

WAVERLEY BOROUGH COUNCIL

AUDIT COMMITTEE – 23 JUNE 2015

REPORT TO THE COUNCIL MEETING – 21 JULY 2015

Title:

AUDIT COMMITTEE ANNUAL REPORT 2014/15 AND TERMS OF REFERENCE

This report details the work undertaken by the Audit Committee over the municipal year 2014/15. An audit of the Audit Committee suggested that an annual appraisal of the work of the Committee would be beneficial. It would help Members review the previous year's work and plan for the coming year.

The Committee met four times in June, September and November 2014 and March 2015.

The membership was as follows:-

Cllr Richard Gates (Chairman)	Cllr Peter Isherwood
Cllr Wyatt Ramsdate (Vice-Chairman)	Cllr Jennifer O'Grady
Cllr Tony Gordon-Smith	Cllr Stewart Stennett
Cllr Stephen Hill	

From the November 2014 meeting Cllr Jenny Else was appointed to the Audit Committee to replace Cllr Jennifer O'Grady.

On 6 January 2015, Councillor Stewart Stennett was appointed to the Executive and was no longer eligible to remain on the Audit Committee.

Details of Members' attendance at Audit Committee meetings during 2014/15 are given at [Annexe 3](#).

1. INTRODUCTION

1.1 At its first meeting on 25 June 2014, the Committee reviewed its terms of reference.

1.2 The Audit Committee's Terms of Reference are set out below:

1. Corporate Governance

1.1 To consider the Council's arrangements for corporate governance and recommend necessary actions to ensure compliance with best practice as set out in the current CIPFA/SOLACE Framework "Delivering Good Governance in Local Government" and any revision thereof.

1.2 To maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

1.3 To consider the Council's compliance with its own and other published regulations, standards and controls.

1.4 To monitor Council policies in "Whistleblowing" and the anti-fraud and anti-corruption strategy and the Council's complaints-handling process.

1.5 To monitor the effective development and operation of internal control in the Council with particular reference to risk management.

1.6 To approve the Council's Annual Governance Statement and, if thought fit, recommend its adoption by the Council.

1.7 To consider any reports published by bodies, other than the external auditor, charged with inspecting the Council's performance or arrangements for corporate governance.

1.8 To review any issue referred to it by the Head of Paid Service or a director or any Council body.

1.9 To request a report from any Head of Service relating to an outstanding internal audit recommendation issue.

2. External Scrutiny

2.1 To consider whether appropriate accounting policies have been followed in the preparation of the annual statement of accounts.

2.2 To consider all communications from the external auditor to the Audit Committee, including:

2.2.1 the audit letter;

2.2.2 the report on issues arising from the audit of the accounts; and

2.2.3 any other reports requested by the Audit Committee from the external auditor.

2.3 To consider whether there are concerns that need to be brought to the attention of the Council that arise from:

2.3.1 the audit; or

2.3.2 the accounts.

2.4 To consider and, if thought fit, approve the annual statement of accounts.

2.5 To comment on the scope and depth of external audit work and to ensure that it gives value for money, especially with regard to reports dealing with risk management and performance matters.

3. Internal Audit

- 3.1 To consider the Annual Review of the system of Internal Audit.
- 3.2 To consider the Internal Audit Client Managers Annual Report.
- 3.3 To approve the annual Internal Audit Service Plan.
- 3.4 To consider the current Internal Audit Plan and summaries of internal audit activity by service area and consider the level of assurance this can give concerning the effectiveness of the Council's corporate governance arrangements.
- 3.5 To consider internal audit reports detailing recommendations not implemented within the specified timescale.
- 3.6 To consider proposed internal audit activity and the range of service areas to be covered and the level of assurance this can give concerning the effectiveness of the Council's corporate governance arrangements.
- 3.7 To commission work from the Internal Audit Service.
- 3.8 To consider any specific internal audit reports requested by the Audit Committee.
- 3.9 To monitor the progress of any specific internal audit projects.
- 3.10 To consider reports dealing with the management and performance of the providers of internal audit services.
- 3.11 To comment on the scope and depth of internal audit work and to ensure that it gives value for money, especially with regard to reports dealing with risk management and performance matters.

4. Composition of the Audit Committee

4.1 Membership and Meetings

The Audit Committee will

- be composed of seven councillors, with no members from the Executive; and
- meet a minimum of four times per year, as set out in the Calendar of Meetings,

4.2 Quorum

The quorum for meetings will be three councillors.

4.3 Role Descriptions

Role descriptions are attached for:

- the Chairman of the Audit Committee (Annexe 1); and
- members of the Audit Committee (Annexe 2).

2. REVIEW OF PROGRESS IN IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

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

2.2 25 June 2014

2.2.1 The Committee received a report outlining internal audit recommendations overdue or due within the next month. The Head of Finance was present at the meeting and confirmed that the recommendations falling within his service area would be completed by their due dates.

2.2.2 The Head of Housing Operations was also present at the meeting, and provided the Committee with a presentation on the work being done in the Housing Service to improve processes and therefore implement the audit recommendations which had not yet been completely put into effect. The Committee noted that while the whole Housing Process Improvement Programme was not due to be completed until mid 2015, the responsive repair interfaces and process project should be completed by the end of August, and therefore felt that it was unnecessary to postpone the implementation date for these particular recommendations until 30 March 2015.

2.2.3 The Committee noted the progress on the implementation of internal audit recommendation and asked the Head of Housing Operations to liaise with the Internal Audit Client Manager to identify a new target date in advance of 30 March 2015 and to report new dates and progress at the September meeting.

2.3 17 September 2014

2.3.1 The Committee received a report outlining internal audit recommendations overdue or due within the next month along with a request to extend the due date for one recommendation.

2.3.2 The Committee was pleased to note that two overdue recommendations relating to housing responsive repairs which had been considered at the last meeting had now been implemented. Further monitoring of this area would be through the regular performance reports received by the Corporate Overview and Scrutiny Committee.

2.3.3 The Committee noted the progress on the implementation of internal audit recommendations and agreed to extend the implementation date relating to Sundry Debtors to 31.12.14 as an Agresso consultant needed to be present and there had been a change in the System Software consultants.

2.4 19 November 2014

2.4.1 The Committee received a report outlining internal audit recommendations overdue or due within the next month. Updates from officers since the agenda had been published were circulated. The Committee was advised that Agresso consultants were now on site and the extended implementation date agreed at the previous meeting relating to Sundry Debtors would be on time.

2.4.2 Financial regulations had been updated to reflect the changes in job titles and would also be updated to include reference to InTend, Waverley's new e-tendering system. The updated financial regulations would need to be approved by Council and the Head of Finance would ensure that this was done as soon as possible.

2.4.3 Relating to recommendations raised by the external auditors, the Head of Finance explained that the complexity of the Agresso and iTrent systems meant that it would be difficult for someone in IT to solely hold the administration rights. However, he assured the Committee that other mitigation measures were in place.

2.4.4 The Committee noted the progress on the implementation of internal audit recommendations and the progress on the recommendations raised by Grant Thornton.

2.5 23 March 2015

2.5.1 The Committee received the report outlining the progress that had been made on the implementation of internal audit recommendations. The Committee noted that the status of agreed actions was mostly green, however, the action regarding National Non Domestic Rates was overdue/in progress due to a staff training issue whereby duties were being reallocated. The Internal Audit Client Manager explained that work had been undertaken and a report produced but historical entries still needed to be written off.

2.6.2 The Committee agreed that no action needed to be taken on the Internal Audit Recommendations

3. INTERNAL AUDIT PLAN

3.1 The Audit Committee's terms of reference include provision for the Committee to comment on the progress made in the Audit Plan. At each meeting the Committee receives an update on the current position of the review.

3.2 25 June 2014

3.2.1 The Committee was pleased to note that all but one review had been completed from the 2013/14 Audit Plan, with a further three reviews having been deferred to the 2014/15 Audit Plan. The Committee asked that an update be provided at the September meeting to confirm that the one outstanding review had been completed.

3.2.2 The Internal Audit Client Manager circulated an updated version of Annexe 2 to the report. The Committee noted that two new reviews had been added, one of which related to scanning to ensure that all controls were still adequate following a recent growth in workloads.

3.2.3 The Committee noted the progress for the Internal Audit Plan 2013/14 and 2014/15 and endorsed the inclusion of the additional areas for Internal Audit review.

3.3 17 September 2013

3.3.1 The Internal Audit Client Manager circulated an updated version of Annexe 1 to the report, which showed that several reviews from the 2014/15 Audit Plan had now been completed or were in progress.

3.3.2 In response to concerns expressed by the Committee, the Internal Audit Client Manager explained that it had been necessary to defer some reviews designated at Quarter 2 to Quarter 3 due to staff leave, however a number of reviews had been through the planning stages but were not marked as 'in progress' as the auditor was not on site yet. The Committee felt that it would be helpful to know when reviews were in the planning stage and asked that this be included in further reports.

3.4 19 November 2014

3.4.1 The Committee received the report setting out the current position of the Internal Audit reviews detailed in the 2014/15 Audit Plan. The format of the report had been amended slightly to include a planned start date for each review, which Members found very useful.

3.5 23 March 2015

3.5.1 The Internal Audit Client Manager outlined progress against the Internal Audit Plan 2014/15 and tabled an updated Annexe 1 to the report. The Committee was pleased to note the good progress on work highlighted green.

3.5.2 The Committee was pleased to hear that there had been no reported asbestos incidents for 9 months. However, more work was needed and an Asbestos Recommendation Action Plan had been drawn up by Ridge & Partners and was closely monitored by the Asbestos Management Group reporting to Corporate O&S. As monitoring was continuing and progress well under way it would be of greater value for an audit to be undertaken once the re-procurement of the asbestos surveying and removal contracts had been completed. The Committee agreed that it would be of greater value to defer the Housing Asbestos Review until the 3rd quarter of the 2015-16 Audit Plan when this had been implemented.

4. RISK MANAGEMENT

4.1.1 Risk Management Update

4.1.2 25 June 2014

4.1.2 The Committee received an updated Corporate Risk Register, following observations made by the Committee at its March meeting. The main update was the inclusion of the risk level after mitigation, and target risk levels. The Committee noted that the register was not yet in a form that could be made public, and asked officers to work towards producing a version of the Corporate Risk Register that would be appropriate for wider publication for the September or December meeting of the Committee.

4.2 19 November 2014

4.2.1 The Committee received a report presenting the latest corporate risk registers as updated by Heads of Service. Members raised a number of questions about the detailed risk scenarios which were answered by officers.

4.3 23 March 2014

4.3.1 The Committee received a report that presented to Members the latest corporate risk registers as refreshed by Heads of Service with assistance from Zurich Municipal, the Council's insurance and risk management advisors. The Committee noted mitigation work was reducing risk levels and were pleased to note that in some areas the risk had improved from 'devastating'. Members considered it would be helpful for the register to have a yearly key which could identify every risk update.

4.3.2 Members were concerned over the risk associated with Staff Skill and Capacity Management. Officers explained that this was only in some areas of the Council where staff had migrated to the private sector as *the economy* came out of recession and was able to offer more incentives. The Council's HR team were reviewing this area. The Committee noted the revised corporate risks register with the above comments.

5. REVIEW OF ITEMS CONSIDERED BY THE AUDIT COMMITTEE 2014/15

5.1 External Audit Plan 2013/14

5.1.1 Emily Hill, the Grant Thornton External Audit Engagement Lead was present at the meeting on 25 June 2014 and introduced the report on the External Audit Plan for 2013/14. She described how Grant Thornton's considered the challenges and opportunities facing the Council, and explained that the 'significant' risks were generic and not specifically related to Waverley. Other risks identified included those involving large expenditure (Payroll) or complex transaction (Benefits).

5.1.2 Emily Hill also presented the results of the interim audit work and advised that the review of IT controls had showed no significant issues.

5.1.3 The Committee noted that no extra work was required and therefore there were no changes to the audit fee.

5.2 External Audit Update Report

5.2.1 At the meeting on 25 June 2014 Emily Hill presented the report and circulated a guide to local authority accounts for the Committee to read in advance of receiving the accounts in September. Draft accounts would be published on the website 'subject to audit' although there was no longer a requirement to publish the draft accounts by the end of June. The Director of Finance and Resources agreed to supply a copy to members of the Committee.

5.3 Accounts 2013/2014 – Key Issues

5.3.1 At the meeting on 25 June 2014 the Committee received a report which followed up on the 'challenge questions' raised by Grant Thornton at the March meeting. It was reiterated that the questions were not specific to Waverley and some were more relevant than others. Members asked that in future any such questions should be raised in consultation with officers so that their response could be included in the report.

5.4 Annual Governance Statement

5.4.1 At its meeting on 17 September 2014 the Committee received the Annual Governance Statement 2013/14 which set out the key elements of the Council's internal control framework and identified issues to be address in the coming year. The Committee felt that it would be useful if a draft version of the Annual Governance Statement could be submitted to the June meeting of the Audit Committee to enable Members to comment on it in advance. Officers agreed that this would be a good approach.

5.4.2 The Committee approved the Annual Governance Statement subject to amendments requested by the Committee.

5.5 Audit Findings Report

5.5.1 At its meeting on 17 September Emily Hill introduced the Audit Findings Report. The majority of testing had now been completed and the draft financial statements had been prepared to a very high standard. No significant issues were identified. An amendment to the report was tabled showing an error in categorisation that had been identified by officers and corrected on the 2014/15 General Ledger but not on the 2013/14 accounts as it was felt to be disproportionate to the value of the amendment, which was not material.

5.5.2 It was noted that the fees section included an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary due to the fact that there was no longer a requirement to certify NDR3 claims and this was reflected in a reduced grant certification fee in comparison to the previous year.

5.5.3 The Committee asked the IT Manager and Head of Finance to report to the next meeting on the work that had or would be done to address the two audit recommendations for improvements related to domain-level accounts with elevated network privileges, and security administration rights within Agresso and iTrent.

5.6 Statement of Accounts 2013/14

5.6.1 At its meeting on 17 September 2014 the Committee received the Statement of Accounts for the year ended 31 March 2014. It was noted that due to a misstatement set out in the Audit Findings report, a small change to the Letter of Representation was required and officers circulated an updated version of Annexe 2 to the report, incorporating this change. The Committee confirmed that the Accounts had been prepared on a going concern basis.

5.7 Revised Governance Policies

5.7.1 At its meeting on 19 November 2014 the Committee received updated versions of the following governance policies:

- Whistleblowing Policy
- Corporate Anti-Fraud, Corruption and Bribery Policy
- Prosecution Policy
- Anti-Money Laundering Policy and Guidance

The Committee noted that the majority of changes were minor and would continue to be reviewed annually.

5.7.2 The Committee recommended that these revised policies be approved and adopted by the Council and also recommended that officer ensure that all staff were aware of these documents.

5.7.3 At its meeting on 10 December 2014 the Council resolved to approve the recommendations and adopted the revised policies.

5.8 Annual Audit Letter 2013/14

5.8.1 Dominic Bradley from Grant Thornton was present at the meeting on 17 November 2014 to present the Annual Audit Letter. Grant Thornton had issued an unqualified opinion on the Council's 2013/14 financial statements and an unqualified value for money conclusion. The Committee was very pleased with the content of the letter, and asked that their thanks be passed on to officers in the finance team. Members also asked officers to issue a press release explaining that Waverley had received excellent audit findings. (Press release issued 3 December 2014)

5.9 Grants and Claims 2013/14

5.9.1 At the meeting on 23 March 2015 Iain Murray from Grant Thornton introduced the report on the Certification of Grants and Claims 2013/14. Grant Thornton had certified two claims and returns, Housing Benefit Subsidy and Pooling of Housing Capital Receipts. The Committee was pleased to note that following additional work by the Council no further action was required in respect of issues identified under Housing Benefit Subsidy and there were no issues with respect to Pooling of Housing Capital Receipts.

The Committee heard issues had been identified with the CIVICA system which were outside the control of the Council. The Committee noted that CIVICA intended to issue a correction patch which would correct any errors in the 2014/15 subsidy claim.

5.10 Draft External Audit Plan 2014/15

5.10.1 At the meeting on 23 March 2015 Iain Murray from Grant Thornton introduced the Draft External Audit Plan 2014/15 which would be finalised following any comments from the Committee. The Plan identified the Local Plan, Brightwells Development, the LG Finance Settlement and Housing as key challenges and risks facing the Council. The Committee was pleased to note that there were no specific issues or weaknesses identified in respect of interim audit work and commended the Plan to the successor Committee.

5.11 Audit Committee Update Paper

5.11.1 At the meeting on 23 March 2015 Iain Murray from Grant Thornton introduced the Audit Committee Update Paper which provided the Committee with a report on delivering Grant Thornton's responsibilities as the Council's external auditors. It was noted that the Independent Commission on Local Government Finance proposal for the devolution of powers, funding and taxes over a 10 year period might well change after the General Election. Members would be updated following the Council's finance Seminar later in the year.

5.11.2 Members noted that the Council's finance team were up to date with provisions for business rate appeals and that the Council had not paid any pension fund contributions covering more than one year. The inclusion of overtime in the calculation of holiday pay had been looked at by the Strategic HR Team and was not considered material as payment of overtime was limited.

5.12 Proposed Audit Plan for 2015/16

5.12.1 At the meeting on 23 March 2015 the Committee received the proposed Audit Plan for 2015/16. The Internal Audit Client Manager informed the Committee that she had conducted a risk assessment of Waverley's control environment and activities. Time had been allocated to prioritise high risk areas including those that may hinder the achievement of Waverley's Corporate objectives. The plan proposed to remain at the same number of days as previous years at 230 days which will be allocated to the contractor Baker Tilly for 2015/16. The Committee noted that this was the same number of days as the previous year and endorsed the Plan with no additional comments.

5.13 Review of Contract Procedure Rules and Financial Regulations

5.13.1 At the meeting on 23 March 2015 the Committee received a report attaching revised Contract Procedure Rules and Financial Regulations that had been reviewed in line with the Council's commitment within the Annual Governance Statement. They were last updated in January 2012. The Committee noted the amendments made to the Financial Regulations and Contract Procedure Rules which reflected the current management reporting structure and support service delivery. The Committee endorsed the report to be passed to the Executive with no comments or observations.

5.14 National Fraud Initiative 2014/15 and the Surrey Counter Fraud Partnership

5.14.1 At the meeting on 23 March 2015 the Committee received a report providing an update on the progress made by officers on the latest results of the Audit Commission's data-matching exercise known as the National Fraud Initiative (NFI). Members noted the progress in carrying out checks, and recognised the resources applied by the relevant services to investigate each of the data matches.

5.14.2 The Council had benefitted from a bid by seven Surrey Boroughs and Districts in partnership with Surrey County Council for funds from the Department of Communities and Local Government. The funding has supported the temporary appointment of an experienced Tenancy Fraud Investigator to focus on the growing risk area of Housing Tenancy Fraud. The Committee was pleased to note the work being undertaken by the Council in conjunction with other Surrey Local Authorities and suggested that at the appropriate time a press release should be issued to publicise the work being done to prevent fraud and to act as a deterrent. (Press release issued 19 May 2015)

Recommendation

It is recommended that the work carried out by the Audit Committee in 2014/15 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

AUDIT COMMITTEE CHAIRMAN ROLE DESCRIPTION

Purpose

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

Duties and responsibilities

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

AUDIT COMMITTEE CHAIRMAN PERSON SPECIFICATION

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

Providing leadership and direction:

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

Promoting the role of the Audit Committee:

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

Internal governance, ethical standards and relationships:

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

ANNEXE 2

AUDIT COMMITTEE MEMBER ROLE DESCRIPTION

Purpose

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

Duties and responsibilities

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

AUDIT COMMITTEE MEMBER PERSON SPECIFICATION

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

Understanding the nature of the Audit Committee:

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

Governance, ethical standards and relationships:

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

ANNEXE 3

The Audit Committee met four times, on 25 June, 17 September and 19 November 2014, and 23 March 2015. The membership and attendance at meetings is detailed below:

	25 June 2014	17 Sept. 2014	19 Nov. 2014	23 March 2015
Cllr Richard Gates (Chairman)	X	X	X	X
Cllr Wyatt Ramsdale (Vice-Chairman)	X	X	X	
Cllr Tony Gordon-Smith	X		X	X
Cllr Stephen Hill	X	X	X	
Cllr Peter Isherwood		X	X	X
Cllr Jennifer O'Grady				
Cllr Stewart Stennett	X			
Cllr Jenny Else			X	X

X = In attendance