Members were concerned that testing 940 cases

could be unduly onerous on the Council however it was explained that the process was relatively straightforward and not time-consuming.

4.4 External Audit Progress Report – 27 March 2018

4.4.1 Sophia Brown presented the External Audit Progress Report and Sector Update to the Committee. She explained that Grant Thornton had completed its planning for the 2017/18 financial statements audit. Interim work had been carried out in February and this had not identified any significant weaknesses. Walkthrough testing had helped to cement the auditors' understanding of how the systems were used and early substantive testing had not identified any issues.

4.4.2 Members queried how robust the testing would be when the Council had already stated that a plan was in place. Iain Murray from Grant Thornton explained that the testing would be proportionate to the risk, and would look at the upper end of what could be considered reasonable. Anything unrealistic or overly ambitious would be brought to the attention of the Audit Committee.

4.4.3 Cllr Hyman noted that the Sector Update highlighted that the proportion of principal bodies where the auditor was unable to issue an opinion by 30 September had increased, and asked whether Waverley should be concerned. Iain responded that these related to authorities that were facing significant financial difficulties, and was more common at county level due to the costs of adult and children's services.

4.5 External Audit Plan 2017/18 – 27 March 2018

4.5.1 Iain Murray presented the 2017/18 Audit Plan to the Committee. The Plan set out both the local and national context for the audit, including any relevant sector changes. Cllr Mulliner noted that this included a reference to the Council's Investment Strategy, which would support economic development in the borough. He queried what the situation would be in relation to purchases outside the borough. Iain responded that while capital could be used to invest outside the borough, the legal position in relation to borrowing for investment outside the borough had not yet been tested. He added that Grant Thornton had an ongoing, open dialogue with senior officers at the Council and would raise any concerns as they arose. Cllr Gray also asked that the Audit Committee be informed of any emerging concerns.

4.5.2 In terms of risks identified, Iain explained that these would be similar to those the Committee would have seen in previous years. The valuation of property, plant and equipment and valuation of pension fund liability had been moved to the significant risks section, only because of a change in Grant Thornton's working methods, not because the risk in these areas had increased.

5. ANNUAL GOVERNANCE STATEMENT

5.1 The Audit Committee has taken the view that the Annual Governance Statement should be a living document, and therefore took an opportunity to review potential governance issues at its meetings throughout the year.

5.2 Annual Governance Statement – 24 July 2017

- 5.2.1 Peter Vickers, Head of Finance, presented the updated Annual Governance Statement to the Committee. A briefing on the AGS had been held for the Committee on 20 June, and at this session members of the Committee had raised several issues to test against the principles set out in the AGS. Peter Vickers reported that he had met with the Robin Taylor, Head of Policy and Governance, to review this list and identify any governance issues that should be identified in the AGS according to the statutory guidance.
- 5.2.2 The first issue related to planning inquiries and judicial reviews. Significant public interest had been generated by this and a minor change to the constitution had been required, however this was now resolved. The Committee felt that it was important to acknowledge that there had been a constitutional issue and to show that it had been dealt with. Peter Vickers concluded that ultimately it was for the Committee to decide whether or not this was a significant governance issue.
- 5.2.3 Several other issues raised by members of the Committee at the briefing had been reviewed by officers and found to not meet the requirements to be included in the AGS as set out in the Code of Practice.
- 5.2.4 Cllr Gray reminded the Committee that the Council didn't have to be infallible and that as these issues were in the public domain it was important to show that they had been acknowledged and dealt with. While Peter Vickers agreed that it was important to respond to these issues, they weren't all necessarily governance issues.
- 5.2.5 The Committee felt that it would be useful to review potential governance issues at Audit Committee meetings throughout the year so that they could inform the AGS next year; Cllr Gray also felt that it would be useful for Robin Taylor to attend the meeting to discuss the potential issues. Iain Murray added, from an external audit perspective, that the bar of what needed to be included in the AGS was set very high so there was no specific requirement to include the issues that had been discussed by the Committee, however this didn't prevent the Committee from reviewing such areas. He also reminded the Committee that their remit was risk and assurance, and therefore these were the areas that needed to be focused on when reviewing issues. He also added that it was very positive that the Council was viewing the AGS as a working document, not just a year end task.

5.3 Annual Governance Statement 2017/18 – 20 November 2017

- 5.3.1 The Committee received a report inviting members to comment on any emerging internal governance issues that they felt should be taken into account in the preparation of the Annual Governance Statement for 2017/18.
- 5.3.2 One area raised by Members was the Air Quality Audit and any governance issues that may be identified following that. Cllr Gray also suggested that the

number of planning appeals could be included. However officers suggested that this would be considered as more of a risk rather than a governance issue. Members also noted that Environment O&S was monitoring this situation and making appropriate recommendations.

- 5.3.3 A further area was raised in relation to a potential safeguarding issue at one of the Council's properties. In view of the recently published Safeguarding policy, Cllr Seaborne felt that this could be a good opportunity to show that the governance procedures were working well. He also felt that it was important to know that policies in relation to Health and Safety reporting were working effectively. Members felt that the most effective way to measure this would be by way of a KPI to O&S and asked officers to look into the best way of monitoring and reporting this.
- 5.3.4 The Committee concluded that the AGS was a useful tool for promoting the good work of the Council and assuring members of the public that governance issues were being taken seriously. Members also agreed that there should be an opportunity at every meeting for the Committee to review emerging governance issues.

5.4 Annual Governance Statement 2017/18 – 27 March 2018

- 5.4.1 A briefing on the draft Annual Governance Statement had been held on 21 March. This had given members of the Committee an opportunity to discuss the draft Annual Governance Statement in detail. A number of potential governance issues had been raised during this session, and Cllr Gray requested that Peter Vickers and Robin Taylor feed back these back to the Leader and Chief Executive to ensure that they were aware of the Committee's concerns.
- 5.4.2 The Committee resolved to note the progress of draft Annual Governance Statement, with the final version to be brought to the July meeting of the Committee.

6. COUNTER FRAUD

6.1 Fraud Investigation Summary – 26 September 2017

- 6.1.1 The committee received a report that summarised the work that had been undertaken in relation to housing fraud during Quarter 1 of 2017/18. The Committee noted that the financial value for this quarter was £72,990 and that the total for the previous year had been £688,866. Officers explained that so far this year there had been no right to buy cases determined, and these were where the biggest returns were. Additionally, the notional figures in the report did not represent the real value to the council as the cost to build a new house was approximately £200,000.
- 6.1.2 The Committee thanked Gail Beaton and her colleagues for the work they had done in investigating cases of housing fraud. Cllr Hyman added that the

council had a social responsibility to undertake this work and that it was positive that the costs in officer time were greatly outweighed by the returns.

6.2 Fraud Investigation Summary – 20 November 2017

6.2.1 The Committee received a report setting out the progress being made on fraud investigations, mostly relating to housing. The Committee noted that the financial value of the outcomes had increased in Quarter 2, and now included seven properties that had been relinquished and were now available to be re-let to tenants on the waiting list.

6.2.2 Cllr Hyman asked how long it took from being alerted to a potential fraud case to actually getting the keys to the property back. Gail Beaton responded that this had been approximately two years, but that new controls and procedures had been put in place to reduce this time. This would be achieved by working more closely with other teams within the organisation and ensuring that reporting mechanisms were easily accessible and straightforward to use.

6.2.3 The Committee was very pleased with the ongoing success of the work and felt that it was important that all opportunities for positive publicity were taken.

6.3 Fraud Investigation Summary – 27 March 2018

6.3.1 The Committee received a report setting out the progress being made on fraud investigations, primarily focusing on housing tenancy fraud. The Committee was pleased to note that the investigations had resulted in eight council properties being handed back. The financial value of the work up to the end of Quarter 3 was £481,420 although the Committee noted that this figure didn't represent the 'real' value of the properties as it would cost around £200,000 to build a new council home. The total figure for the year would be presented to the Committee at its next meeting, however Gail Beaton indicated that this would be around £700,000.

6.3.2 Members remained impressed with the professionalism and hard work of the Fraud Investigation Officer, and noted that he worked very effectively with other officers around the organisation to progress cases.

6.3.3 Cllr Gray commented that there seemed to have been fewer referrals this year when compared with the previous year. Officers responded that while there had been a reduction in referrals, they were generally of better quality, which could indicate that people now had a better understanding of the process.

6.3.4 The Committee also asked how Waverley compared with other councils. Gail responded that Waverley was generally achieving verily highly when compared with other Surrey Councils.

7. REVIEW OF OTHER ITEMS CONSIDERED BY THE AUDIT COMMITTEE IN OPEN SESSION 2017/18

7.1 Revision of the Contract Procurement Rules

7.1.1 Patrick Tuite, Procurement Officer, presented the updated Contract Procurement Rules to the Committee at its meeting on 24 July 2017. The Committee was informed that the Contract Procurement Rules (previously the Contract Procedure Rules) were last updated in 2015. A re-write was therefore required to incorporate:

1. updated thresholds with regards to our internal value bands and the European Union regulation thresholds;
2. new procedures as permitted in the Public Contract Regulations 2015 that allow us to vary our route to market dependant on what we are purchasing;
3. a new approach to the opening of tenders;
4. the councils responsibility to incorporate the Social Value Act 2012 in our tenders; and
5. a comprehensive glossary to reflect the members requirement for an accessible and useable document.

7.1.2 The Committee queried whether Britain's withdrawal from the EU would affect the CPRs, however officers assured members that at present there were unlikely to be any changes as a result of Brexit as the European regulations were predominantly based on WTO guidelines which would remain unaffected.

7.1.3 On the recommendation of the Audit Committee, the revised Contract Procurement Rules were approved by Council on 17 October 2017.

7.2 Statement of Accounts 2016/17

7.2.1 The Audit Committee received the report on the Statement of Accounts for 2016/17 at its meeting on 24 July 2017; the Committee had received a briefing on the accounts on 20 June which both members and officers agreed had been a very constructive session. Officers had taken on board members comments and had been able to incorporate many of these into the final version. The document had also been independently proof-read by a member of Council staff.

7.2.2 Cllr Hyman asked where the SANG funds were detailed in the accounts. It was explained that this did not have an individual entry, and was incorporated within the 'Section 106 Contributions' line. The Committee agreed that it would be useful to separate this out in future as it was a specific reserve. Graeme Clark added that projections indicated that the SANG reserves were sufficient although this could always be affected by the financial climate.

7.2.3 The Committee resolved to approve the Statement of Accounts for the financial year ended 31 March 2017 and the letter of representation for

2016/2017. The Committee also confirmed that the accounts had been prepared on a going concern basis.

7.3 Annual Internal Audit Report

- 7.3.1 Gail Beaton, Internal Audit Client Manager, presented the Annual Internal Audit Report to the Committee at its meeting on 24 July 2017. She informed members that she had taken on board their comments from previous years, and had revised the content and format of the report. She had made the report more accessible and provided as much information as possible, with clear links to the Audit Plan.
- 7.3.2 The Committee welcomed the updated format, and was pleased to note the good performance of the contractor. Cllr Holder queried whether it would be possible to reduce the target for the average number of days between Contractor exit meeting and the issue of the draft report, as this had been consistently over achieved for the past three years. Gail Beaton explained that this was a contractual target but that she could look to review it in the future.
- 7.3.3 Cllr Seaborne emphasised the importance of ensuring that where identified, remedial actions were embedded within the organisation. Gail Beaton explained that tests would be carried out by ongoing sampling.
- 7.3.4 The Committee expressed particular concern over IA17-17 – Procurement Arrangements, where five areas for improvement had been identified, including the fact that 75% payments to contractors had not been supported by a purchase order. Officers explained that a new purchase order system had recently been implemented which would force officers to follow correct procedures. Cllr Gray felt that this was a significant issue that should be brought to the attention of the Executive. Officers reported that they were already aware of this issue, and had sought to put mitigation in place, including the appointment of the new Procurement Officer. Cllr Hyman queried what, if any, financial impact there was of not following the correct procedures. Graeme Clark explained that it was difficult to quantify this, but the important thing was getting the proper controls in place going forward.

7.4 Internal Audit Charter

- 7.4.1 At its meeting on 26 September 2017, the Committee received an updated Internal Audit Charter which had been developed in accordance with the updated Public Sector Internal Auditing Standards (March 2016).
- 7.4.2 Cllr James queried whether it was usual practice for a council to contract out its audit service. Officers explained that it varied between organisations but that Waverley was part of a consortium that allowed it to make use of a more specialist team of auditors than if the service was run in-house. There were several advantages to this arrangement, and Gail Beaton, Internal Audit Client Manager, was still able to undertake reviews of the most sensitive work where necessary. Cllr Gray asked when the contract with RSM was due for renewal

and officers responded that this would be in 2019 and a report would come to the Committee on it in due course.

- 7.4.3 Cllr Hyman was unsure about wording for the 'mission' of internal audit however acknowledged that it did summarise the role fairly accurately. Other members agreed that it could potentially be re-phrased but noted that as the wording had come from the PSIAS it be left as written for the time being.

7.5 Appointment of External Auditor

- 7.5.1 At its meeting on 26 September 2017, Graeme Clark reminded the Committee that at its meeting in November 2016 and subsequent Council meeting in December 2016, Waverley had agreed to opt-in to the appointing person arrangements made by the Public Sector Audit Appointments for the appointment of external auditors from 2018/19. Following the PSAA's procurement exercise, the council had been informed that Grant Thornton had been appointed as its external auditor for a period of five years. The appointment would be finalised in December and a consultation on fees would be undertaken in due course; this would be followed by a cooling-off period.

- 7.5.2 Cllr Hyman expressed concern over Grant Thornton's handling of the fraud incident in 2014 and was wary of them continuing as the council's external auditor, however Cllr Gray assured members that he had confidence in Grant Thornton's policies and procedures and that he had no significant concerns going forward.

- 7.5.3 The Committee resolved that the PSAA's appointment of Grant Thornton (UK) LLP as the council's external auditor for a period of five years from 2018/19 be noted.

7.6 Financial Regulations Update

- 7.6.1 Peter Vickers, Head of Finance, introduced the revised Financial Regulations to the Committee at its meeting on 20 November 2017. The Financial Regulations had last been updated in April 2015 and had been rewritten in line with the Council's commitment to continual review within the Annual Governance Statement.

- 7.6.2 The objective of the revision was to ensure that the Financial Regulations reflect the full scope of the Council's required governance arrangements; to remain secure in relation to risk and statutory compliance whilst incorporating changes in technology, service delivery and corporate priorities.

- 7.6.3 The revised Financial Regulations were aligned to the Council's Constitution, Contract Procurement Rules and Scheme of Delegation, all of which had been updated within the 2017/18 financial year.

- 7.6.4 The layout and structure of the Financial Regulations had been revised to facilitate ease of reading and clarity of understanding. Use of headings and sub headings had been enhanced to aid navigation of the regulations.

7.6.5 The following changes had been made to content:

- a. New section: Purpose and key principles overarching the regulations;
- b. New section: Statutory requirements, compliance and responsibilities are described and explained;
- c. Content of the previous Financial Regulations has been reordered under a “financial framework” inclusive of updated and enhanced governance criteria. The regulations were previously grouped under five themes.
- d. The Scheme of Virement has been revised to enable services to self manage budgets with a greater degree of autonomy, in line with the changes to the Executive approval threshold of £100,000 and minimising Management Board intervention.

7.6.6 The Scheme of Virement had been redesigned to enable service managers to be more proactive in managing budgets with minimal bureaucracy. A new electronic purchase ordering facility would be going live in the new year that limits managers to only commit expenditure within a pre-existing budget provision. Using electronic workflow approval process, managers would be able to identify and effect a virement within the approval limits on their directly controllable budgets. Full details are set out in Annexe 1 of the Financial Regulations.

7.6.7 The Committee noted that the document was much more reader-friendly. Members felt that the regulations provided a robust framework, ensuring that all checks and balances are in place without imposing any unnecessary delays. The Committee also found the glossary to be a very useful addition.

7.6.8 Cllr Frost was concerned that the Agresso system update hadn't been fully implemented as there was still no link with the housing maintenance system. Peter Vickers responded that work was under way in the background, being led by Walter Stockdale, Financial Services Manager, and that the full roll-out would be complete in January 2018.

7.6.9 The Committee agreed that this was a very important piece of work and asked that it be brought to the attention of all members, in particular the Executive, and that it be suggested that they retain a copy of the document for easy reference. Officers would be arranging training sessions for managers on this in due course and Members suggested also inviting the Portfolio Holder to attend.

7.6.10 On the recommendation of the Audit Committee, the revised Financial Regulations were adopted by Council on 5 December 2017.

7.7 Statement of Accounts – Accounting Policies

7.7.1 Peter Vickers, Head of Finance, advised the Committee that the Council was required to prepare its accounts in compliance with the terms of the Code of Practice on Local Authority Accounting, developed by CIPFA. There had been

two changes to the Code for 2018/19; however these would not have a significant impact on the Council due to the nature of its transactions.

7.7.2 IFRS 9 [Financial Instruments] introduced a new classification and measurement of financial assets with a requirement to make a loss allowance based on a new 'expected credit loss' impairment model. Cllr Gray noted that a Commercial Property void/non-payment fund had been established and queried how the level had been calculated. Peter responded that this would be shown in this year's accounts.

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 Update – 26 September 2017

8.2.1 The Committee received a report presenting the latest corporate risk register as refreshed by Heads of Service. Peter Vickers, Head of Finance, explained that since the Committee had last reviewed the risk register at the beginning of the year, it had been updated by officers along with a representative from Zurich and now included a change log and list of emerging risks. Peter also informed the Committee that the Risk Policy, which sits above the register, was being reviewed in consultation with Zurich and would be coming to the Committee at its November meeting.

8.2.2 Members noted that the mitigation measures relating to some of the risks appeared to be out of date, and did not reflect current mitigation work that had been identified or was under way. Officers agreed to review the mitigation text to ensure that it reflected the most up to date position. Cllr Hyman also requested that the axes on the risk matrix be labelled for clarification purposes.

8.2.3 The Committee welcomed the inclusion of the change log and list of emerging risks and looked forward to receiving the updated policy document at its next meeting.

8.3 Risk Management Update – 20 November 2017

8.3.1 The Committee received the latest version of the corporate risk register as refreshed by Heads of Service. The register set out 16 corporate risks, as well as a change log which highlighted the changes that had been made since the Committee last reviewed the register.

8.3.2 Peter Vickers informed the Committee that early next year officers would be working with representatives from Zurich to look at risk appetite, taking into account all emerging risks coming forward through the budget preparation process.

8.3.3 Cllr Frost suggested that the potential for a pandemic should be added as a risk; however officers advised that this was covered by the overarching business continuity risk set out in the report. The Committee also felt that the risk relating to property investment should be given a higher impact rating and officers agreed to review this.

9. BRIEFING SESSIONS

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

- 20 June 2017 – Briefing on Statement of Accounts
- 24 July 2017 – Briefing on Property Investments
- 26 September 2017 – Briefing on Risk
- 10 November 2017 – Briefing on Financial Regulations
- 21 March 2018 – Briefing on Annual Governance Statement and Risk.

9.2 Members of the Audit Committee, along with members of the Executive and Value for Money O&S Committee, were also invited to a presentation from consultants on Property Investments which took place on 22 January 2018.

Recommendation

It is recommended that the work carried out by the Audit Committee in 2017/18 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 2017/18

The Audit Committee met four times, on 24 July, 26 September and 20 November 2017, and 27 March 2018. The membership and attendance at meetings is detailed below:

	24 July 2017	26 Sept 2017	20 Nov 2017	27 March 2018
Cllr John Gray (Chairman)	✓	✓	✓	✓
Cllr Richard Seaborne (Vice Chairman)	✓	✓	✓	✓
Cllr Mike Band	Apols	✓	Apols	✓
Cllr Pat Frost		Apols	✓	Apols
Cllr Christiaan Hesse	Apols			
Cllr Nicholas Holder	✓	✓	Apols	✓
Cllr Jerry Hyman	✓	✓	✓	✓
Cllr Anna James	Apols	✓	✓	✓
Cllr Stephen Mulliner			Apols	✓

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.