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Monday, 21 March 2016

To: The Members of the **Audit and Standards Committee**
(Councillors: Valerie White (Chairman), Paul Ilnicki (Vice Chairman), Rodney Bates, Edward Hawkins, David Lewis, Jonathan Lytle and Bruce Mansell)

In accordance with the Substitute Protocol at Part 4 of the Constitution, Members who are unable to attend this meeting should give their apologies and arrange for one of the appointed substitutes, as listed below, to attend. Members should also inform their group leader of the arrangements made.

Substitutes: Councillors Dan Adams, Ruth Hutchinson, Katia Malcaus Cooper and Ian Sams

Dear Councillor,

A meeting of the **Audit and Standards Committee** will be held at Council Chamber, Surrey Heath House on **Thursday, 31 March 2016 at 7.00 pm**. The agenda will be set out as below.

Please note that this meeting will be recorded.

Yours sincerely

Karen Whelan

Chief Executive

AGENDA

	Pages
1 Apologies for Absence	
2 Minutes	3 - 6
To confirm and sign the non-exempt minutes of the meeting held on 17 December 2015.	
3 Declarations of Interest	
Members are invited to declare any disclosable pecuniary interests and non pecuniary interests they may have with respect to matters which are to be considered at this meeting. Members who consider they may have an interest are invited to consult the Monitoring Officer or the Democratic	

Services Manager prior to the meeting.

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|----------|--|----------------|
| 4 | Annual Plan 2016/17 | 7 - 12 |
| | To consider a report seeking approval of the 2016/17 Internal Audit Annual Plan. | |
| 5 | Peer Review | |
| | To receive an update on the Peer Review process. | |
| 6 | Corporate Risk | 13 - 20 |
| | To consider a report setting out the Corporate Risk Register. | |
| 7 | Certification Of Claims and Returns - Annual Report 2014/15 | 21 - 24 |
| | To consider a report providing an update on the outcome of the certifications of claims and returns for Housing Benefit for 2014/15. | |
| 8 | Update on Financial Statements | |
| | To consider a report providing an update on the Council's Financial Statements. | |
| 9 | Statement of Accounts 2015-16 | |
| | To receive an update on the actions being taken to ensure that the Statement of Accounts for 2015/16 is fully compliant with statutory requirements. | |

Minutes of a Meeting of the Audit and Standards Committee held at Council Chamber, Surrey Heath House on 17 December 2015

+ Cllr Valerie White (Chairman)
+ Cllr Paul Innicki (Vice Chairman)

+ Cllr Rodney Bates
- Cllr Edward Hawkins
Cllr David Lewis

+ Cllr Jonathan Lytle
+ Cllr Bruce Mansell

+ Present
- Apologies for absence presented

Substitutes: Cllr Ian Sams (In place of Cllr Edward Hawkins)

In Attendance: Charlotte Goodrich and Neil Hewitson

7AS Minutes

The minutes of the meeting held on 15 July 2015 were agreed and signed by the Chairman.

8AS Treasury Report

Members received a report on the Treasury Management Service Performance for 2014/15 as at the 30 September 2015 and compliance with the Prudential Indicators for 2015/16.

It was noted that there had been more borrowing this year to purchase property in order to increase income. The increased income would pay for the interest on the borrowing. Members requested information on the value of the properties which the Council owned. This would be emailed to Members. It was noted that the draft accounts were published on the Council website.

There was some concern regarding the funds with the Icelandic Banks and the following was discussed:

- All investments with the Icelandic Banks had been repaid but some was trapped by currency controls. The Council would have to wait for these to be lifted before access could be made to the funds;
- The funds however, were earning interest whilst held until the currency controls were lifted;
- There were 50 other Local Authorities in the same situation;
- The Local Government Association was investigating how to convert the interest; currently the interest was being added to the balance.

Resolved that:

- i) the report be noted; and**

ii) details of the value of property owned by the Council be emailed to Members.

9AS Internal Audit Recommendation as at December 2015

Members received a report on the status of the internal audit recommendations as at December 2015. Members were advised that the Council operated a classification system of 'essential', 'desirable' and 'best practice' for the audit recommendations. There were no essential recommendations outstanding.

Some Members asked how audit recommendations classified as 'desirable' and remain outstanding, were chased and implemented if they were not escalated to Members or management. Members also discussed the possibility of bringing to committee 'desirable' recommendations that hadn't been implemented after a certain period of time, and where they hadn't been subject to a separate audit, or been superseded by another recommendation.

Resolved that the report be noted.

10AS Update on Financial Statements - verbal update

Charlotte Goodrich and Neil Hewitson from KPMG addressed the Committee with regard to the financial statements. Work was still ongoing regarding the auditors opinions on the financial statements but the certification for housing benefit had been completed.

Members sought clarification as to when the draft accounts would be finalised. They were advised that the accounts required adjustments and these were currently being examined by the auditors.

Some Members noted that this had been the first time that there had been an issue on this scale and requested clarification on the details of the delay in finalising the accounts. Members were advised that it had been due to a combination of technical issues, previous errors under the old financial system and staffing issues. KPMG added that the reasons for the delay also included the capacity and capability within the finance structure, a significant change in the ledger and the fact that some basic core financial controls had not operated throughout the year e.g. monthly bank reconciliations where the interfacing had with the new system had not worked. This has now been rectified.

Some Members were concerned about this and requested that a report be provided to Committee outlining how this could be prevented from happening again.

Members were informed that measures had been put in place to prevent the issue arising again. Some Members asked who had recommended the software and were advised that it had been chosen through a tendering process. However, due to the issues encountered with the system, the final invoice was in dispute.

The final accounts would be signed off in time for the next Audit and Standards Committee meeting in March. It was requested that a report be provided for this meeting outlining what the specific issues had been and assurances that it would not happen again.

Members were advised that the delay in finalising the accounts would not incur any financial penalty however, the breach would be flagged to the National Audit Office and published on the website.

Resolved that:

- i) the report be noted; and**
- ii) a report be brought to committee in March outlining the issues which had delayed the finalising of the accounts and ensuring a mechanism had been put in place to prevent this delay happening again.**

11AS Spending Review 2015 - verbal update

Members received a presentation on the spending review 2015.

The Committee was advised of the following:

- National targets for the spending review and the funding reductions
- Allocations to main departments (Defence, Work and Pensions, Home Office, Education, DCLG, Health and Business Innovation and Skills)
- Projection for Local Government Funding up to 2019/20
- Although business rate income would be increasing through retention, the revenue support grant would be decreasing. It was noted that 50% of the business rates income would go to Central Government, 10% to Surrey County Council, 40% to Surrey Heath plus the fixed tariff to Surrey County Council. Depending on the amount of income generated, because of the fixed tariff this could mean that the Council would actually receive less once the dividends had been allocated.
- New Homes Bonus – the incentive would remain but it was likely to be reduced and the borough county/split altered.

It was concluded that:

Nationally

- Settlement was not as bad as initially expected but details required
- Local Government would still be taking largest slice of cuts
- Consultation on finance reforms would herald huge changes

Locally

- No Government Funding for services
- Government assumed that Council Tax would rise
- Unable to know whether Surrey Heath would benefit at this stage
- Finance reforms would lead to greater risk and volatility in funding
- Important to ensure building homes continued

Members were also advised that the Government settlement had been announced:

- Grant to fall from £965k in 2015/16 to £360k in 2016/17 and Nil thereafter
- Referendum threshold with regard to Council Tax set at 2%
- 13.5 % reduction in funding up to 2019/20 assuming increase in Council Tax (£1m cash)
- New Homes Bonus to be reduced to 4 years from 6

It was noted that it would be challenging times ahead and would be important to generate income and work collaboratively with other Local Authorities.

The presentation would be emailed to Members.

Resolved that:

- i) the report be noted; and**
- ii) the presentation be emailed to Members.**

Chairman

Internal Audit Report

Portfolio	Finance
Ward(s) Affected: n/a	

Purpose

To consider and approve the 2016/17 Internal Audit Annual Plan

Background

1. The Accounts and Audit Regulations require local authorities to maintain an adequate and effective system of internal audit of accounting records and of the system of internal control, in accordance with internal audit Standards. An Annual Plan for Internal Audit demonstrates how the Council will fulfil this requirement in accordance with the Public Sector Internal Audit Standards.
2. The annual Internal Audit opinion will be derived from the work undertaken in accordance with the Annual Plan, the overall opinions of each audit, and the progress made by managers in implementing previously agreed recommendations.

The Annual Plan

3. The Annual Plan is attached at Annex A. It is a proposed work programme for Surrey Heath's Internal Audit for the forthcoming financial year, and covers the period April 2016 to March 2017. The plan is a combination of cyclical reviews that are conducted every year, as well as audits that are undertaken less frequently such as one off pieces of work, or audits conducted every 3 years.
4. The plan is based on the Internal Audit Strategic 3-Year Plan, and was agreed by Members in January 2014. The current Strategic Plan expires at the end of 2016-17 financial year.

Resourcing & Qualifications

5. A total number of 522 days will be required to deliver the plan, utilising 2 full time auditors. The total number of days includes an allowance for annual leave, bank holidays and training. The team consists of a Chartered fully qualified Senior internal auditor and a part qualified auditor, who is currently undergoing training and examinations through the Global Institute of Internal Auditors. The Senior Auditor reports directly into the Audit, Fraud and Enforcement Manager as well as the Section 151 Officer.

Requirements of External Audit

6. The plan includes a number of audits that have been required by the Council's external auditors. This body of work focuses on key finance audits such as

debtors, creditors, treasury and housing benefits and the work internal audit do in such areas assists the Council with the verification and checks on the Council's set of accounts; Balance Sheet, Trial Balance and Cash Flow statements.

Monitoring and reporting

7. Progress against the plan and performance of the audit team is monitored during the year and reported to the Executive Head Finance. Major amendments to the plan will be discussed and agreed in advance with the Executive Head Finance in consultation with the Audit & Standards Chair.
8. Significant risks and findings identified by Internal Audit during the course of the year will be brought to the attention of senior management, and reported to the Audit & Standards committee. Significant risks are also brought to the attention of the Council's Corporate Risk Management Group and considered for inclusion in the Corporate Risk Register. Internal Audit recommendations are followed up and any significant or essential actions that have not been implemented or discharged within agreed timescales are reported to CMT and Members twice a year.

Corporate Plan

9. The work of Internal Audit supports the Council's Corporate Plan whilst helping to meet its corporate objectives and key priorities. The Internal Audit service is also an integral part of the Council's performance management system.

Resource implications

10. There are no resource implications arising from this report.

Recommendation

11. Members are asked to note and agree the 2016-17 Internal Audit Annual Plan.

Annex A: Copy of 2016-17 Annual Plan

Background Papers: None

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Executive Head: Kelvin Menon 01276 707257
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SURREY HEATH BOROUGH COUNCIL
INTERNAL AUDIT SERVICE
Annual Audit Plan 2016-17

audit	budget no. of days	cycle	comment	Service contact
FUNDAMENTAL SYSTEMS				
Debtors and Income	5	annual		Kelvin Menon
Creditors and Expenditure	5	annual		Kelvin Menon
Main Accounting System	10	annual		Kelvin Menon
Payroll	5	annual		Belinda Tam
Housing Benefits	8	annual		Robert Fox
Revenues	8	annual		Robert Fox
Treasury Management	7	annual		Kelvin Menon
Cash and Bank	7	annual		Kelvin Menon/Margaret Beagley
Capital Accounting	7	annual		Kelvin Menon
TOTAL AUDIT DAYS - FUNDAMENTAL SYSTEMS	62			
COUNCIL WIDE				
Projects & Performance Management	15	in Strategic Plan	to review corporate projects and performance management systems	various
Contract Management	15	annual		various
Procurement	10	annual		Kelvin Menon
Grants	10	occasional	follow up work from work carried out 3-4 years ago.	various
Fraud Prevention & Detection	10	annual		Julia Greenfield
TOTAL AUDIT DAYS - COUNCIL WIDE	60			
CORPORATE				
Complaints	10	in Strategic Plan		Richard Payne
TOTAL AUDIT DAYS - CORPORATE	10			
COMMUNITY				
Community Transport	8	in Strategic Plan		Tim Pashen
Highways & Street Cleansing	10	in Strategic Plan		John Foley
Health & Safety	10	in Strategic Plan		Tim Pashen
Licensing	10	in Strategic Plan		Derek Seekings
Refuse & Recycling	10	annual		John Foley
TOTAL AUDIT DAYS - COMMUNITY	48			
BUSINESS				
Event Management	17	annual	To review new business initiatives, including operation of 4G sports pitch, Surrey Heath Show, parking events, Frimley Lodge Live	Daniel Harrison
Parking	15	annual		Eugene Leal
Camberley Theatre	12	annual		Daniel Harrison
Leisure Centres	15	annual	Arena, Lightwater	Leigh Thornton
Parks & Open Spaces	15	annual	including grounds maintenance	Leigh Thornton
TOTAL AUDIT DAYS - BUSINESS	74			
TRANSFORMATION				
Information Management	15	annual		Geraldine Sharman
ICT	15	annual		Janet Jones
TOTAL AUDIT DAYS - TRANSFORMATION	30			
LEGAL				
Building Control	10	in Strategic Plan		Sam Hallam
Facilities Management	6	in Strategic Plan		Jon Gregory
Corporate Asset Management	10	annual	including review of corporate rents	Karen Limmer
TOTAL AUDIT DAYS - LEGAL	26			
REGULATORY				
Housing	15	in Strategic Plan		Clive Jinman
Land Charges	10	in Strategic Plan		Jane Luker
TOTAL AUDIT DAYS - REGULATORY	25			
HR				
HR Systems	15	annual		Belinda Tam
TOTAL AUDIT DAYS - HR	15			

TOTAL AUDIT DAYS 350

Plus:
Contingency 30
Management and Committee 15
Advice, Working Groups, Consultancy 15
Team Supervision & Planning 20

TOTAL DAYS REQUIRED TO COMPLETE PLAN 430

RESOURCES AVAILABLE TO DEPLOY PLAN
2 X FTE (261 x2) 522
Less:
Annual Leave inc. leave carry over -64
Bank Holidays -16
Training & exams -12
430

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CORPORATE RISK REGISTER

Portfolio:	Finance
Ward(s) Affected:	All

Purpose

To review and agree the Corporate Risk Register.

Background

1. The Corporate Risk Register was last discussed at the Performance and Audit Scrutiny Committee in January 2015. The responsibility for risk now sits with this committee
2. The current version of the Corporate Risk Register is attached at Annex A for Members' consideration. It was agreed by the Executive that this Committee would review the risk register annually, and this meeting is the opportunity to go review the current register suggesting amendments as appropriate.
3. The Council has agreed a Risk Management Strategy, and has a risk management process in place with an officer Risk Management Group meeting four times a year.
4. The Finance Portfolio Holder has the specific member responsibility for risk

Options

5. Members can review the Corporate Risk Register, agree amendments, or reject it for further work.

Proposal

6. Members are asked to review the Corporate Risk Register and to consider whether it requires amendment. The corporate risk management system recommends an annual review as high level risks identified in the risk registers are unlikely to change significantly over shorter periods of time. It is recommended that the register is reviewed again in 12 months.

Resources Implications

7. No additional resource implications as a direct result of this report.

Recommendation

8. It is recommended that:
 - (i) the Corporate Risk Register is approved with or without amendments
 - (ii) further mitigation action is recommended by members if needed
 - (iii) the Corporate Risk Register is again reviewed by this committee in 12 months time.

Background Papers:

Annex A - Corporate Risk Register

Author:

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SURREY HEATH BOROUGH COUNCIL



CORPORATE RISK REGISTER – March 2016

This register summarises the main risks faced by the Council in relation to achieving the objectives and priorities as defined in the Council’s Corporate Plan. It also notes the current mitigation action being taken to control those risks, and identifies any further action needed to implement other necessary mitigation action. The register does not identify all risks, but seeks to highlight the relevant main strategic risks.

Introduction

The following summary matrix shows at high level overview the key risks faced by the Council, and their initial rating. Those above the line of acceptable risk (the shaded area) have further mitigating action to bring them within the line.

Summary Matrix – key strategic risks after mitigation

Likelihood				
	4 Very Likely (>80%)			
	3 Likely (50% - 80%)			
	2 Possible (10% - 50%)		Town centre Information Management Business Continuity Supplier Failure	Loss of Funding Impact of Legislation
	1 Unlikely (<10%)		TEEP Capacity and Resilience	Property Investment Treasury Investment Major Incident
Impact	1 Low (< £10k)	2 Moderate (£10k to £200k)	3 Major (£200k to £1m)	4 Severe (>£1m)

	RISK	Likelihood	Impact	Initial Rating	Mitigation	Ownership	Revised Likelihood	Revised Impact	Revised Rating
1.	Information Management, Data Sharing and Data Security - the Council holds considerable personal data, as well as key data that need to be retained for operational and statutory purposes. This data needs to be secure and effectively managed.	3	3	9	Paper and electronic data management systems; document and record retention policy; system to respond to data access requests; archiving system; training for all staff on data security. Data and Security breaches policy and procedure approved by Council. Data sharing protocol in place	LL	2	2	4
2.	Loss of Funding for Services Loss of funding leads to Council being unable to provide services	3	3	9	The MTFF shows that this will not impact until 2020 when large savings will be made. The Council will follow a strategy of increasing income and saving..	KM	2	3	6
3.	Business continuity systems and processes – to plan for dealing with challenges to the continuity of the Council’s business to ensure the effects on the community in such cases are mitigated as much as practicable	2	3	6	BIAs and BC Plans have been updated by all services and tested to ensure they are current and all critical functions are covered. Joint resilience structure in place	TP	2	2	4
4.	Capacity and Resilience There are insufficient staff to cover for sickness and absence.	2	2	4	Staff are working more generically and multitasking. Sickness levels are decreasing. There are cover arrangements with other authorities in place for some services.	LL	1	2	2

	RISK	Likelihood	Impact	Initial Rating	Mitigation	Ownership	Revised Likelihood	Revised Impact	Revised Rating
5.	Failure of Major contractor or supplier Major contractor, such as for refuse disposal goes in to liquidation	2	3	6	Company likely to be taken over rather than close. Major contracts have guarantee provisions and step in rights. In house team able to take on management in an emergency	TP	2	2	4
6.	Impact of Legislation New legislation places increased demands on the Council and impacts resources	3	3	9	The impact of legislation is considered when announced but there is a risk that future government plans could impact the council adversely.	LL	2	3	6
7.	Major Incident Major incident may directly or indirectly affect the Council's ability to deliver services	1	4	4	All services have up to date emergency plans and exercises are held regularly to test preparedness	TP	1	3	3
Page 18	TEEP Impact of European legislation means that recycling has to be collected by type rather than co-mingled	2	3	6	Legal advice being sought by authorities to ascertain whether impact of TEEP rules can be mitigated	TP	1	2	2
9.	Town Centre Comprehensive redevelopment difficult due to difficulty in delivering a financially viable scheme	3	2	6	Scheme being worked up on a more incremental site by site approach	JR	2	2	4
10.	Treasury Investment Strategy Diversification in to new investments to bring higher returns can also lead to higher risks	2	3	6	Investments only entered in to on recommendation of treasury advisors. Investments are in diversified portfolios. Regular reviews of investments with advisors	KM	1	3	3
11.	Property Investment Property investment values can be volatile as they are subject to market forces. This may mean that borrowing is not covered	2	3	6	Full business case done by advisors before purchase. Returns take account of known risks. Properties managed by external agents. Rents reviewed regularly.	KL	1	3	3

Key to initials

RP – Richard Payne – Executive Head of Transformation;

KM – Kelvin Menon – Executive Head of Finance

TP – Tim Pashen - Executive Head of Community;

KL – Karen Limmer – Head of Legal Services

LL – Louise Livingston – Head of Corporate

JR – Jenny Rickard – Head of Regulatory

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CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2014/15

Portfolio	Corporate
Ward(s) Affected:	n/a

Purpose

To update Members on the outcome of the certifications of claims and returns for Housing Benefit for 2014/15

Background

1. The Council’s auditors KPMG are required to certify the accuracy of the Council’s claims and returns for Housing Benefit.
2. The purpose of this is to ensure that Benefit payments have been calculated correctly and then reclaimed from Government in line with regulations

Outcome

3. The Auditors have given an unqualified report for the return and their audit report is attached. They are not recommending any changes to changes to processes or procedures.

Resource Implications

4. The fees payable for this audit are disclosed in the attached report.

Recommendation

5. Members are asked to note the report as attached and comment as appropriate.

Annex:

Annex A – Certification of Claims audit report 2014/15

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Service Head: Kelvin Menon – Executive Head – Finance
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