

## AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2018/19

This report details the work undertaken by the Audit Committee over the municipal year 2018/19. 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 2018 and March 2019. Additional informal briefing sessions were held throughout the year and are summarised at section 7 of this report. The membership of the Committee was as follows:

Cllr John Gray (Chairman)	Cllr Stephen Mulliner
Cllr Richard Seaborne (Vice-Chairman)	Cllr Sam Pritchard [until Oct 2018]
Cllr Mike Band	Cllr Liz Townsend
Cllr Pat Frost	Cllr Robert Knowles [from Oct 2018]
Cllr Jerry Hyman	

A brief summary of the work undertaken by the Committee in 2018/19 outlined in the table below and further details are set out at sections 1 – 6 of this report.

July 2018	September 2018	November 2018	March 2019
Review the progress of the Internal Audit Plans for 2017/18 and 2018/19	Review the progress of the Internal Audit Plan for 2018/19	Review the progress of the Internal Audit Plan for 2018/19	Review the progress of the Internal Audit Plan for 2018/19
Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations	Review the progress on the implementation of Internal Audit Recommendations
Review the External Audit Findings Report	Recommends to Council that the Tax Strategy be approved	Review of the Corporate Risk Register	Review of the Audit Committee Terms of Reference
Consider and approve the Statement of Accounts 2017/18	Receives and comments on Annual Audit Letter for 2017/18 from Grant Thornton	Review and recommend amendments to the Audit Committee Terms of Reference	Supplementary Estimate Process report
Consider and approve the Annual Governance Statement for 2017/18	Consider and recommend the adoption of the update to Financial Regulations	Interim consideration of Annual Governance Statement issues	Draft Annual Governance Statement for 2018/19
Comment on the new Information Governance Strategy and endorse	Recommend amendments to		Approve proposed Internal Audit Plan for 2019/20

approach to Information Governance	Contract Procurement Rules		
Consider and approve the Letter of Representation for 2017/18	Review and revision of the Internal Audit Charter		Receive the External Audit Grants and Returns Certification Report
Review the Annual Internal Audit Report	Review of the Audit Committee Terms of Reference		Review External Audit proposed External Audit Plan for 2019/20
	Note Audit Committee Activity Report for 2017/18		Review of Anti-fraud policies
			Review of the Corporate Risk Register

## 1. Standing Items

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

### 1.1 Progress in the implementation of Internal Audit Recommendations

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.

Notable items considered during 2018/19 included:

- Final Payment Sign-Off Process – the Committee discussed this overdue recommendation at its July meeting. While amendments to the Financial Regulations would be required to ratify the changes to the process, the Committee agreed that working procedures should be updated straight away to ensure that the necessary controls were in place. Officers reassured the Committee that work was under way behind the scenes to implement these changes.
- Anti Money Laundering Training – at its November meeting, the Committee agreed an extension to March for the due date for this training. This would coincide with the Committee receiving an updated Anti Money Laundering Policy at its March meeting.
- Housing Allocation Scheme – at its March meeting, the Committee considered a request from the Head of Service for extensions to the implementation dates. This had arisen following a recent Housing O&S review which had recommended that a review be undertaken of the Council's Housing Allocation Policy. The Committee queried how long this policy review would take but, taking into account the Committee approval process, concluded that 31 December 2019 was, on balance, an acceptable time extension.

While considering this item, the Committee emphasised the importance of the Internal Auditors working with Heads of Service to agree realistic timescales for implementation dates. This would avoid the need to request for extensions to due dates later in the process.

## 1.2 Progress in achieving the Internal Audit Plan

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.

Notable items considered during 2018/19 included:

- Right to Buy Processes – at its November meeting, the Committee expressed concern that only partial assurance had been given in relation to the Right to Buy processes. Officers advised the Committee that the majority of recommendations were due to the fact that this function was mostly the responsibility of one person, and so the purpose of the recommendations was to ensure that the correct sign-off procedures were in place.
- Community Infrastructure Levy – this review had initially been scheduled for the 2018/19 Audit Plan, however at its March meeting the Committee agreed that this be deferred until 2019/20 as CIL had only come into effect on 1 March and so there was not yet sufficient data to carry out a meaningful review.

## 1.3 Annual Governance Statement – Consideration of Emerging Governance Issues

Every year, the Audit Committee is required to formally review the Council's governance arrangements and approve the Annual Governance Statement. It was agreed, however, that this should be a live conversation throughout the year, not just at the July Audit Committee meeting. At its November meeting the Committee therefore agreed that there should be a standing item at each meeting where Members would be invited to discuss any governance issues that they felt were of significant merit.

At its March meeting, the Committee received a draft Annual Governance Statement for consideration. With reference to the governance issues arising in 2018/19, the Committee queried whether the Judicial Reviews themselves constituted a governance issue, or whether it was the resulting supplementary estimate request that was the governance issue. Officers acknowledged that there were two separate issues and agreed to review this section to make it clearer in the final version.

## 1.4 Updates on Counter Fraud Work

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

The Committee was particularly pleased to see fraudulent Right to Buy claims being refused. The reported value of financial savings is based on Audit Commission notional figures. However, these do not reflect the much higher, real value, to Waverley Borough Council, as it could cost around £200,000 to build a new home. Outcomes from this work not only highlight the fundamental financial value of

continuing to support the work being carried out but the ethical and social responsibility importance to ensure that only those that qualify for social housing are successful. By securing the return of properties back into housing stock helps Waverley to meet the needs of legitimate housing applicants. The Committee agreed that this work was extremely valuable, and acted as a good deterrent to residents who may be considering making fraudulent claims.

At its November meeting, the Committee heard that the current Fraud Investigation Officer was on a fixed term contract which would end in April, and that the Head of Housing would be putting in a growth bid to make this post permanent. The Committee endorsed this proposal which would ensure that the good fraud prevention work continued.

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## **2. Accounts and Annual Governance Statement**

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

The Committee considered the Statement of Accounts and Annual Governance Statement for 2017/18 at its meeting on 24 July 2018. A briefing session on the accounts had been held in June to enable Officers to highlight any notable changes from the previous year and allow Member to ask any questions. The Committee heard that there had been no changes to the accounting assumptions, and that the main change was in regard to the narrative, which was now structured in the form of a performance review. The Committee approved the Statement of Accounts.

Having had the opportunity to raise any potential governance issues throughout the year, the Committee was generally pleased with the content of the AGS presented at Committee. The Committee considered the wording of one particular section, relating to managing resources. Members felt that the phrasing was confusing and could potentially imply that all budget issues would be resolved by 2021, which was not the case. Subject to clarification of this section, the Committee approved the AGS.

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## **3. Internal Audit Reports**

In addition to the standing items presented by the Internal Audit Service, the Committee received a number of additional reports during 2018/19.

### **3.1 Annual Internal Audit Report**

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

At its July meeting, the Committee thanked officers for their hard work in delivering such a comprehensive service and congratulated the internal audit service for achieving 100% completion of the Audit Plan by 31 March 2018.

### **3.2 Internal Audit Charter**

The Internal Audit Charter is reviewed by the Committee on an annual basis. The majority of changes for 2018 reflected operational changes such as job titles.

### 3.3 Internal Audit Plan

At its March meeting, the Committee considered the proposed Internal Audit Plan for 2018/19. The Internal Audit Manager had consulted with the Directors and Heads of Service and carried out risk assessments in order to determine which items should be included.

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## 4. **External Audit**

During 2018/19, the Committee received a number of reports from Grant Thornton, the council's external auditors.

### 4.1 External Audit Findings Report

The Committee received External Audit Findings Report at its July meeting. Members heard that due to the new deadlines, at the time of drafting the report, some work was still ongoing however this had now been completed and Grant Thornton was proposing to issue an unqualified opinion on the financial statements.

The auditors had suggested a change relating to the fair value of loans; this related to borrowing from the PWLB. This was a presentational change and did not impact on the reported figures.

In relation to judgements and estimates, the audit had identified some old debt where it was not clear if it had a specific impairment against it, although the amounts identified were not material. The Committee was advised that some work was already under way to review and rationalise corporate debt.

In regard to the follow up of the previous year's audit recommendations, it was highlighted that although all related party transactions declarations had now been received, they had not been returned in a timely manner, and therefore it could not be marked as completed. Officers acknowledged that this had taken longer than had been hoped due to a few outstanding declarations from councillors. The process for this was being worked on by officers as it would be especially important to complete these in a timely manner next year due to the upcoming elections.

The Committee also heard that Grant Thornton would be issuing an unqualified Value for Money conclusion. This was very positive in the context of an increasingly challenging financial environment and uncertainty around the fair funding review.

### 4.2 Annual Audit Letter

This document was a more public-facing version of the External Audit Findings Report and had been updated to take into account the comments made by Members at the last meeting.

The Committee was very pleased with the content of the Annual Audit Letter, and felt that this was a compliment to the hard work of Waverley's officers. There was only one recommendation identified in the course of the audit, and this related to outstanding debts. Officers reported that a review of corporate debt was under way as

part of the Finance Service Plan, and confirmed that any unrecoverable debt was covered by reserves.

#### 4.3 External Audit Progress and Sector Briefing Report

At its November meeting, the Committee received an update on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors.

The Committee heard that Grant Thornton was in the process of finalising its certification work on the Council's annual Housing Benefit Subsidy claim. This work would be concluded by the end of November 2018 with the report to come to the next Audit Committee meeting. The report also set out the milestones for the 2018/19 External Audit, with interim visits to take place in February and March.

The remainder of the report provided a summary of emerging national issues and developments relevant to the sector including a CIPFA consultation on developing a financial resilience index for Local Authorities and a government consultation on the Social Housing Green Paper.

#### 4.4 Certification Letter

At its March meeting, the Committee heard that Grant Thornton had certified the Housing Benefit subsidy claim for the financial year 2017/18 which related to a claim of £28.5m. A small number of errors had been identified, two of which had recurred from the previous year. The errors had been extrapolated and reported this to DWP, however the figure was considered insignificant in comparison with the total subsidy receivable. Grant Thornton recommended that the Council, as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where errors were identified.

The Committee asked whether the recurrence of the errors should be seen as a cause for concern however Grant Thornton clarified that the issues were as a result of minor human error and were not indicative of deficiencies in the processes.

#### 4.5 2018/19 External Audit Plan

At its March meeting, the Committee heard what Grant Thornton intended to cover over the course of its audit for 2018/19. The External Audit Plan set out the key risks that would require special consideration, for example, the valuations of plant, property and equipment, and net pension fund liability were both included as they were large values with significant estimates, and therefore merited special consideration.

The Committee noted that the materiality thresholds had increased notably since last year and queried what had caused this. Officers explained that the materiality threshold was based on the previous year's gross expenditure and may have increased due to greater capital expenditure.

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## 5. **Corporate Governance Policies**

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

## 5.1 Information Governance Strategy

The Information Governance Strategy was presented to the Committee at its July meeting as it had previously been concerned about outstanding audit recommendations on this matter. The Committee had received regular updates on the progress made by officers to implement the recommendations and to ensure that the Council was fully prepared for the introduction of GDPR.

The Committee made a number of suggestions to improve the structure and clarity of the document. It was also highlighted that it was also unclear as to whether the strategy applied to both staff councillors, or whether some parts only applied to staff. The Committee also requested that the document reference and version number be included on every page and a glossary be added to the end.

Having passed a number of comments to officers, the Committee endorsed the Council's approach to Information Governance as set out in the Strategy.

## 5.2 Tax Strategy

The Council is required to have in place a Tax Strategy in order to fulfil its responsibilities under the Criminal Finances Act 2017.

Guidance issued by HMRC contains six principles to help relevant bodies understand the processes and procedures that can be put in place to prevent criminal activity with regard to tax. These principles were addressed in the Tax Strategy and would be applied proportionately to the perceived risk of the offence.

Following questions from the Committee, the Head of Finance confirmed that while the Council would always seek to minimise its tax costs, for the benefits of residents, it would never enter into illegal transactions designed to evade tax.

The Committee thanked officers for producing a good, easy to read document and recommended its adoption by Council. The Tax Strategy was subsequently adopted by Council on 16 October 2018.

## 5.3 Financial Regulations

In line with the commitment of continual review within the Annual Governance Statement proposed updates to the Financial Regulations were presented to the Committee at its September meeting.

The aim of the update to the Financial Regulations was to enhance the Council's governance arrangements, taking into account recent internal audit recommendations; to ensure statutory compliance; and to incorporate changes which provide improvements in process and efficiency.

The update covered the following areas:

- Large contracts
  - Contracts involving stage payments
  - Final Payments
- Debts Write-off

The Committee queried how the delegations set out in the Financial Regulations related to the Scheme of Delegation and officers clarified that the Scheme of

Delegation included a reference to the Financial Regulations to avoid overlap and duplication.

The Committee recommended that the update to the financial regulations be approved, and this was subsequently agreed by Council on 16 October 2018.

#### 5.4 Contract Procurement Rules

At its September meeting, the Committee received a report outlining proposed updates to the Contract Procurement Rules (CPRs) which had last been updated in July 2017. While the CPRs were still fit for purpose there were a small number of recommendations which had come about either from the Council's internal auditors, the Council's senior leadership team or the Council's Legal Services team.

Updates were proposed to the following five areas:

- Turnover sign off
- Large contracts – stage / final payments
- Contract sign off levels / sealing
- Contract extensions
- Waivers

The Committee was pleased to note that only relatively minor amendments were proposed, which demonstrated that the previous year's substantial re-write had been very effective. The Committee recommended that the proposed amendments to the CPRs be approved, and this was subsequently agreed by Council on 16 October 2018.

#### 5.6 Supplementary Estimates Approval Process

At the Committee's September meeting, under the work programme item, the Chairman stated that he had received requests from Waverley residents that the Audit Committee look in to how the decisions to approve funding to defend recent legal challenges from POW and CPRE had been presented to Council.

The Committee felt that while there wasn't necessarily anything wrong with how the decision had been taken, it would be a good opportunity to review the processes that had been followed and how the information had been presented, to ensure that the Council was delivering value for money for its residents.

The Committee considered this matter further at its November meeting, where it was agreed that the role of the Committee was not to review one single decision, but that it could look at the way in which all requests for supplementary estimates were put forward to ensure that Members were properly informed. The Committee therefore requested that the s.151 Officer and Head of Policy and Governance produce a paper for the next meeting of the Committee setting out the process and documentation required to support all future requests for supplementary estimates.

At its March meeting, the Committee received a proposal from the s.151 Officer to expand on the published Financial Regulations to ensure consistency across all requests for unexpected expenditure. The report highlighted that when the Executive or Full Council is asked to consider agreeing a Supplementary Estimate, they would need to:



- (i) Consider why the need for funds, that were not identified or provided for within the Annual Budget and which cannot be found within existing budgets, has arisen;
- (ii) Understand how much money is being requested and how it is proposed to be spent;
- (iii) Assess whether or not the proposed supplementary estimate represents value for money, which will include noting and considering:
  - a. Any other options available to the Council that have been considered, including the control option of not taking any action;
  - b. The expected benefits agreeing the supplementary estimate; and
  - c. The expected risks, if any, of agreeing or refusing supplementary estimate;

Any manager wishing to propose a Supplementary Estimate, in the first instance would need to consider the issues set out above and submit their view to the Council's Section 151 Officer, or designate.

The Committee resolved to endorse the process required to support all future requests for supplementary estimates and recommended to Council that the Financial Regulations be updated and a new pro forma be adopted to ensure a consistent approach is always taken and recorded. This was subsequently approved by Council on 19 March 2019.

#### 5.7 Income and Debt Collection Policy

At its March meeting, the Committee received the Income and Debt Collection Policy which had been developed following an in-depth review of all the income streams in the Council. The Committee heard that the policy would be particularly useful in situations where customers may have debts owing to different service areas, and would provide a priority system for pursuing debts.

In endorsing this policy the Audit Committee was also giving assurance to the council's External Auditors that the Council was addressing the issue of debt on the Balance Sheet as identified in the External Audit Findings Report for 2017/18. On the recommendation of the Audit Committee, the policy was adopted by Council on 19 March 2019.

#### 5.8 Anti-Fraud and Corruption Policy

The Committee considered the revised Anti-Fraud and Corruption Policy at its March meeting. The policy had been revised as part of the scheduled cyclical review, to reflect changes in legislation, organisational restructure affecting job titles and positions and new developments in the methodology in tackling fraud.

A full revision of the Anti Money Laundering Policy and Guidance had been carried out to meet legislative and professional institutions best practice guides. The Committee queried whether there had been any experiences in the past of attempts to carry out money laundering, however officers advised that there was very little opportunity to do so due to the Council's extensive due diligence processes.

The Committee endorsed the revised policy and it was subsequently approved by Council on 19 March 2019.

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## **6. Risk Management**

At its March meeting the Committee received the revised Risk Management Policy which had been updated in light of the new Corporate Strategy and incorporating the risk appetite statement which had recently been adopted. The new Risk Management Policy included a toolkit to help officers across the organisation when analysing risk. Graeme Clark added that the risk appetite statement had been developed through sessions involving the Executive, Audit Committee Members and senior officers, facilitated by an external specialist.

There were some queries in relation to the definitions, particularly with reference to finance, as it wasn't felt that £100k was necessarily 'devastating'. It was further suggested that it might be helpful to test some examples against the matrices in order to determine if the levels and terminology were correct.

The Committee felt that the policy was a clear, accessible document which would help to inform decision-making going forward and therefore approved the Risk Management Policy.

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## **7. Briefing Sessions**

The Committee received a number of briefing sessions during 2018/19 and these are summarised below.

### **7.1 Accounts and AGS**

In June, the Committee received a briefing session, and had an opportunity to ask questions on the draft accounts prior to them being considered and formally approved at the July meeting. A further briefing session was held directly before the Committee meeting on 24 July to address any final questions.

### **7.2 Risk Management**

Prior to its November meeting, the Committee received a briefing session on risk management. The risk registers were in the process of being refreshed with input from external consultants and a full report would be presented to the Committee at its March meeting. The Committee received further briefing sessions in February and March prior to approving the updated Risk Policy.

### **7.3 Housing Benefits**

Prior to its November meeting, the Committee received a briefing session on Housing Benefits.

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