

AUDIT COMMITTEE ANNUAL ACTIVITY REPORT 2019/20

This report details the work undertaken by the Audit Committee over the municipal year 2019/20. The purpose of this annual review 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 2019 and March 2020. 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 Peter Marriott (Chairman)	Cllr Jan Floyd-Douglass
Cllr Jerome Davidson (Vice-Chairman)	Cllr Michaela Gray
Cllr Richard Cole	Cllr Richard Seaborne
Cllr Simon Dear	Cllr George Wilson

A brief summary of the work undertaken by the Committee in 2019/20 is outlined in the table below and further details are set out at Sections 1 – 6 of this report.

July 2019	September 2019	November 2019	March 2020
External Audit Findings Report	Annual Audit Letter	Contract Procurement Rules Update	Air Quality Management Investigation Outcome and Findings
Annual Internal Audit Report	Audit Committee Annual Activity Report	Financial Regulations Update	External Audit Plan for 2019/20
Annual Governance Statement 2018/2019	Internal Audit Charter	Tax Strategy Update	Accounting Policies for 2020/21
Statement of Accounts 2018/2019	Progress on the Internal Audit Plan for 2019/20	Annual Governance Statement – Consideration of Potential Governance Issues	Annual Governance Statement – Consideration of Potential Governance Issues
Risk Management Framework	Progress on Implementation of Internal Audit Recommendations	Debt Recovery update	Progress on the Internal Audit Plan for 2019/20
	Fraud Investigation Summary	Progress on the Internal Audit Plan for 2019/20	Proposed Internal Audit Plan for 2020/21
	Risk Management	Progress on Implementation of	Progress on Implementation of

		Internal Audit Recommendations	Internal Audit Recommendations
	Annual Governance Statement – Consideration of Potential Governance Issues	Fraud Investigation Summary	Fraud Investigation Summary

1. Standing Items

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

1.1 Progress on the implementation of Internal Audit Recommendations

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

There were no notable matters of concern for the Committee in 2019/20, and all recommendations were either completed by the target date or were nearing completion.

1.2 Progress in achieving the Internal Audit Plan

The Audit Committee's terms of reference allow the Committee to comment on the progress made against the Internal Audit Plan. At each meeting the Committee receives an report summarising the current status of the reviews within the plan, including details of any reports where only a *limited* or *no* assurance opinion is given.

During the year the Committee noted:

- The *limited* assurance opinion in relation to Management of asbestos –all the recommendations from the audit review had been accepted and implemented; monitoring of the actions would be carried out by the Head of Service and the Internal Audit Manager.
- A vacancy in the in-house internal audit resources impacted on service delivery, with additional days procured from Southern Internal Audit Partnership (SIAP) to cover the shortfall in resources, and some rescheduling of Internal Audit Plan priorities.
- Internal audit reports were not routinely shared with Members, but could be circulated on request. Wider learning arising out of a specific audit review would be cascaded to officers as part of the staff development programme rather than as an action specifically for the Audit Manager.
- 204 audit plan days had been delivered; a number of planned reviews, totalling 79 days, were deferred to the 2020/21 Audit Plan. A number of reviews were added to the 2019/20 Audit plan, totalling 92 days.

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 (AGS). However, the statement is monitored throughout the year, to identify potential governance issues as they arise.

At its July 2019 meeting, the committee approved the AGS for 2018/19. At the September and November 2019, and March 2020 meetings the committee considered potential governance issues that might need to be addressed in the 2019/20 AGS, including:

- Management of Projects through a robust project management framework
- Air Quality monitoring and reporting
- Application of Habitats Regulations
- Impact of the Covid-19 pandemic

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, but primarily focusing on Housing Tenancy fraud.

The Committee was particularly pleased with the success of the anti-fraud work, which meant that more properties were available for residents who were in genuine need of a home. Additionally, the notional financial returns more than justified the dedicated post, which also had added benefits as a deterrent value.

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 2018/19 at its meeting on 22 July 2019. A briefing session had been held earlier in the month, to provide an opportunity for members of the Committee to ask any detailed questions on the accounts.

The Committee had some concerns about approving the accounts before the external audit was fully completed. Graeme Clark stated that he hoped there would not be any significant changes arising from the remaining work, but in order to make any minor amendments that may be required, he proposed a revised recommendation to give delegated authority to make changes subject to there being no fundamental mis-statements.

The Committee agreed with this approach, and requested that it be informed of any changes made to the statement of accounts under this delegation. Additionally, the Committee requested that Grant Thornton circulate a final Audit Findings Report once all the audit work had been completed.

In view of the ongoing audit work in relation to property valuations, the Committee RESOLVED that delegated authority be given to the Strategic Director (s151 Officer) in consultation with the Chairman of the Audit Committee to consider any changes to the External Audit Findings Report and, if satisfied with the report to make any necessary amendments to the accounts and/or Letter of Representation, and subject to this:

1. Approved the Statement of Accounts for the financial year ended 31 March 2019;
2. Approved the Letter of Representation for 2018/2019; and
3. Confirmed that the accounts had been prepared on a going concern basis.

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 2019/20.

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 received the report and discussed the issue of fraud and its prevalence in Waverley.

The Committee noted that the Council had recently appointed a new internal audit contractor as well as strengthening the in-house audit team. This had not been mentioned in the report, but it was felt that the new arrangements would provide a strong and resilient internal audit service going forward.

The Committee thanked the audit team for their hard work.

3.2 Internal Audit Charter

The Internal Audit Charter is reviewed by the Committee on an annual basis. There were only minor changes made to the since the last version had been published, and these were highlighted in the document attached to the agenda for the September meeting.

3.3 Internal Audit Plan

At its March meeting, the Committee considered the proposed Internal Audit Plan for 2020/21. 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.

4. External Audit

During 2019/20, 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 the audit work had started later in the year than anticipated due to a change in the audit team that had been necessary in order to ensure the independence and integrity of the audit. Grant Thornton thanked staff in the Council's finance team for their hard work and assistance in meeting the tighter than usual timeframes.

One adjustment to the accounts had been required in relation to net pension liability as a result of a national issue, not specific to Waverley. As a result of this matter, the Council had requested that its actuary carry out further work and officers had reviewed the findings to ensure that there was no impact on the integrity of the accounts.

4.2 Annual Audit Letter

At its September meeting the Committee received the 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 previous meeting.

Overall, the Committee was very pleased with the work of both the council's finance team and the external auditors, particularly given the short time frame.

4.3 External Audit Plan

At its March meeting, the Committee received the External Audit Plan for the year ending 31 March 2020.

The scope of the audit was outlined with the key areas of significant risk highlighted.

The significant risks identified were:

- The revenue cycle includes fraudulent transactions – this was rebutted after the auditor concluded there was little evidence of any risk;
- Management over-ride of controls – this will be evaluated by Grant Thornton;
- Valuation of land and buildings – this will be evaluated by Grant Thornton; and
- Valuation of pension fund net liability – this will be evaluated by Grant Thornton

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 Accounting Policies

At its March meeting the Committee were advised that the 2019/2020 Code had introduced no substantial new reporting requirements in 2019/20. In 2020/21 there was one substantial financial reporting standard which would be implemented from 1 April 2020. International Financial Reporting Standard (IFRS) 16 Lease accounting, which changed how leases were accounted for to represent the value of assets and liabilities. He advised that a lot of work had already been done around this change. The report outlined the areas affected and the impacts of the change.

5.2 Tax Strategy

At its November meeting the Committee was advised that the Council was required to have in place a Tax Strategy to fulfil its responsibilities under the Legislation in Criminal Finances Act 2017, and to undertake to respond appropriately to the Corporate Criminal Offence guidance from HMRC issued in September 2017.

The Council's Tax Strategy had been adopted in September 2018. The Committee noted that the legislation was aimed more at the wider corporate world, and the Council did not have any complex tax structures. It was therefore proposed that the Strategy be reviewed every two years, or sooner if there was a material change that impacted on it.

The Committee recommended the Tax Strategy 2020/22 to the Executive for approval

5.3 Financial Regulations

At its November meeting the Committee were advised that they were required to maintain an overview of the Council's Constitution in respect of financial regulations. Members noted that the regulations were last updated in September 2018 and in line with the commitment of continual review within the Annual Governance Statement the Financial Regulations had been reviewed and three changes were proposed, in relation to:

- FR 4.30 Carry forwards of budget
- FR 7.2 Approval of fees and charges
- Glossary - Definition of key financial system

It was proposed that the Section 151 Officer, rather than the Executive, would approve all budget carry forwards, and these would then be reported to the Executive as part of the end of year out-turn reporting.

It was proposed that the Section 151 Officer be able to approve changes to fees and charges, including car park fees, to speed up the process and give more flexibility to change charges during the year to respond to market demand. This would be carried out in consultation with the portfolio holder.

5.4 Contract Procurement Rules

At its November meeting the Committee were advised that the Contract Procedure Rules (CPR) were maintained and updated as and when required to adopt legislative changes, reflect best practice in the industry and support the Council's corporate objectives.

The current CPRs had last been updated and approved by full Council in October 2018. Whilst they were still fit for purpose, there were a small number of amendments required to reflect new/current legislation as well as the Council's newly adopted Corporate Strategy.

The Committee considered proposed amendments in relation to:

1. Modern Slavery
2. Tax implications
3. Accessibility standards
4. Carbon neutral
5. Disposal of Council assets

The Committee resolved that Council should approve the amendments.

5.6 Debt Recovery Update

At the Committee's November meeting, the Committee received an update on debt recovery. In February 2019 the council had implemented a new Income Debt Management Policy which provided an over-arching framework for managing all the council's income streams. It was a significant update of the previous policy, driven by the need to reflect the capability of current systems and the principle of charging for services at the point of service whenever possible.

The Committee noted that there were 3 key areas of work:

1. Updates to IT systems including Agresso, and Adelante the cash-handling system. Adelante had new functionality to allow recurring payments which allowed the process to be more efficient.
2. The Finance Team was liaising with all services to discuss the handling of debt and establish procedures appropriate to the service and their customers.
3. The Exchequer team was being reconfigured to make sure they had the right capacity to handle debt management, with increased resources in the debt recovery team to avoid reaching the point of having to use bailiffs and going to court. Recovery of Housing Benefit over-payments was a key focus. Officers were in contact with Reigate and Banstead Borough Council to benefit from their practices.

The Committee was pleased to hear about the work being done to manage income due to the Council, and that Internal Audit had reviewed the new systems.

6. Risk Management

At its September meeting the Committee were advised that the Corporate Risk Registers were being reviewed in light of the new Corporate Strategy. Risk appetite workshops had been arranged for all councillors, and a further session would be arranged for Audit Committee Members to go through the risk registers in more detail.

At its March Meeting the Committee were read a statement by Tom Horwood, Chief Executive of Waverley Borough Council regarding the Air Quality Management Investigation around fraudulent readings of Air Quality submitted by a member of staff.

The committee agreed that the way forward was to strengthen controls.

The Committee were advised that lessons had been learned. Waverley had now introduced two contracts: one for diffusion tubes and one to manage the Automatic Air Quality Monitors. In addition, the raw data was published monthly so it was in the public domain. One company also carried out quality assurance checks on the other and there were now much tighter controls overall.

The committee request that Internal Audit draw up a report showing all aspects of operations that could be exposed or Heads of Service to give assurance that the lessons have been captured.

7. Briefing Sessions

The Committee received a number of briefing sessions during 2019/20 and these are summarised below.

7.1 Audit Induction Sessions

At the elections in May there were a number of 'new' councillors elected therefore three introductory sessions were arranged for the committee to introduce the members to the duties of the Audit Committee.

7.2 Risk Appetite and Risk Management

Prior to its November meeting, the Committee received risk appetite workshops and a briefing session on risk management. (see item six of this report)

7.3 Medium Term Financial Plan

Prior to its November meeting, the Committee received briefing sessions on the Medium Term Financial Plan.

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