



**Surrey Heath Borough Council**  
Surrey Heath House  
Knoll Road  
Camberley  
Surrey GU15 3HD  
Telephone: (01276) 707100  
Facsimile: (01276) 707177  
DX: 32722 Camberley  
Web Site: [www.surreyheath.gov.uk](http://www.surreyheath.gov.uk)

**Department:** Democratic Services  
**Division:** Corporate  
**Please ask for:** Katharine Simpson  
**Direct Tel:** 01276 707157  
**E-Mail:** [democratic.services@surreyheath.gov.uk](mailto:democratic.services@surreyheath.gov.uk)

Friday, 30 June 2017

To: The Members of the **Audit and Standards Committee**  
(Councillors: Paul Deach (Chairman), Rebecca Jennings-Evans (Vice Chairman),  
Rodney Bates, Edward Hawkins, Paul Ilnicki, Bruce Mansell and Conrad Sturt)

**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, David Lewis and Oliver Lewis

Dear Councillor,

A meeting of the **Audit and Standards Committee** will be held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on **Monday, 10 July 2017 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

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## AGENDA

	<b>Pages</b>
<b>1 Apologies for Absence</b>	
<b>2 Minutes of Previous Meeting</b>	<b>3 - 6</b>
To confirm and sign the minutes of the meeting of the Audit and Standards Committee held on 30 March 2017.	
<b>3 Declarations of Interest</b>	
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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|----------|--|----------------|
| <b>4</b> | <b>Assessment of Going Concern Status</b>  | <b>7 - 12</b>  |
|          | To receive a report setting out the S151 Officer's assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2016/17. |                |
| <b>5</b> | <b>Annual Governance Statement</b>   | <b>13 - 22</b> |
|          | To receive and comment on a report setting out the Council's draft Annual Corporate Governance Statement.  |                |
| <b>6</b> | <b>Internal Audit Annual Report 2016-17</b>  | <b>23 - 32</b> |
|          | To receive a report summarising the work undertaken by the Council's Internal Audit function during the 2016/17 financial year.  |                |
| <b>7</b> | <b>Annual Review of the Effectiveness of the Internal Audit System</b>   | <b>33 - 38</b> |
|          | To consider a report setting out the outcomes of an annual review of the effectiveness of the systems for internal audit during 2016/17.                               |                |
| <b>8</b> | <b>Annual Standards Report</b>   | <b>39 - 40</b> |
|          | To receive the Monitoring Officer's Annual Standards Report.   |                |

#### **Date of Next Meeting**

The next scheduled meeting of the Audit and Standards Committee will take place on Monday 25 September 2017 at 7pm.

**Minutes of a Meeting of the Audit and Standards Committee held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on 30 March 2017**

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- Cllr Rebecca Jennings-Evans (Chairman)  
+ Cllr Conrad Sturt (Vice Chairman in the Chair)

+ Cllr Dan Adams  
+ Cllr Rodney Bates  
+ Cllr Edward Hawkins

- Cllr Paul Ilnicki  
Cllr Jonathan Lytle  
+ Cllr Bruce Mansell

+ Present  
- Apologies for absence presented

Substitutes: Cllr Dan Adams for Cllr Paul Ilnicki

In Attendance: Karen Limmer, Head of Legal  
Kelvin Menon, Executive Head of Finance  
Alex Middleton, Senior Auditor

#### **11AS Minutes of Previous Meeting**

**RESOLVED** that the minutes of the Audit and Standard Committee meeting held on 19 September 2016 be approved as a correct record and signed by the Chairman.

#### **12AS Declarations of Interest**

There were no declarations of interest.

#### **13AS Financial Statements Audit Plan 2016-17**

The Committee received a report setting out the KPMG's, the Council's external auditor, plans for their audit of the Council's 2016/17 financial records.

In setting out their approach to the audit of the accounts, KPMG had identified the following areas that would be subject to specific scrutiny:

- Changes to pension liabilities following the triennial revaluation of the Local Government Pension Scheme
- Valuation of land and buildings
- Group accounts and the acquisition of the Jersey Unit Trust
- The new format of core financial statements
- The capacity and structure of the finance team
- The financial resilience of the Council

The Committee was informed that a significant amount of work had taken place to supplement the resourcing of the finance team. A Chief Accountant had been appointed and would take up their post in June. A second Trainee Accountant had been taken on and would be following the same qualification path as that of the Trainee already in post who was now studying for their stage two accountancy qualifications. A Systems Accountant had also been taken on and a further 2 part time accountants had been taken

on to look after the Council's Property Interests and the Joint Waste Contract. The possibility of using interim staff to fill vacant posts until newly appointed permanent staff were ready to take up their posts was also being explored.

It was acknowledged that predicting the income generated by the theatre was a challenging task. The Committee was informed that actual income had been increasing year on year and the new theatre management team were working to develop the theatre's offer in order to generate higher levels of income.

The Committee noted the report and commended the approach being taken to develop and train young people within the Council.

#### **14AS Certification of Benefits Claims**

The Committee received a report setting out the findings of an audit of the Council's Housing Benefits Claims and Returns for 2015/16 completed by KPMG in November 2016.

In 2015/16, the Council had claimed a total of £16,281,299 in respect of Housing Benefits from the Government. The audit, which had been conducted in accordance with the requirements set out by the Government, had concluded that the claim and returns were fairly stated and in accordance with the relevant terms and conditions.

It was noted that during 2015/16 the Council had made overpayments of £27,681 as a result of local authority errors and administration delays.

The Committee noted the report.

#### **15AS Independent Persons Protocol**

The Committee received a report providing an update on the adoption of an Independent Persons Protocol.

The Committee was informed that the Localism Act 2011 required all local authorities to adopt a code of conduct for their elected members and to appoint at least one independent person to assist the council in dealing with complaints that the code of conduct may have been breached.

The Designated Independent Person had to fulfil three main purposes:

- to be consulted by the Authority before it made findings as to whether a Member had failed to comply with the Code of Conduct or decided on action to be taken in respect of that Member
- they could be consulted by the Authority in respect of a standards complaint at any other stage; and
- they could be consulted by a Member, or co-opted member of the Council, against whom a complaint has been made

To ensure that they had access to a pool of suitably trained and skilled independent persons the Council had entered into a consortium arrangement with six other local authorities. The Consortium had appointed six people to act as Independent Persons and the Protocol had been adopted to ensure that their use was well managed and that appropriate support and training was available to help them with any work they undertook as part of their role.

The Protocol was a working document and would be reviewed and updated as necessary.

The Committee noted the report.

#### **16AS Internal Audit 3 Year Strategy 2017-2020**

The Committee received a report setting out the proposed Internal Audit Three Year Strategic Plan 2017-20.

The Plan had been developed in line with the best practice principles set out by the Public Sector Internal Audit Standards. The areas to be audited had been identified through a combination of factors including the Council's Corporate Risk Register, projected levels of income and expenditure, the control environment, growth areas and identified public sector risks. The Plan would be used to form the basis of the Internal Audit function's work programme for the next three years.

In developing the plan, officers had tried to spread the work across a range of areas to ensure that audit work did not become overly burdensome to individual sections. Where a system was subject to annual audits then efforts were made to look at different parts of the system each year.

It was considered that the proposed five year gap between Development Control (Planning) audits was too large. It was suggested that the proposed 2018/19 audit be brought forward and the audit of another regulatory area planned for 2017/18 be put back to 2018/19. It was agreed that the audit timetable for Regulatory Services would be revisited.

**RESOLVED** that the Internal Audit Three Year Strategic Plan 2017-20, attached as Annex A of the report, be approved.

#### **17AS Internal Audit Annual Plan 2017/18**

The Committee received a report setting out the proposed work plan for the Council's Internal Audit Function for 2017/18.

The work plan had been based on the Internal Audit Three Year Strategic Plan and consisted of a combination of audit activities that were carried out on an annual basis, activities that were conducted on a triannual basis and one off audit projects.

It was expected that the activities proposed in the Annual Plan would require 430 working days to be delivered by the Council's two internal auditors. Additional resources would be brought in to supplement the internal Audit Team when required.

The Committee noted the proposed audit areas for 2017/18 and requested that consideration be given to auditing the Council's Investment Portfolio during the year.

**RESOLVED** that the Annual Audit Plan for 2017/18, as set out in Annex A of the report, be approved.

**Chairman**

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**ASSESSMENT OF GOING CONCERN**

Portfolio	Finance
Ward(s) Affected: n/a	

**Purpose**

This report informs the Committee of the S151 Officer’s (Executive Head of Finance) assessment of the Council as a “going concern” for the purposes of producing the Statement of Accounts for 2016/17.

**1. Background**

**Key Issues: Assessment**

- 1.1 The concept of a ‘going concern’ assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
- 1.2 Where the ‘going concern’ concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements. Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, External Auditors are placing a greater emphasis on local authorities undertaking an assessment of the ‘going concern’ basis on which they prepare their financial statements. In response this report sets out the position at Surrey Heath.
- 1.3 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2016/17 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council’s Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business. The main factors which underpin this assessment are:
  - The Council’s current financial position;
  - The Council’s projected financial position;
  - The Council’s strategic planning and budget framework process;
  - The regulatory and control environment applicable to the Council as a local authority;

### **The Council's Current Financial Position**

- 1.4 Overall the Council has ended the year under budget. Additional income has been earned from assets purchased in the year which was not budgeted for and there have also been savings in a number of areas.
- 1.5 Capital schemes have also come in in on or under budget and all expenditure has been funded. At the 31<sup>st</sup> March 2017 the Council had net borrowings of £119m against a Capital Funding Requirement (CFR) of £140m meaning that the Council is funding £21m of capital expenditure internally which could in an emergency be converted in to external debt. This would be within the current authorised limit of £167m.

### **The Council's Projected Financial Position (Revenue)**

- 1.6 The Council set a balanced budget for 2017/18 as required by law in February 2017. For the first time for a number of years no savings target was included and the Council did not have to use any "New Homes Bonus" to support expenditure. This was because of the significant investments in property made in the preceding year which have contributed £1.5m to revenue budget as additional income after financing and capital repayments. The Council has adopted a strategy of increasing income rather than cutting services, as outlined in the Medium Term Financial Plan, and this is being generated by property investment. The result of the investments made so far is to reduce the projected shortfall in resources in the budget for 2020/21 from £1.4m projected in 2016/17 to £222k projected in 2017/18.
- 1.7 The Council intends to make further investments during the year to try to insulate its finances and hence protect services from the uncertainty in Government funding from new homes bonus and business rates.
- 1.8 There are risks around property ownership but the Council is investing in a mixed portfolio of properties with a large number of tenants rather than being dependent on one key property and tenant. If in the next 12 months 25% of the Council's property portfolio was to become vacant this would result in an income loss of £1.6m. This could in the short term be covered by reserves thereby giving the Council time to change its property strategy and rebuild its income. This in term may require further borrowing or assets to be sold.

### **The Council's Current and Projected Financial Position (Capital)**

- 1.9. The Council set a capital budget of £3.8m for 2017/18 of which £3.2m related to the purchase of vehicles to support the new waste contract. This will be repaid over the next 10 years. The Council does not have any capital receipts and so any capital program has to be funded by loans or grant with the remainder coming from revenue. Only £21k of the capital program is forecast to be funded from revenue during the year and can be covered by reserves if required. It is likely that the Council will purchase further property during the year supported by borrowing but this will only be undertaken if it complies with the property investment policy and therefore can cover its own borrowing costs and capital repayments.

### **The Council's Balance sheet as at the 31<sup>st</sup> March 2017**

- 1.10. The unaudited financial statements show that the Council has a net balance sheet of £40m at the 31<sup>st</sup> March 2017 compared with £48m last year. Although the council has invested £120m in property this year this has all been funded by borrowing and so has not had an impact on the balance sheet. Most of the variance £8.5m is due to a change in the IAS19 pension liability driven by the continuing low Gilt rates used to value future obligations. However the triennial actuarial review as at the 31<sup>st</sup> March 2016 calculated the deficit to be £15m with a funding rate of 81% - a significant improvement on 2013. This meant that the actuaries did not need to recommend an increase in contributions as they believe that the fund is sustainable at the current rate of funding so there is no cause for concern about the increase in the pension liability.
- 1.11. The Council's balance sheet is underpinned with £200m in assets some of which could be sold if required. The Council also has cash backed reserves of £20m which could also be called upon.

### **The Council's Cash Flow**

- 1.12. The Council maintains a cash flow projection covering the whole financial year. This is so that borrowings and investment can be managed to ensure that there are adequate funds available to meet the Council's commitments. The Council held £10m in investments at the 31<sup>st</sup> March 2017 which could be converted into cash if required and in addition the Council could borrow on demand £20m from the Public Works Loans Board to meet its Capital Funding Requirement Gap to provide additional liquidity. On a day to day basis the Council can also access funds from the bank for short periods in the form of an overdraft or borrow from other local authorities provided that that overall debt ceiling is not breached.

### **The Council's Governance Arrangements**

- 1.13. The Council has a well-established and robust corporate governance framework. This includes the statutory elements like the post of Head of Paid Service, the Monitoring Officer and the Section 151 Officer in addition to the current political arrangements.
- 1.14. An overview of this governance framework is provided within the Annual Governance Statement which is included elsewhere on this agenda. This includes a detailed review of the effectiveness of the council's governance arrangements. Whilst it is not possible to provide absolute assurance the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide assurance of their effectiveness.

### **The External Regulatory and Control Environment**

- 1.15. As a local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

- 1.16. Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being, when faced with such a scenario, that central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery.

## **2. Conclusions**

- 2.1. It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that the Council remains a "going concern". This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.

## **3. Options**

- 3.1 There are no options as the committee is asked to note and comment on the report.

## **4. Legal Issues**

- 4.1 The Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2015/16 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the council's Statement of Accounts is prepared assuming that the council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the council will realise its assets and settle its obligations in the normal course of business.
- 4.2 This report sets out the process that has been undertaken in order to ensure that the Council complies with the relevant requirements of the Code and that it is "going concern" for the purposes of the draft statement of accounts 2016/17.

## **5. Governance Issues**

- 5.1 None

## **6. Sustainability**

- 6.1 The Council needs to be financially sustainable if services are to be maintained

## **7. Risk Management**

- 7.1 The Council has sought to mitigate risks to its finances as much as possible by ensuring that a balanced budget is set and adhered to, adequate levels of reserves are held and seeking to generate income. The main risk the council, and all public bodies face, is the uncertainty in respect of funding from central government and indeed the movement to charge a "fee" to some Councils thereby transferring money to Government. Surrey Heath has attempted to reduce this list by developing other forms of funding. Members are advised of potential changes in Government funding and the impact it could have in the Medium Term Financial Forecast, the annual budget and on an ad hoc basis when consultation responses are required.

## 8. Recommendation

- 8.1 The Audit Committee is recommended to note the outcome of the assessment made of the Council's status as a "going concern" for the purposes of the draft Statement of Accounts for 2016/17.

## 9. Resource Implications

- 9.1 There are no direct resource implications arising from this report however were the Council not considered to be a "going concern" this would have significant financial and governance implications as well as an impact on services

<b>Annexes</b>	<b>None</b>
<b>Background Papers</b>	<b>None</b>
<b>Author/Contact Details</b>	<b>Kelvin Menon</b> <a href="mailto:Kelvin.menon@surreyheath.gov.uk">Kelvin.menon@surreyheath.gov.uk</a>
<b>Head of Service</b>	<b>Executive Head of Finance</b>

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**ANNUAL GOVERNANCE STATEMENT**

Portfolio	Finance
Ward(s) Affected:	n/a

**Purpose**

The purpose of this report is to advise the Committee of the draft of the Annual Corporate Governance statement which will form part of the 2016/2017 annual accounts and will be signed by the Leader of the Council and the Chief Executive.

**1. Background**

- 1.1 The Council is required to produce an Annual Governance Statement as part of the final accounts for the financial year and statement is signed by the Leader of the Council and the Chief Executive. The draft Statement is attached at Annex A to this report.
- 1.2 The Statement informs stakeholders of the Governance arrangements within the Council, addresses the key issues for the year and picks up those considered in the previous year.
- 1.3 The document is informed by the annual work of the Executive, the Corporate Management Team, the Internal Audit team, the Council's risk process and the general control systems in place within the Council. It provides a review of the Council's governance arrangements in accordance with the guidance issued by CIPFA.

**2. Resource Implications**

- 2.1 There are no resource implications.

**3. Options**

- 3.1 The document is a statutory requirement.

**4. Supporting Information**

- 4.1 The draft document is attached at Annex A.

**5. Officer Comments**

- 5.1 The document has been reviewed by the Council's Section 151 Officer.

**6. Recommendation**

- 6.1. The Standards and Audit Committee is advised to NOTE and comment, if appropriate, to the Executive on the draft of the Annual Governance Statement.

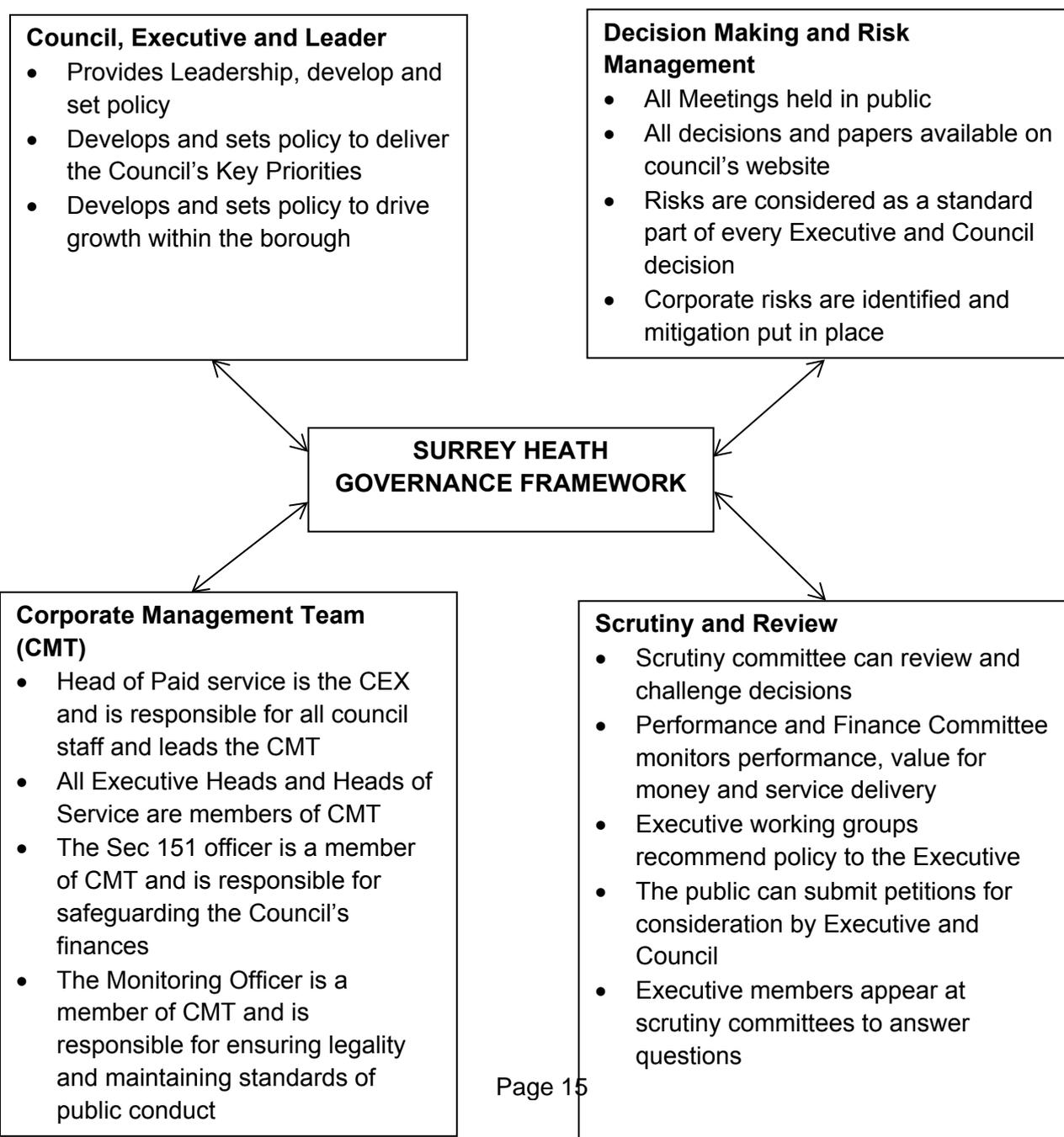
<b>Annexes</b>	<b>Annual Governance Statement</b>
<b>Background Papers</b>	<b>None</b>
<b>Author/Contact Details</b>	<b>Karen Limmer - Head of Legal Services Karen.limmer@surreyheath.gov.uk</b>

## ANNUAL GOVERNANCE STATEMENT 2016/17

### INTRODUCTION

Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that: their business is conducted in accordance with all relevant laws and regulations public money is safeguarded and properly accounted for resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people. The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

### KEY ELEMENTS OF THE COUNCIL'S GOVERNANCE FRAMEWORK



## **HOW WE COMPLY WITH THE CIPFA/SOLACE FRAMEWORK**

The Council has approved and adopted a Code of Corporate Governance together with a number of other strategies and processes, such as financial regulations, codes of conduct etc. which strengthen corporate governance.

Set out below is how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2016/17. New or enhanced arrangements as part of the Council's continuous improvement in its governance have been highlighted **in bold**.

### **PRINCIPLE A**

#### **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Council has a Code of Conduct for elected Members, and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviours to ensure integrity. Members and officers receive training in Code of Conduct and behaviour issues. The Audit and Standards Committee and Monitoring Officer review the Codes of Conduct up to date and investigate any suspected breaches.

All officers and Members must also sign up to the Council's Anti- Fraud and Corruption Policy and declare any interests they may have or gifts they have received which is then recorded in a Register. The Whistleblowing Policy provides protection for individuals to raise concerns in confidence about suspect behaviour and ensuring that any concerns raised are properly investigated. The policy is available on the website and forms part of the Council's induction process. The Council has an internal corporate enforcement team who will investigate any suspected fraud or corruption and report their finding directly to the Monitoring Officer for action to be taken if required.

All Council decisions have to consider legal implications which are included as a standard paragraph in the report being considered. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors. The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to members.

The Council has a strong internal audit function that audits all of the council's functions on a cyclical basis. It reports its findings to the Corporate Management Team and the Audit and Standards Committee on a regular basis. It also has a direct reporting line to the Chief Executive on matters requiring immediate action.

The Council has an Equalities Policy as well as a staff equalities group which champions equalities throughout the organisation.

### **PRINCIPLE B**

#### **Ensuring openness and comprehensive stakeholder engagement**

All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.

The Council's Constitution sets out how it engages with stakeholders and has representation on the governing bodies of external organisations including the local housing association, CCG, joint bodies. The Council also has a Citizen's Panel that it consults with from time to time.

This year the Council launched the "Talk Surrey Heath" where residents are able to ask questions of the Leader, Executive Members and the Chief Executive via an open podcast on different topics during the year. So far topics covered include the Town Centre and Council's Annual Plan.

The Council holds two business breakfasts during the year to present the work of the Council and to discuss matters of common interest to local businesses. The Council sends every household the quarterly magazine – Heathscene. This year an online version has also been launched and the Council utilises various online communication channels including Twitter, Instagram, Facebook, LinkedIn and YouTube. More specific e-bulletins are created for various communities of interest, such as Businesses, Theatre users etc.

## **PRINCIPLES C AND D**

### **Defining, optimising and achieving outcomes**

This year the Council put in place a new **five year strategy** based around 4 themes. These are People, Place, Prosperity and Performance. For each of these themes there are high level objectives and underneath the priorities. A new **Annual Plan** was approved by members which sets out the key targets for the year which will be delivered to further the priorities. The targets feed through in to project plans and individual staff and team objectives. This is to ensure that specific outcomes in relation to the five year strategy are defined for key service areas, can be delivered and monitored.

Each service also plans out how it will deliver the outcomes relevant to its area of work in the context of the agreed budget for the year ahead. Services are challenged through a star chamber process on their budgets to ensure value for money. This consists of the Chief Executive and the statutory officers, Executive Head of Transformation Head of Corporate Services are tasked specifically with generating income.

To ensure that the Council continues to deliver sustainable social and environmental benefits, there is an Economic Development Plan, as well as a series of more specific strategies. This includes the Health and Well Being strategy, Housing strategy, Drainage Strategy and the Air Quality Strategy.

All service decisions are subject to scrutiny by Executive which includes a review of options and risks by officers and Members. Key performance indicators are in place

for all services and these are reported bi annually, together with performance against the Annual Plan, to members for discussion and potential intervention where expected performance is not being achieved.

The Council has a programme of significant transformation. The Council has reviewed 3 services over the last year resulting in greater efficiencies in services delivery. The Council is also investing in technology to enable it to become more efficient. Over the last year development of the **new Arcus software** has taken place for planning, environmental health and building control which would enable more efficient off site working. This will be rolled out to live towards the end of 2017.

The Council works closely at all levels with other authorities to learn and understand how best practice has been delivered elsewhere.

## **PRINCIPLE E**

### **Developing capacity and capability**

A key element of the Council's service planning is to maximise the investment in staff through staff training to enhance the qualifications and skills to enable them to progress up the organisation. Several staff have obtained qualifications through this route and have progressed as a result. The Council has maintained its training budget despite reductions in other areas to ensure that it can develop staff for the future and deal with shortages in key areas such as planning. All employees have Training Requirements as part of their annual appraisal which highlights areas of development required to enable them to fulfil their objectives for that year. The Council provides mandatory training for all staff. In the current year **training on data protection and computer security** has been done by all staff on line. The Council also is a member of the Surrey Training Officers Group which offers personal skills training in areas such as conflict resolution on a Surrey wide basis. Members are also able to access a range of training opportunities some of which are mandatory i.e. planning for members of those committees. The Council has a full induction programme for staff and members.

During the year a **number of apprentices** have been recruited in a number of services which the Council are supporting through training and experience. This is seen as a key route to attract staff to the Council. The Council operates a flexible working policy for the most of its employees to enable them to achieve a positive work life balance. In addition investment has been made in technology to enable off site working and thereby increase productivity for services such as planning. The Council is in the process of finalising its Workforce Plan which will highlight the workforce needs of the organisation over the coming 5 years.

The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way. The main example of this in the current year was the Joint Waste Collection Partnership which

is a joint collection contract between 4 Councils of which Surrey Heath is the lead authority.

## **PRINCIPLE F**

### **Managing risks and performance**

The Risk Management Strategy sets out the Council's approach to identifying and controlling risk. A Corporate Risk Register is maintained at a corporate level with significant risks reported to CMT and to the Performance and Finance Committee each year. Progress against the Annual Plan objectives and KPIS are reported bi-annually to members. The Council has a **Bribery** Policy as well as **Financial Regulations**, which were renewed this year, and which set out expected processes and internal controls.

The internal audit team provide regular reports on the effective operation of these controls together with an annual assessment of the overall control environment. The Council has a dedicated Information Management Officer responsible for information governance, security and records management. The newly adopted Information Security Policy governs how information should be securely handled, transmitted, stored and maintained. All staff were required to complete an Information Governance e-learning package during the year to highlight issues around Data Protection.

The Council recognises that it does not have the expertise internally in all cases and engages external advisors as appropriate for example in relation to the Town Centre, Regeneration Development and Planning Appeals.

The Council submits reports on its performance in complaints, planning, environmental protection and a number of other areas to members each year for discussion and comment.

During the year the Council heavily invested in property and is bringing forward plans to regenerate Camberley town centre. It recognises that this carries a significant level of commercial and financial risk and it has appointed professional agents to manage and advise on these areas.

## **PRINCIPLE G**

### **Implementing good practices in transparency, reporting, and accountability**

All Council agendas and supporting information, unless exempt, set out the reasons for the decisions made. The Council works to provide clear and accurate information, and has developed both its website and the format of Council reports to improve transparency and accessibility. The Council reports performance against targets, its annual plan objectives and financial budgets on a regular basis. All overdue essential audit recommendations are reported to the CMT and the Audit and Standards Committee, to ensure that officers undertake any follow up actions as appropriate.

## REVIEW OF EFFECTIVENESS

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

### Assurance from Internal and External Audit

One of the key assurance statements the Council receives is the annual report and opinion of the Internal Audit Manager. During 2016/17, 23 areas of audit activity were carried out of which 22 (95%) were given a **substantial** assurance level, including all 9 key financial systems reviewed. In total 90 recommendations were agreed with managers to improve internal controls and processes, and of these 11 were classified as **essential** and a further 64 were classified as **desirable**. The internal auditors' opinion for 2016/17 is that the Council's internal control environment and systems of internal control in the areas audited were adequate with the exception of the one audit given a **limited** assurance level where improvements were recommended:

Issues Identified for 2016/17	Planned action
For venue hires, published fees & charges should be charged, and deposits should be charged and paid up front.	Fees & charged to be published on council website, and charged correctly in all cases. Venue hire T&Cs updated, deposits charged for auditorium hire.
Room security, inc. fire doors to be improved.	Review of security arrangements in place and increased security put in place.
Contracts with performers to be agreed with all performers and/or agents.	All contracts to be reviewed. Action taken to ensure all contracts are signed by council and performer/agent.
Improvements to be made to the way theatre shows are billed and settled.	Event Summary reports to be double checked for accuracy before shows are settled. Show balances to be reconciled against sales reports from the system.

The Council's External Auditor KPMG provides assurance on the accuracy of the year end statement of Accounts and the overall adequacy of securing and improving value for money. The most recent Audit Letter, issued in September 2016, identified no material errors and only a corrected error, and gave an unqualified report in respect of value for money.

### Self-assessment and review of key performance indicators

Internal Audit has undertaken a review to confirm that the arrangements described above have been in place throughout the year.

The key outcome indicators below have been used to assess the quality of governance arrangements in 2016/17:

<b>Issues Identified</b>	<b>Performance for 2016/17</b>
Formal reports by sec 151 or Monitoring officer	None issued
Outcomes from Standards Committee of Monitoring Officer investigations	No breaches of member or officer code of conduct have occurred
Proven Frauds carried out by members or officers	None identified in 2016/17
Objections received from local electors	None in 2016/17
Local Government Ombudsman referrals upheld exceed national average	Data to be completed
Unsatisfactory/limited internal audit report	None apart from those identified above

#### **Follow up of issues identified in 2015/16**

Last year's Annual Governance Report highlighted three key areas for improvement. The table below sets out the action has been taken to address these issues in the current year:

<b>Issues identified in 2016/17</b>	<b>Action Taken to Date</b>
Risks around major projects such as the town centre	The Council has appointed external advisers to assist with the delivery of these projects
Problems with the production of the 2014/15 accounts	Additional resources have been provided during the year resulting in the accounts being submitted on time for audit and with no significant changes.

#### **Any issues identified for 2017/18**

Apart from the audit issues above the Council has identified the following issues to be addressed during the coming year and any planned action.

<b>Issues identified in 2017/18</b>	<b>Action Taken</b>
The purchase of the Town centre brings significant new risks and governance issues	The Council has appointed professional advisers to run and manage the centre and has put in place a governance structure consisting of the Chief Executive, the s151 Officer, the Leader and Deputy Leader to monitor performance
Surrey Heath becoming lead authority for the Joint Waste partnership	The Council has put in place a team to manage the contract arrangements and this reports through a joint waste committee which monitors performance
Implementation of the General Data Protection Regulation	Compliance will be required by 25 May 2018, including the appointment of a

**CONCLUSION**

The Council is satisfied that appropriate governance arrangements are in place however it remains committed to maintaining and where possible improving these arrangements, in particular by addressing the issues identified in this report.

Karen Whelan  
Chief Executive

Cllr Moira Gibson  
Leader

**INTERNAL AUDIT ANNUAL REPORT**

Portfolio	Finance
Ward(s) Affected:	n/a

**Purpose**

To summarise the work of the Council's Internal Audit team for the year 2016-17 and to provide an opinion from the Executive Head Finance on the adequacy of the Council's systems of internal control. The report also provides an update on the status of overdue audit recommendations.

**1. Background**

1.1 The Public Sector Internal Audit Standards require local authorities including Surrey Heath to report on the work of its internal audit teams for the preceding year, together with the officer responsible for internal audit, which for Surrey Heath is the Executive Head Finance, to provide a written report to those charged with governance. The aims of the report are to:

- provide an opinion on the overall adequacy and effectiveness of the Council's control environment and risk landscape;
- disclose any qualifications to that opinion, with reasons; and
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies; and highlight any significant matters for reporting.

1.2 This audit report compliments some of the findings reported in the Annual Governance Statement for 2016-17.

**2. Summary of Internal Audit Work for 2016-17**

2.1 The Internal Audit team's work programme is directed by the Audit Strategy as well as the Annual Audit Plan. The Audit Plan is a list of audit work scheduled for the forthcoming financial year which is agreed by the Audit and Standards Committee each year.

2.2 In 2016-17 a total of 23 scheduled audits were carried out from the Annual Plan as well as 6 unscheduled pieces of work. The majority of these audits resulted in an audit report to management, highlighting the main findings from each audit. On occasion the main findings from the audit were fed back to management through risk assessments or separate meetings.

2.3 Each internal audit report is supported by a level of assurance, and there are 4 levels that can be provided:

Level of assurance	Definition
<b>FULL(green)</b>	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
<b>SUBSTANTIAL(green)</b>	There is basically a sound system of control, but some minor areas of weakness have been identified, which may put some of the systems objectives at risk
<b>LIMITED (amber)</b>	The weaknesses in the system of control are such as to put some of the system objectives at risk, and may affect council income or expenditure
<b>NIL (red)</b>	There are limited or no controls in place. The service poses a significant risk to the Council and there is a risk that business objectives are not met

2.4 A breakdown of the number of internal audit reports issued in 16/17 and the category of assurance level provided is below. It should be noted that audit does not issue full assurance reports as the entire control environment is not normally reviewed and tested, only a sample.

- 0 - Full assurance
- 18- Substantial assurance
- 1 - Limited assurance
- 0 - Nil assurance

\*\* 2 internal audits are on going and have still to be finalised, 2 unscheduled pieces of work resulted in advice and action plans being produced rather than formal audit reports

2.5 In addition to the number of internal audit reports issued to management, there were a number of audit recommendations raised with the aim to help reduce risk and tighten up on areas of weakness. Each recommendation is classified as essential, desirable, or best practice.

**Essential (or high)** – normally require immediate attention to address substantial weaknesses and ensure council business objectives are met; could result in financial loss; non-compliance with statutory guidance/legislation

**Desirable (or medium)** - contribute to maintaining an effective control environment and ensure policies and procedures are met; help to ensure council priorities and milestones are met; short term implementation

**Best Practice (or low)** – industry best practice suggestions; help to improve overall control and efficiency; assist management deliver services; medium to long term implementation

2.6. In total there were 90 recommendations raised in 2016-17, broken down into the following categories:

- 11 essential
- 64 desirable
- 15 best practice

3. **Overdue Audit Recommendations**

3.1 Internal Audit carries out an exercise to determine the status of overdue audit recommendations every 6 months. This exercise follows up on all audit recommendations including essential, desirable, and best practice.

3.2 As at 31 May 2017 there were no essential recommendations outstanding, and 2 desirable recommendations overdue.

4. **Overall Opinion of the Executive Head Finance**

4.1 The overall opinion of the Executive Head of Finance is that the Council's internal control framework is adequate and effective and is being managed with due care and attention. This is based on the work undertaken by Internal Audit during the course of the previous year, as well as the opinions provided in the past by the Council's external auditors and other assurance providers and regulators and the assurances they place on the work of Internal Audit.

4.2 A summary of the work undertaken in 2016-17 follows.

5. **Compliance with the Public Sector Internal Audit Standards**

5.1 CIPFA's Code of Practice has been replaced by the Public Sector Internal Audit Standards and these Standards should be adopted by all local authorities. The work of the Council's internal audit team continues to demonstrate compliance with these Standards.

6. **Resource implications**

6.1 There are no resource implications arising from this report

7. **Recommendations**

7.1 The Audit and Standards Committee is asked to note and comment on the 2016-17 Audit Annual Report.

**Background papers:** None

**Contact and Head of Service:**

Kelvin Menon 01276 707257  
Email: [Kelvin.menon@surreyheath.gov.uk](mailto:Kelvin.menon@surreyheath.gov.uk)

Alex Middleton 01276 707303  
Email: [alex.middleton@surreyheath.gov.uk](mailto:alex.middleton@surreyheath.gov.uk)

## **INTERNAL AUDIT WORK**

1. Detail of the work programme completed by Internal Audit is set out below:
  - Key finance systems
  - Scheduled audits from the Plan
  - Unscheduled audit activity
  - Staffing and resources

## **KEY FINANCE SYSTEMS**

2. A number of key audits are carried out annually on behalf of the Council's external auditors. In completing the work program for the year both KPMG and Internal Audit will have regard to both the adequacy of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption.
3. The audit team continues to work with finance staff to help deliver improvements that were earmarked as a result of events occurring from the end of year accounts work, such as budget monitoring, accruals, opening finance balances and bank reconciliations.

The following table summarises the key financial audits that were performed in 2016-17:

**Table 1: Key Finance Systems Work - 9 audits**

<b>Audit</b>	<b>Summary of areas covered</b>
<b>Treasury Management – substantial assurance</b>	Examination of treasury investments made in year with institutions such as money markets, banks, building societies, and other local authorities; review of the Council's Treasury strategy and treasury indicators; access to the computer systems used to create and place treasury investments; review of investment performance throughout the year and reporting to senior management and Members; reviewing of arrangements in place for prudential borrowing for property acquisitions; ascertaining the Council's borrowing strategy and ensuring we have in place a Minimum Revenue Provision (MRP)
<b>Payroll – substantial assurance</b>	A review of new starters and leavers and checking first or final wage payments are correct and adjustments made correctly to the payroll system; a review of exception reports produced to help verify and confirm accuracy of payroll, such as negative pay, starters and leavers, including use of On Base to check reports; reviewing arrangements in place to check accuracy of payroll and HR system data via establishment lists; testing a sample of overtime claims and staff paid by timesheets.

<b>Capital – substantial assurance</b>	A review of asset valuations carried out in year by the Council’s surveyors; checking that an impairment review has been undertaken in year and whether assets have been adjusted to take account of market events; a review of the capital work programme and spending against various capital projects; checking whether services are keeping their asset inventories up to date, and whether new assets and assets disposed of are being correctly accounted for.
<b>Debtors and Income – substantial assurance</b>	Raising invoices correctly and promptly; debt recovery action and the payment of debtor invoices; debts passed to the Credit Protection Association and their performance and successful; debt recovery; cancelling incorrectly raised debts and processing credit notes; managing bad debts and debt write offs.
<b>Creditors and Expenditure- substantial assurance</b>	A review of the payment run process, including checks on prepayment, post payment and BACS file reports, and the approval process; testing of creditor invoices to check they have been paid promptly and correctly and to the correct supplier; reviewing excepting reports such as high payments to ensure unusual or irregular transactions are being identified and investigated; reviewing bank mandate fraud and allowing changes to the supplier back accounts.
<b>Main Accounting- substantial assurance</b>	Corporate budget monitoring process; chart of accounts to trial balance mapping; year end arrangements including accruals and prepayments; opening balances on Civica; testing control of access to the finance system and material feeder systems; testing of journals processed through Civica.
<b>Revenues – substantial assurance</b>	Review of council tax and business rates accounts; testing a sample of exemptions and discounts applied to revenue accounts, such as single person discounts, second homes, living in care or hospital; reconciliations performed between the revenues system and Valuation office records; processing and approving business rates and council tax refunds.
<b>Housing Benefits- substantial assurance</b>	Reviewing case information held on I World and supporting benefit systems; re performance of a sample of benefit claims processed and paid in year, including new claim assessments and change in circumstances assessments.
<b>Cash &amp; Bank – substantial assurance</b>	Checked bank reconciliation processes; reviewed bank mandates and checked records up to date; checked the cash collection arrangements with the supplier; tested a sample of cash transactions through the Council’s cash receipting system, the Kiosk, the web, ATP as well as real time payments.

## **SCHEDULED AUDITS FROM THE 2016/17 PLAN**

### **4 Camberley Theatre - Limited Assurance**

- 4.1 The 2016-17 audit reviewed the following areas: safeguards to improve office and building security, arrangements in place for managing CCTV, the number and use of cash floats as well as petty cash, security and use of office safes, end of day cashing up, cash handling and banking processes, credit card processes and transactions, venue hire bookings and income, bar and catering controls and stock takes, show deals contracts and the programme of shows held at the Theatre.
- 4.2 The business service has been subject to a restructure towards the end of 2016 which has resulted in new management at the theatre. The new staff have taken the audit action plan seriously and as a result all essential recommendations have since been implemented, and have helped to address the limited assurance provided at the time.

### **5 Human Resources – Substantial Assurance**

- 5.1 Every 2 years the Council is required to carry out a review of its safeguarding arrangements on behalf of the Surrey Safeguarding Children Board, known as a Section 11 audit. Essentially this is a self-assessment of the Council's processes and procedures for managing vulnerable child and adult safeguarding arrangements.
- 5.2 The internal audit team carried out this review in the summer of 2016 reporting its findings to the Executive Head of Transformation, who is responsible for safeguarding and chairs the safeguarding working group. The audit requires the Council to review a number of Standards such as leadership, recruitment, training, reporting and information sharing. Overall we assessed our arrangements as either meeting or exceeding each Standard although an action plan has been agreed to target those areas where improvements have been identified, and these are being addressed with the SSCB.

### **6 Procurement – Substantial Assurance**

- 6.1 The scope of this year's procurement audit included a review of the current procurement procedures and associated toolkit, testing to check procurement authorised signatory levels, a review of the Council's Contracts Register and sample testing of a number of council wide live contracts, reviewing arrangements for short listing and selecting suppliers for works, and an examination of the supply and use of corporate and procurement credit cards to check card conditions are being followed. The audit also included making recommendations where appropriate to improve controls and procurement processes. All recommendations where the due date has been reached have since been implemented.

### **7 Parking – substantial assurance**

- 7.1 Improvements in the parking operation allowed internal audit to offer a substantial level of assurance for the parking audit, unlike in previous years when only limited assurance could be provided.
- 7.2 The 2016 audit considered the cash collection procedures and operation with the new cash collection company, the reconciliation of parking income back to car park, parking machine and banking date, together with the new arrangements in place with Newpark the parking service provider. The audit evaluated the alternative payment

methods including ticketless parking (Fusion), car park spaces live and Your Parking Space.

- 7.3 Waived or cancelled parking notices were evaluated together with a review of the parking penalty enforcement process which ensures that parking debts are chased until paid or debt recovery processes exhausted. A number of recommendations were raised to improve controls which have all been actioned by the Parking Manager where due.

## **8 Licensing – substantial assurance**

- 8.1 A licensing audit is normally undertaken every 3 years. For the 2016 audit Internal Audit reviewed alcohol and entertainment regulation incorporating Premises Licences, Club Premises Certificates and Personal Licences. The audit also tested a sample of Temporary Event Notices (TENs) and Late TENs. The Gambling Act was also examined including a review of gambling and small society lotteries, regulating gaming machines in pubs and bars, and the licensing of betting shops in the borough. The audit also examined driver and vehicle licensing activities, including hackney carriage and private hire operations. Charity activities including house to house and street collections were also tested.
- 8.2 A number of recommendations were raised, including 1 essential which has since been actioned.

## **9 Grants – Substantial Assurance**

- 9.1 The 2016 grant audit looked at external grants that are paid to the Council as revenue and capital income and which were received from external bodies mostly central government departments. A number of these grants are paid annually such as the revenue support grant and the Council relies on these to help meet its revenue budgets.
- 9.2 The grants audit focused on reviewing grant applications and the senior authority to proceed, sample testing to show that grants have been spent in accordance with grant terms and conditions, and a review of whether grants have improved service delivery and outturn reports and management reports are clear and submitted in a timely manner.

## **10 Complaints – Substantial Assurance**

- 10.1 An audit of the Corporate Complaints system was undertaken which included evaluating a sample of complaint files, to check the effectiveness of the Council's complaints and compliments system. A number of improvements have been introduced over the last couple of years by Contact Centre staff to the way complaints are handled and processed and how customers are treated and these were also included in the audit review.
- 10.2 The audit made a number of recommendations to improve overall control including recommending some changes to the corporate policy, website and associated customer complaints leaflet, action for reducing the response times to customers, electronic computer system improvements, and incorporating complaints into the induction process for new starters.

## **11 Community Transport - Substantial Assurance**

- 11.1 The 2016 transport audit focused on reviewing the operations of the service such as pick-ups, transfers, scheduling and trip cancellations, testing customer eligibility, reviewing payment of fees and charges and setting of fares, checking that community transport drivers have valid driving licences and have undergone required DBS clearances and training, along with health checks of transport vehicles, servicing and trip logs.

## **12 Building Control – substantial assurance**

- 12.1 The building control service was reviewed to check to what extent building control services are carried out accurately, inspections are carried out on time, correct fees are collected from customers, and debts are recovered in line with Council policy. Internal audit also examined the extent to which Completion Certificates have not been issued prior to full fee payments being received.
- 12.2 The building control audit also reviewed Council arrangements for dealing with dangerous structures and responding to incidents out of hours.

## **13 Facilities Management – substantial assurance**

- 13.1 The scope of this year's audit included the following areas: building security procedures and arrangements to manage office security, the work and tasks of the FM officers, Council buildings and facility maintenance procedures and records, together with a review of the arrangements in place with external service suppliers to help deliver such activities as lift and barrier maintenance, external doors and windows, and fire safety.
- 13.2 The audit also considered the cleaning contract, the operation of the FM Helpdesk facility, and office equipment and supplies such as stationery procurement.

## **14 Event management – action plans issued in place of a formal report**

- 14.1 The Council organised a number of borough wide events in 2016-17 that were reviewed by the internal audit team. These included the Camberley on Ice offering, the Surrey Heath Show and Frimley Lodge Live. A number of areas where improvements could be made were raised with management, such as improved cash handling and banking, record keeping, and staffing procedures. There was no formal report issued as events reviewed were spread throughout the year. However the Internal Audit team did agree separate action plans to help address issues raised with the service.

## **15 Parks & Green spaces – on going**

- 15.1 A number of activities run by the business and green spaces team were examined as part of the 2016-17 audit. The audit considered the grounds maintenance contract and its operation, income generating activities including sports pitch hire, tennis court hire, pitch & putt golf, hall and BBQ hires. The re vamped Lightwater visitor centre café which opened during the audit was reviewed, together with the operation and income generation of the Council's 3G pitch located at Frimley Lodge. The team also examined the operation, maintenance and security checks in relation to the numerous play grounds located across the borough. The audit is almost complete and a report is scheduled to be issued by July 2017.

## **16 Health & Safety – on going**

- 16.1 A health & safety audit was carried out to provide assurance to management and to Members that Council staff and contractors are complying with health & safety policies and current legislation to ensure that personnel are protected from injury or harm in the workplace.
- 16.2 The scope included a review of the authority's health & safety policies and procedures, the arrangements in place for reporting and recording accidents and incidents such as slips and trips, activity based risk assessments are undertaken and kept up to date, training for existing and new staff. The audit also considered health & safety arrangements in place for the Council's tenants such as the police, as well as in respect of organised events and ad hoc work delivered by the Council. The audit is almost complete, but was interrupted by the previous health & safety officer leaving the Council. A report is scheduled to be issued by July 2017.

## **17 UNSCHEDULED AUDIT ACTIVITY**

- 17.1 Several additional pieces of work were undertaken that were not scheduled in the Annual Plan.
- 17.2 Disabled Facilities Grants – management and operation of DFGs were transferred from Community Services to Regulatory in August 2016, which has resulted in a number of service delivery improvements being required. Internal Audit has been working with the private sector housing team to introduce these improvements, and the work remains on going.
- 17.3 Windlesham Parish Council – some minor works were brought forward from the good work started in partnership with the parish council in 2015/16.
- 17.4 Intermediaries Legislation (IR 35) – a number of key changes have been introduced by HMRC which Internal Audit has worked with HR staff to deliver for the introduction of 2017/18 tax year. These have included training for relevant staff, identification of workers who may be affected by the changes to the legislation, and the introduction of new financial forms and processes that will enable workers to be paid through payroll instead of the Council's creditors system. Internal Audit will continue to work with HR and finance staff to effectively deliver the new IR35 legislation.
- 17.5 Equality Impact Assessments – several equality impact assessments have been prepared for different Council activities including the new complaints and compliments policy.
- 17.6 Performance Management Group - Internal audit sits on and contributes to the work of the performance management group. The PMG examines, challenges and reports on all aspects of the Council performance. Completed audit reports and recommendations are reported to this group for comment. Internal audit has also contributed by reviewing and challenging initial business cases for new projects as well as existing projects and Council performance generally.
- 17.7 In addition to the above pieces of work, Internal Audit has also supported the Elections Team plan and deliver a number of elections in the last 12 months.

## **18 STAFFING AND RESOURCES**

18.1 A total of 430 days were required to deliver the 16/17 Annual Plan which were made up of the following:

- 1x Senior Auditor
- 1x Auditor

18.2 Additional resource was brought in to help provide cover when the auditor was absent due to ill health.

**ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

Portfolio	Finance
Ward(s) Affected:	n/a

**Purpose**

**To provide an annual review of the effectiveness of the system of internal audit for 2016-17 as required by the Accounts and Audit Regulations 2006, amended 2011.**

**1. Background**

1.1 The Accounts and Audit Regulations require the Council annually to conduct a review of the effectiveness of its system of internal control.

**2. Resource Implications**

2.1 There are no resource implications arising from this report.

**3. Risk Assessment**

3.1 Failure to operate an effective internal audit service could reduce the level of assurance provided to senior management and Members regarding risk management processes, control systems, accounting records and governance arrangements.

**4. Recommendations**

4.1 The Audit and Standards Committee is asked to note and approve the report on the Review of the Effectiveness of Internal Audit.

Background Papers: None

Author: Alex Middleton 01276 707303  
e-mail : alex.middleton@surreyheath.gov.uk

Head of Service: Kelvin Menon

## **1. INTRODUCTION**

- 1.1 Internal Audit should be configured appropriately to enable public bodies such as local councils to fulfil their duty to be accountable and transparent to the public, while achieving their objectives effectively, efficiently, economically and ethically.
- 1.2 The governing body for Internal Audit within the UK, with Chartered status, the Chartered Institute of Internal Auditors (IIA), has identified nine key elements needed to establish an effective public sector audit activity, namely: organisational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support, professional audit standards.
- 1.3 This report examines the extent to which each of these nine elements are met by Internal Audit for Surrey Heath Borough Council.

## **2. Organisational Independence**

- 2.1 *Internal Audit should have sufficient independence from those it is required to audit so that it can both conduct and be perceived to conduct its work without interference. Being independent contributes to the accuracy of audit work and the ability to rely on reports results.*
- 2.2 Internal Audit operates with a deal of independence from management. An Audit Committee has been established, the Audit and Standards Committee and the Internal Audit team's work is reported to this committee on a regular basis. Internal Audit reports to the Section 151 Officer but a direct reporting line to the Chief Executive has also been established. The Senior Auditor also has direct access to discuss issues with the external auditors where necessary. Audit reports are presented to CMT and PMG for review and comment.

## **3. Adoption of a Formal Mandate**

- 3.1 *Internal Audit's powers and duties should be established by a formal mandate or other legal document.*
- 3.2 The Council has established and adopted an internal audit charter. This is available to all staff and Members and is published on the Council's internal website. The Audit Charter covers aspects such as scope of the audit function, rights of access, reporting arrangements, and work prioritisation. The Internal Audit team is also involved in the formal reporting of audit results to senior management by way of formal audit reports. Internal auditing is also required by regulation as it is set down in the Local Government Act.

## **4. Unrestricted Access**

- 4.1 *Audits should be conducted with complete and unrestricted access to staff, property, and records as appropriate for the performance of the audit activities.*
- 4.2 At Surrey Heath rights of access are included within the Audit Charter. In addition rights of access are provided for within contracts with external service providers where Internal Audit is also required from time to time to audit other service provider's activities. Examples include the Arena contract and the waste collection contract.

## **5. Sufficient Funding**

- 5.1 *Internal Audit should have sufficient funding relative to the size of its audit responsibilities.*
- 5.2 The budget for the Council's Internal Audit service is agreed each year through the Star Chamber, and is signed off by management on an annual basis. Funding is sufficient to deliver the Annual Plan agreed by members each year.

## **6. Competent Leadership**

- 6.1 *Internal Audit management should be able to effectively demonstrate a good working knowledge of audit standards, be professionally qualified, and be competent to oversee and manage an audit activity.*
- 6.2 The current Senior Auditor has been working for the Council in excess of 15 years and is a Chartered member of the governing body for audit, the Institute of Internal Audit. Audit performance is also measured against compliance with Public Sector Internal Audit Standards. The Senior Auditor is also the spokesperson for the audit activity, and is responsible for promoting the value of the internal audit activity with the Council, as well as keeping up to date with industry and regulatory changes and professional standards through training and access the audit websites.

## **7. Objective Staff**

- 7.1 *Audit staff must have impartial attitudes and avoid any conflict of interest. Such a conflict can create an appearance of impropriety that can undermine confidence in the internal auditor, the audit activity, and the profession.*
- 7.2 Internal Audit should work towards meeting the IIA's Code of Ethics at all times. Internal Audit is viewed as being free of any conflicts of interest within the Council, such as signing up to the declaration of interests. The objectivity of Internal Audit's officers is an integral element of delivering an effective audit service on behalf of the Council.

## **8. Competent Staff**

- 8.1 *Internal Audit needs professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors should comply with minimum continuing educational requirements established by the IIA/CIPFA and standards.*
- 8.2 The Internal Audit team can demonstrate that it meets the 3 most important characteristics when assessing the competence level within the team. The Senior Auditor holds a staff professional certification, being a Certified Internal Auditor (which is the top ranked professional certificate held by internal audit staff in the public sector). In terms of IIA membership, all auditors at the Council are members of the IIA, and one officer has a minimum of 40 hours of formal training in year (through Post Entry Training).
- 8.3 The Internal Audit team is also able to demonstrate holding the top 5 behavioural skills as identified by the IIA, namely confidentiality, objectivity, communication skills, judgement, and working independently.

## 9. Stakeholder Support

- 9.1 *The work of Internal Audit should be endorsed and supported fully by senior officers and Members within the Council. Internal Audit should also be supported by external contractors whom deliver services on behalf of the Council.*
- 9.2 The work of audit is supported by the Chief Executive, the Section 151 Officer, members of CMT as well as the Audit Committee. The Council is fully committed to promoting the work of its Internal Audit team and the added value that it can provide. External also review the work of Internal Audit and the reports the team produces as part of their end of year accounts process.

## 10. Professional Audit Standards

- 10.1 The Internal Audit team works towards the internationally set of Standards known as the Public Sector Internal Audit Standards. Internal Audit also delivers its audits in accordance with the International Professional Practices Framework (IPPF). The Standards provide a framework to promote quality audit work that is systematic, objective and based on evidence. The Public Sector Standards include elements such as objectivity, independence, reporting, and quality assurance. The work of Internal Audit can be measured against these Standards and which are reported to Members on a periodic basis.

## 11. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2016/17

- 11.1 The 2015/16 effectiveness report set out recommendations that required addressing in the year.
- 11.2 Table 1 below sets out how these recommendations have been addressed:

**Table 1**

*Improvements to system of internal audit implemented in 2015/16*

<b>Area for Improvement as identified in the 2015/16 review</b>	<b>Improvements implemented in 2016/17</b>
Capacity issues within service areas	Internal Audit has demonstrated flexibility and adaptiveness when planning its audits, and carrying out fieldwork. The team has worked closely with services to ensure disruption is kept to a minimum, and to ensure services can continue to deliver their services effectively whilst they are being audited.

## 12. CHALLENGES FOR 2017-18

- 12.1 The following challenges for Internal Audit have been identified for the forthcoming financial year:

### Changing skillsets and competencies

- 12.2 The traditional role and associated skills of a public sector auditor is changing. An increasing number of Council services are being delivered electronically, relying more

on virtual and cloud based technologies. The Council is moving at a quick pace with its digitalisation agenda.

- 12.3 In addition the Council is investing more heavily in property to help increase income from rents. Inevitably this relies on increased borrowing and rents.
- 12.4 In order for Internal Audit to continue to demonstrate added value it will need to develop skillsets and competences that can audit these new areas. These may come from training and development so that audit can keep up with the new demands and pressures.

### **13. CONCLUSION**

- 13.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2016-17, with an internal audit function that is compliant with the requirements of the 2013 Public Sector Internal Audit Standards.
- 13.2 The audit team has continued to broaden its remit across the authority to ensure that it plays a wider role working with business units to help them to deliver their services, achieve better results and reduce risk.

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**ANNUAL STANDARDS REPORT**

Portfolio	Finance
Ward(s) Affected:	n/a

**Purpose**

To update the Audit and Standards Committee on any standards issues.

**1. Key Issues**

- 1.1 In accordance with the Localism Act 2011, the Council has adopted a Code of Conduct, appointed an Independent Persons and put in place local arrangements for dealing with issues of conduct and requests for dispensations. The Register of Interests is also available for inspection on the Council's website.
- 1.2 Questions of predetermination and declarations of interest seem to arise most frequently in relation to planning matters. Members must reveal any disclosable pecuniary interest as well as any non-pecuniary interests at any meetings. Members need to be reminded that that when they do this, they must give sufficient detail for the public to understand the nature of the interest.
- 1.3 Most issues continue to relate to planning matters, and members have sought advice in advance on the committee so that they can receive timely advice. Members are also reminded about the provisions relating to acceptance of Gifts and Hospitality and the obligation to register them, which they are able to do themselves.
- 1.4 No Dispensations have been granted in the last year.
- 1.5 The Council has agreed to the appointment of a pool of Independent Persons for the purposes of the Localism Act 2011, as a minimum of two persons is required. A protocol has been agreed in conjunction with the participating authorities.
- 1.6 During the year, a number of relatively minor issues have arisen both at borough and parish level. One formal complaint has been investigated against a borough councillor. The finding was that no breach had occurred. Another complaint was received but was not investigated as no potential breach was disclosed.
- 1.7 Some changes have been made to the Constitution, particularly to the Planning Applications Committee practices, and it is proposed that further reviews take place later in the year. This will be led by the Governance Working Group.

**2. Supporting Information**

- 2.1 All the key documents are set out in the Council's Constitution, including the Code of Conduct, the Member/Officer Protocol and the Planning Code of Practice for Councillors and Officers, together with the Monitoring Officer Protocol.
- 2.2 The Council's website has the Register of Interest available for inspection. A complaints form is also available for members of the public to use.

**3. Corporate Objectives And Key Priorities**

3.1 These are statutory requirements.

**4. Resource Implications**

4.1 There are no resource implications at present.

**5. Legal Issues**

5.1 These are set out above.

**6. Governance Issues**

6.1 These are set out above.

**7. Recommendation**

7.1 The Audit and Standards Committee is advised to resolve to note the contents of this Annual Report.

<b>Annexes</b>	<b>None</b>
<b>Background Papers</b>	<b>None</b>
<b>Author/Contact Details</b>	<b>Karen Limmer - Head of Legal Services Karen.limmer@surreyheath.gov.uk</b>
<b>Head of Service</b>	<b>As above</b>