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Friday, 12 July 2019

To: The Members of the **Audit and Standards Committee**  
(Councillors: Alan McClafferty (Chairman), Darryl Ratiram (Vice Chairman),  
Rodney Bates, Edward Hawkins, Sam Kay, Sashi Mylvaganam and Valerie White)

**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 Cliff Betton, Shaun Garrett, David Lewis, Victoria Wheeler and  
Kristian Wrenn

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, 22 July 2019 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

	Pages
<b>1 Apologies for Absence</b>	
<b>2 Minutes of Previous Meeting</b>	<b>3 - 6</b>

To receive the minutes of the meeting of the Audit and Standards  
Committee held on 25<sup>th</sup> March 2019.

**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.

**4      External Audit Update**

To receive an update from the Council's External Auditors.

**5      Internal Audit Annual Report 7 - 16**

To consider a report summarising the work of the Council's internal audit function during the 2018/19 municipal year.

**6      Annual Review of the Effectiveness of the Internal Audit System 17 - 22**

To consider a report setting out the findings of the annual review of the effectiveness of the Council's internal audit systems.

**7      Standards Sub Committee 23 - 88**

To receive a report setting out the findings of a meeting of the Standards Sub Committee held on 23<sup>rd</sup> April 2019.

**8      Date of Next Meeting**

The next scheduled meeting of the Audit and Standards Committee will take place on Monday 19<sup>th</sup> November 2019 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 25 March 2019**

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- Cllr Oliver Lewis (Chairman)
- + Cllr Jonathan Lytle (Vice Chairman)

- |                       |                             |
|-----------------------|-----------------------------|
| + Cllr Rodney Bates   | + Cllr Paul Ilnicki         |
| + Cllr Edward Hawkins | Cllr Rebecca Jennings-Evans |
|                       | + Cllr Bruce Mansell        |

- + Present
- Apologies for absence presented

Members in Attendance: Cllr Charlotte Morley

Officers Present: Karen Limmer, Head of Legal Services and Monitoring Officer  
Leigh Lloyd-Thomas, BDO  
Kelvin Menon, Executive Head: Finance  
Alex Middleton, Senior Auditor

**Vice Chairman in the Chair**

**10/AS Minutes of Previous Meeting**

**RESOLVED** that the minutes of the meeting of the Audit and Standards Committee held on 26<sup>th</sup> November 2018 be approved as a correct record and signed by the Chairman.

**11/AS Financial Statements Audit Plan**

The Committee received a report setting out BDO's (the Council's external auditor) plans for their audit of the Council's 2017/18 financial records.

It was reported that the audit's scope had been determined by the National Audit Office's Code of Audit Practice and would include auditing the financial statements, reviewing arrangements to secure value for money through the economic, efficient and effective use of its resources and, where appropriate, exercise the auditor's wider reporting powers and duties.

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

- Management override of financial controls
- Revenue (and expenditure) recognition
- Property, plant and equipment and investment property valuation
- Pension liability valuation
- Accounting for the Joint Waste and Recycling contract
- Classification and measurement of financial instruments
- Revenue from contracts with customers
- Accounting for investment in the Jersey Property Unit Trust (JPUT)

In relation to the JPUT, it was BDO's opinion that the Council was the sole beneficiary of the capital and assets held in the JPUT as well as any income that the trust generated. Consequently, the JPUT was a bare trust and the assets in the JPUT should be recognised in the Council's accounts and financial statements for accounting purposes.

The Committee noted the report.

## **12/AS Certification of Housing Benefits Claims and Returns 2017/18**

The Committee received a report setting out the findings of an audit of the Council's Housing Benefits Claims and Returns for 2017/18 completed by KPMG in November 2018.

In 2017/18, the Council had claimed a total of £15.6million 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.

The errors identified by KPMG and the reasoning behind them had been fed into the process for calculations for 2018/19. It was agreed that confirmation would be provided as to whether the underpayments identified by KPMG had been rectified.

The Committee noted the report.

## **13/AS Internal Audit Annual Plan 2019-20**

The Committee received a report setting out the proposed work plan for the Council's Internal Audit Function for 2019/20.

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.

It was clarified that the planned Leisure Centres audit would look at both Lightwater County Park and the Arena Leisure Centre. The Lightwater County Park audit would look at contract management and the service provider. The Arena Leisure Centre audit would look at the processes in place to minimise service disruption during the rebuilding of the facility, the financial risk to the local authority and the business model in place for the new contract arrangements.

It was clarified that the Council's Legal Service was not included in the audit plan as the service was covered by audits of other service areas.

**RESOLVED** that the Internal Audit Annual Plan for 2019/20, as set out in Annex A of the report, be approved.

## **14/AS Appointment of a Pool of Independent Persons**

The Committee considered a report setting out proposed arrangements for the appointment of Independent Persons for a four year period from May 2019 until May 2023.

In 2016 the Council joined a consortium of Surrey local authorities which had appointed a pool of independent persons as required by the Localism Act 2011 to assist the Council. The pool arrangement had worked well and all involved were keen to continue the arrangement going forward.

It was reported that four out of the five Independent Persons currently in post had expressed a wish to continue contributing to the pool when their appointments reached the end of their term of office in May 2019. A recruitment process had been held to attract new applicants and it had subsequently been agreed that seven people, including four existing Independent Persons, be appointed to the Pool of Independent Persons for a four year period starting in May 2019.

**RESOLVED** that the Committee recommend to Full Council that the following persons be appointed to act as Independent Persons in accordance with the Localism Act until May 2023:

- Roger Pett
- Vivienne Cameron
- Bernard Quoroll
- John Smith
- Liz Lawrence
- Bill Donnelly
- Paul Eaves

**Chairman**

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## INTERNAL AUDIT ANNUAL REPORT

Portfolio	Finance
Ward(s) Affected:	n/a

### **Purpose**

To summarise the work of the Council's Internal Audit for the year 2018-19 and to provide an opinion from the Executive Head Finance on the adequacy of the Council's systems of internal control

## **1. Background**

1.1 The Public Sector Internal Audit Standards require local authorities to report on the work of internal audit on an annual basis. The aims of this report are to:

- provide an opinion from the Council's sec 151 officer 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 highlights any significant matters arising.

1.2 This audit report compliments the Annual Governance Statement for 2018-19.

## **2. Summary of Internal Audit Work for 2018-19**

2.1 The Internal Audit work programme is prepared with reference to the Council's Audit Strategy and the annual Audit Plan. The annual Audit Plan is agreed by the Audit and Standards Committee in March each year.

2.2 In 2018-19 a total of 17 internal audits were completed from the Audit Plan. In addition 5 ad hoc pieces of work were undertaken, the details of which are covered elsewhere in the report. There are also a further two audits which are almost complete and are at the draft report stage.

2.3 Audit findings are reported to management together with audit recommendations to strengthen internal controls. All essential recommendations are monitored to ensure that they have been implemented and any that are overdue are reported to the audit and scrutiny committee as appropriate.

2.4 As well as carrying out audits Internal Audit staff have also assisted with IR35 assessments, the equalities officer action group, risk management working group, managing the authorised signatories process and assisting with the delivery of two elections in 2019.

2.5 Each written audit report is provided with one of four levels of assurance:

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

2.6 A breakdown of the assurance levels provided for internal audit reports issued in 2018-19 where levels of assurance were provided is shown below. It should be noted that 'full assurance' reports are not issued as we only audit by sampling a certain number of transactions based on risk not the entire population, therefore we cannot guarantee that the remainder of the system is working properly.

- 0 – Full assurance
- 20- Substantial assurance
- 0 - Limited assurance
- 0 - Nil assurance

2.7 Audit recommendations are classified into 3 separate categories: 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

2.8 In total 93 audit recommendations were raised in 2018-19:

- 3 essential
- 81 desirable
- 9 best practice



### **3. Overdue Essential Audit Recommendations**

- 3.1 Internal Audit carries out a bi-annual review of essential audit recommendations to ensure that they have been implemented in the timescales agreed with services. Any essential audit recommendations that remain overdue will be presented to committee.

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

- 4.1 The overall opinion of the Section 151 Officer based the work of the Internal Audit function is that the Council's internal control framework is adequate and effective and is being managed with due care and attention. The audit coverage is proportionate to the risk environment of the Council and the audit resources available.

### **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 the 2018-19 annual Audit Report.

**Background papers:** None

### **Contact and Head of Service:**

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## **DETAIL OF INTERNAL AUDIT WORK FOR THE YEAR 2018/19**

Details of the work programme completed by Internal Audit covering the financial year 2018/19 are set out below:

- Key finance systems
- Scheduled audits from the Audit Plan
- Unplanned pieces of work
- Resources and staffing

### **KEY FINANCE SYSTEMS**

A number of finance audits are carried out annually which the Council's external auditors may wish to review when they are conducting the end of year audit of the authority's financial statements. In completing the work program for the year both the external auditors and Internal Audit will be minded of both the adequacy of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption. The majority of recommendations made in respect of the key finance systems have been implemented.

#### **Treasury Management**

This year the audit focused on reviewing the arrangements and safeguards in place for borrowing capital to fund the Council's new investments. The audit also tested short and medium term investments placed with money markets, as well as access and controls around the on line payment portal.

#### **Capital**

The audit tested asset valuations, the impairment review, capital budget monitoring, and verifying council assets and equipment held by services around the Council.

#### **Debtors and Income**

Checks were carried out to ensure that sundry debts have been raised accurately and on time, and whether bad debts that are no longer recoverable are correctly written off. We also tested the process for chasing and recovering unpaid debts and whether the Council's debt recovery process is being followed.

#### **Creditors and Expenditure**

The audit focused on user access to Civica, supplier bank account management processes such as changes to a supplier's bank account number, and processing and paying invoices. In addition we reviewed creditor exception reports that are being run and examined such as payments over £20k.

#### **Main Accounting**

The audit reviewed the council's corporate budget monitoring process, a check of the trial balance to the opening balances, sample checking year end arrangements for dealing with accruals and pre payments, and testing of journals posted to the ledger.

## **Revenues**

The Revenues audit this year examined whether account discounts and exemptions are being applied for and processed correctly. The following discounts were examined: school leavers, hospital patients, annexes, provision of personal care, religious properties, care homes, apprentices and persons in prison. Business rates and council tax refunds were also reviewed as part of the audit.

## **Housing Benefits**

The audit in 18/19 focused on checking whether housing benefit overpayments have been identified, calculated correctly and steps taken to recover them in line with procedures and Council policy. The audit also reviewed reconciliations between the benefits system to the general ledger.

## **Cash & Bank**

The cash and bank audit looked at income transactions paid into the Council through various sources including the Kiosk, on line, and the ATP telephone systems. The audit also looked into post room procedures and cash security using the safes, cash receipting, bank reconciliations, and the use of bank mandates.

## **SCHEDULED AUDITS FROM THE AUDIT PLAN**

### **Centres for Older People**

This area is reviewed every 3 years and consisted of examining arrangements for accessing the safe and till in operation at Windle Valley, cash handling arrangements, cash collection and banking, a review of the adequacy of the service's policies and procedures. The audit also tested the extent to which income streams are being actively managed and safeguarded, such as client care packages from County, hairdressing services, chiropody and the Saturday club. Most of the actions arising from this report have since been actioned by management.

### **Democratic Services and Committees**

We reviewed several activities that are carried out by the service including the payments of allowances and expenses to Members, administration of the public speaking scheme, member training such as equality training, planning training and licensing training. The audit also considered the Council scheme of delegation, as well as compliance with legislation deadlines in relation to the publication of agendas and key decisions. A number of recommendations have been made these are being addressed as part of a management action plan.

### **Disabled Facility Grants**

A significant amount of income is paid out as DFGs every year so the audit examined a number of important issues. These included a review of policies and procedures governing the administration of DFGs, a review of the application process and how the service applies eligibility criteria, how grants are being assessed and documented. The methodology for short listing and appointing contractors to minimise fraud and ensure value for money was also considered. The service uses a firm of architectural surveyors to survey properties and the audit also considered how this partnership is working.

An action plan has been agreed with the Housing Services Manager which is currently being actioned by the housing team.

## **Parking**

The parking review reported on a number of parking areas including season ticket and permit arrangements, contract management arrangements with Newpark, and paying and processing parking fines. The audit also worked with parking staff to address bank reconciliation processes and errors.

The majority of recommendations that were raised with management have since been addressed.

## **Information Management**

The information audit focused upon data protection and how the Council was seeking to safeguard data security. With the introduction of the new GDPR regulations in 2017 we examined where progress was being made and what controls have been put in place. In addition the audit tested whether PC/file/network controls are in place and working effectively, dealing with confidential waste, and evaluating the Council's clear desk policy. We also looked at reviewing the contract with the supplier for safely disposing of old Council media and ICT equipment and compliance with WEE regulations, and how freedom of information requests are being dealt with by staff.

Most of the action plan has now been implemented by ICT management.

## **Insurance**

An audit of the Council's insurance arrangements is carried out every 3 years. On this occasion the review focused on the arrangements with the London borough of Sutton who provide insurance services for Surrey Heath, an examination of brokerage services with JLT Specialty Limited, and checking premiums paid and associated fees.

The audit also tested a sample of insurance claims that had been assessed by Surrey Heath's partner Sutton. The areas of claims that were reviewed included vehicle claims, public liability claims, property damage claims, and employer liability claims.

Several recommendations were raised including arrangements with our partners and these have all been implemented since the audit.

## **Camberley Theatre**

A number of service records and contracts were examined as part of the audit. We examined petty cash and float arrangements, the operation and access to the safes, ticket sales, cash handling and cashing up arrangements.

We examined arrangements in place for venue hires, as well as sales from the bar and catering offer, and how stock is being controlled.

A review of the theatre show programme was carried out, including a number of show contracts and show settlements were also examined, including ticket sales reports from the box office.

An action plan was prepared and audit will follow up with the service in the summer 2019 to check all actions have been addressed.

## **Emergency Planning and Business Continuity**

The Council continues to work with its business continuity partner Applied Resilience to develop and test its emergency planning and business continuity arrangements. Internal Audit has been involved in this process in 2018 by:

- Preparing and drafting a service level situation report for management part of which considered the financial impacts, the minimum level of services that would be acceptable, the maximum tolerable period of disruption, whether any specialist software or equipment is required, and to what extent home working would be feasible following a major disruption.
- Continuing to develop the service's Business Impact Assessment
- Actively taking part in the case scenarios for business continuity
- Involvement in the report covering the threat and risk assessment for a EU exit

## **Leisure activities**

Audit undertook a review of the recently introduced tennis in the park activity as well as helping to examine a new electronic pitch booking system that was successfully rolled out in 2018.

In partnership with the Lawn Tennis Association the Council has made improvements to the outdoor public tennis facilities within the borough and has introduced an annual membership scheme with a private service provider. The audit reviewed these new arrangements as well as the introduction of a new on line tennis court booking system. Audit will re visit this area once the system has had time to bed in.

The business service has also rolled out a new sports pitch booking electronic system, where customers can book sports pitches (football and cricket) in advance and pay on line. The new system also facilitates the automatic checking of sports insurance from clubs and affiliated memberships. Audit raised a number of issues for the team to consider and these have been taken on board by the service.

## **UNPLANNED PIECES OF WORK**

Several additional pieces of work were undertaken that were not scheduled in the Annual Plan.

## **Heritage Centre**

Internal Audit conducted a review of the main activities at the Heritage Centre between October and November 2018. This was not scheduled in the Audit Plan for 2018 but was carried out at the request of management as a separate review, following the service's re location from the Council offices to the Square in Camberley's town centre.

The service receives income from a variety of sources – selling items in the shop to the public, donations from the public and patrons and fees paid for events walks and craft activities. As such the audit focused on a number of income areas namely: cash handling and cashing up, security of income now that the service is operating out of a new location, recording sales accurately, centre policies and procedures, volunteer arrangements and stock controls and carrying out stock takes.

A number of improvements were agreed with service management and are being addressed as part of an improvement plan.

## **Safeguarding**

As in previous years Internal Audit was asked to undertake a Section 11 audit of its child safeguarding arrangements on behalf of the Surrey Safeguarding Children's Board. The audit is designed to allow the SSCB to assure itself that agencies placed under a duty to co-operate by this legislation, are fulfilling their responsibilities to safeguard children and promote their welfare.

The audit consisted of a self-examination of its own safeguarding arrangements at the Council with a view to learning from best practice and to develop our own procedures and processes. We had to rank our overall performance against 10 separate elements ranging from leadership and accountability, training and development, to quality assurance and measuring outcomes. Our main findings were reported back to the SSCB where we have developed an action plan to improve our overall performance and how we can deliver better safeguarding. The overall opinion was that our safeguarding arrangements are adequate.

## **Off the Grid**

The Council in conjunction with the Economic Development team opened a seasonal artisan shop over the Christmas and New Year period called Off The Grid located in one of the vacant units at the Square. The Council partnered with local artisans and artists to develop a seasonal retail offering.

Following the review a number of recommendations were made for improvements and also as learning points for any future venture. The review of the Off The Grid included looking at stock control and stock takes, trading, cash handling and cashing up arrangements, settlements with vendors, initial kitting out of the store, sales reports, VAT and commission arrangements.

## **Revised Staff Expenses Policy**

Audit was tasked with drafting a new and improved staff expenses policy as the previous version was several years old and was in need of bringing up to date to reflect existing Council practices and current legislation and regulations.

Audit researched a number of neighbouring authorities' policies as well as benchmarking our travel and expenses rates. As a result a significant number of changes have been made to reflect current trends and practices. The revised draft policy has now been discussed at a recent equalities and diversity action group and it is understood will be presented to CMT and joint staff before being agreed and adopted.

## **Peer Review**

In line with Public Sector Internal Audit Standards and International Professional Practices Frameworks internal audit should undergo an external assessment at least once every five years by an independent assessor from outside the organisation. The purpose of this EQA is to provide an independent assessment of the extent to which the Internal Audit Service complies with the PSIAS.

Surrey Heath joined 2 neighbouring authorities Spelthorne and Elmbridge borough councils to carry out this peer review as part of a 3-authority wide review. Surrey Heath reviewed the Elmbridge audit function, Spelthorne reviewed the Surrey Heath function, and Elmbridge reviewed the Spelthorne audit team.

The methodology for this EQA took the form of a validated self-assessment which included the following criteria:

- review of the latest self-assessment and supporting evidence provided
- discussions with members of the audit team
- a series of tests using a standard checklist;
- a review of guidance and process documents and a sample of manual/electronic files;
- applying the CIPFA local government application note and checking conformance with the PSIAS and application note.

It was agreed that Spelthorne BC would provide this assessment for Surrey Heath, and we have recently received a report from Spelthorne of their main findings.

Their overall conclusion is that Internal Audit for Surrey Heath generally conforms to the PSIAS requirements. Their assessment reported that Internal Audit at Surrey Heath fully conformed in the following areas: nature of work, engagement planning, performing the engagement, monitoring progress, and communicating risk. The review highlighted some areas where improvements can be made. The main findings will be presented to a future audit committee.

We presented our findings from our assessment of Elmbridge's audit activity to the management team at EBC in the summer of 2018.

## **RESOURCES AND STAFFING**

There were a total of 430 working days available to deliver the Audit Plan. The Plan also allowed for a small element of contingency and management of the team. The 5 unscheduled pieces of audit work necessarily resulted in several audits being unable to be completed and each has been carried forward to 2019/20. These include media and marketing, ICT, family support and property. In addition land charges and payroll have been postponed at the request of management.

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**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 2018-19 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. The outcomes of this review are attached to this report as Annex A.

**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

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Head of Service:

Louise Livingston

## 1. INTRODUCTION

- 1.1 Internal Audit should be managed 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, the Chartered Institute of Internal Auditors (CIIA), has identified nine key elements to establish an effective public sector audit function 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 these nine elements are met by the internal audit service at Surrey Heath Borough Council.

### 2.1 Organisational Independence

*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.*

The Internal Audit service at Surrey Heath operates with independence from management as far as possible. An audit committee (Audit & Standards committee) is long established which sits 3 or 4 times a year and Internal Audit reports to this committee. In addition, Internal Audit reports to the Section 151 Officer by exception and also a direct reporting line to the Chief Executive has been established. The Senior Auditor has direct access to discuss matters arising with the external auditors as and when necessary. On occasions audit matters are discussed at CMT and CMT members are consulted upon on key issues.

### 2.2 Adoption of a Formal Mandate

*Internal Audit's powers and duties should be established by a formal mandate or other legal document.*

Internal auditing is required by regulation as it is set down in the Local Government Act. Audit has adopted an Audit Charter, which is available to staff 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 Audit Charter will be reviewed and refreshed in 2019.

### 2.3 Unrestricted Access

*Audits should be conducted with complete and unrestricted access to staff, property, and records as appropriate for the performance of the audit activities.*

At Surrey Heath rights of access are included within the Audit Charter. In addition rights of access are provided for within larger contracts with external

service providers. A good example is the current joint waste collection contract with the service provider Amey.

## **2.4 Sufficient Funding**

*Internal Audit should have sufficient funding relative to the size of its audit responsibilities.*

The budget for Surrey Heath's Internal Audit is agreed each year by negotiation at CMT. Internal audit is part of the Transformation service and is allocated funding proportionately. Current funding is proportionate to the level of the activity and the size of the organisation. However due to the size of the function there is very little spare capacity or resilience

## **2.5 Competent Leadership**

*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.*

The current audit team has many years local authority experience. The Senior Auditor is a Chartered member of the governing body for audit, the Institute of Internal Audit and the internal audit team is held in high regard across the Council and at CMT/Member level.

Audit performance is also measured against compliance with the 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.

## **2.6 Objective Staff**

*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.*

The objectivity of Internal Audit's officers is an integral element of delivering an effective audit service on behalf of the Council. Internal Audit works 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, and has signed up to the declaration of interests. Audit staff has also signed a confidentiality agreement with HR to ensure staff records accessed are held secure.

## **2.7 Competent Staff**

*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.*

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 an audit professional certification, being a Certified

Internal Auditor. In terms of IIA membership, all auditors at the Council are members of the IIA. All auditors have worked in the public sector for many years. The Internal Audit team can also demonstrate holding the top 5 behavioural skills as identified by the IIA, namely confidentiality, objectivity, communication skills, judgement, and working independently.

## **2.8 Stakeholder Support**

*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.*

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 committed to promoting the work that Internal Audit helps to deliver. External audit have also placed reliance on the work of Surrey Heath's internal audit in previous years as part of their annual audit of the Council's financial statements.

## **2.9 Professional Audit Standards**

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.

## **3. Peer Review**

In 2018 Surrey Heath's Internal Audit function underwent an External Quality Assessment (peer review). The purpose of the EQA was to provide an independent assessment of the extent to which Internal Audit complies with the Standards set by the public sector internal auditing standards board.

Surrey Heath's internal audit joined 2 neighbouring authorities, Elmbridge BC and Spelthorne BC to carry out a 3-way assessment. It was agreed that Spelthorne BC would provide this assessment for Surrey Heath, and we have recently received a report from Spelthorne of their main findings.

Their overall conclusion is that Internal Audit for Surrey Heath generally conforms to the PSIAS requirements. Their assessment reported that Internal Audit at Surrey Heath fully conformed in the following areas: nature of work, engagement planning, performing the engagement, monitoring progress, and communicating risk. The review highlighted some areas where improvements can be made. The main findings will be presented to a future audit committee.

#### 4. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2018/19

- 4.1 The 2017/18 effectiveness report set out a number of recommendations that required addressing in year. The table below sets out how these recommendations have been addressed:

**Table 1**

*Improvements to system of internal audit implemented in 2018/19*

Area for Improvement as identified in the 2017/18 review	Improvements implemented in 2018/19
<p><u>GDPR and the Data Protection Challenge</u> Ensuring the Council is fully GDPR compliant has increased in importance. Legal and IT teams are already addressing GDPR compliance and internal audit is well placed to provide assurance by conducting a top-down risk assessment of how likely the Council is complying.</p>	<p>An audit of information governance was carried out in 2018. A number of recommendations were agreed with management to address risks and to improve the service. The audit focused on staff access to computer systems and the network, processing starters and leavers, how confidential waste is being managed and disposed of, and managing a clear desk policy. The audit also reviewed disposal of obsolete Council electronic assets and equipment, and examined policies put in place to address data subjects and access rights.</p>
<p><u>Workforces: Planning for the Future</u> The Council needs to think more strategically about its workforce planning. There's an expectation that more is done with less, whether that's money or people. The inability to hire and retain the right talent is a significant risk.</p>	<p>Audit has considered staffing levels and skills and competencies when carrying out internal audits. For example there has been a restructure to the Joint Waste Solutions team which has resulted in a lot of new officers being recruited to new posts.</p>
<p><u>Vendor Risk and Third Party Assurance</u> Gaining assurance over third party environments is becoming more relevant. We're outsourcing more activities, and the Council is more reliant on remote storage using cloud based technologies. The Council needs to get much better at understanding these risks and the assurance coverage.</p>	<p>A number of audits have been carried out with third party service providers in 2018/19, including joint waste, insurance, leisure services, and information governance. We have reviewed the contracts with these providers to ensure that risks are being managed. Audit has also been involved with the Council's business continuity partner Applied Resilience to ensure that business risks have been mapped out, prioritised and action plans put in place to deal with any event or disaster.</p>

## **5 CHALLENGES FOR 2019-2020**

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

### Continuing to meet the needs of a changing Council landscape

- 5.2 With an ever changing environment where Council priorities are shifting away from traditional activities to newer technologies and focus on new investment and property, internal audit needs to adapt to these changes. This can be achieved by audit maintaining an adequate level of technical knowledge to audit these new areas, as well as adopting a more flexible approach to audit.

### Meeting the Internal Audit Annual Plan

- 5.3 The annual plan is agreed at committee each March. It included a large number of audits to be delivered in year. The audit plan can be flexed, should the need arise, to address a new or emerging risk which has not been identified on the original plan.

### Actioning the Peer Review

- 5.4 A number of recommendations were made in respect of the peer review exercise conducted in 2018, and an action plan has provisionally been agreed. These include reviewing and refreshing the Audit Charter and the Audit Manual, adopting a more strategic high level Audit Strategy, development a formal Quality Assurance Improvement programme and consideration of adopting a Code of Ethics for audit.

## **6 CONCLUSION**

- 6.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2018/19, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.
- 6.2 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 deliver their services more economically, achieve better results and reduce risk.

**Standards Sub Committee**

Portfolio:	Non-executive function
Ward(s) Affected:	All

**Purpose**

**To receive and sign the minutes of any Standards Sub Committee hearings held since the last meeting of the Audit and Standards Committee**

**1. Background and Current Position**

- 1.1 A key function of the Audit and Standards Committee is to promote standards within the Council and to monitor the operation of the Code of Conduct and when necessary establish Hearing Sub Committee to hear and determine complaints of alleged breaches of the Council's Code of Conduct by borough or parish councillors referred to it by the Monitoring Officer.
- 1.2 A Standards Sub-Committee took place on 23<sup>rd</sup> April 2019 to consider a complaint made against a Borough Councillor following their interactions with a local resident over a planning matter.
- 1.3 Having evaluated the evidence placed in front of them the Standards Sub-Committee considered there to have been a clear breach of the Council's Code of Conduct and made the following recommendations:
  - i. The Sub Committee censure Councillor Gandhum for his actions.
  - ii. Councillor Gandhum to be asked to apologise formally to the Complainants by letter.
  - iii. The Member's Group Leader would be advised formally of the complaint and the outcome of the subsequent investigation and Sub Committee hearing.
  - iv. The full report of the Independent Investigating Officer to be taken to the next meeting of the Audit and Standards Committee.
- 1.4 The report of the Independent Investigating Officer is attached to this report as Annex A and the minutes of the Standards Sub Committee are attached as Annex B.

**2. Recommendations**

- 2.1 The Committee is asked to:
  - i. Note the outcome of the Standards Sub Committee held on 23<sup>rd</sup> April 2019
  - ii. Agree that the Chairman of the Audit and Standards Committee signs the minutes of the Standards Sub Committee meeting on behalf of the members of the Standards Sub Committee.
  - iii. Consider whether the full report of the Independent Investigating Officer should be made public following the redaction of the identifying details of the complainant.

Annexes

Annex A – Report of the Independent Investigating Officer

Annex B – Minutes of the Standards Sub Committee

Background Papers:

None

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**Minutes of a Meeting of the Standards Sub  
Committee held at Conference Room,  
Camberley Theatre, Knoll Road,  
Camberley, GU15 3SY on 23 April 2019**

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+ Cllr Rodney Bates  
+ Cllr Edward Hawkins

+ Cllr Paul Ilnicki

+ Present  
- Apologies for absence presented

In Attendance: Karen Limmer, Monitoring Officer  
Richard, Lingard, Independent Investigator

## **1 Appointment of Chairman**

**RESOLVED** that Councillor Bates be elected chairman of the hearing.

### **COUNCILLOR BATES IN THE CHAIR**

## **2 Declarations of Interest**

Councillor Bates informed the Sub Committee that he had been employed by Guildford Borough Council at the same time as the independent investigator (some 8 years ago) but had not worked with him as they were in different departments.

Councillor Hawkins informed the Sub Committee that he had chaired the meeting of the Planning Applications Committee concerned.

Councillor Ilnicki informed the Sub Committee that he had attended and participated in the meeting of the Planning Applications Committee concerned.

## **3 Exclusion of Public and Press**

It was agreed that given the nature of the complaint and in the interest of transparency and accountability the public and press would not be excluded from the hearing.

## **4 Investigation of a Potential Breach of the Code of Conduct**

The Sub Committee was informed that the hearing had been convened to consider the report of the Independent Investigator following the investigation of a complaint submitted to the Monitoring Officer by Mr Andrew Badosz, on behalf of his clients Karen and Rose Gostage, following their dealings with Councillor Gandhum and to agree an appropriate course of action.

The Sub Committee was advised that it was the Gostages' contention that Councillor Gandhum had acted improperly as a councillor, failed to declare relevant interests at a meeting of Windlesham Parish Council and called in the Gostages' planning application in an attempt to undermine its proper determination with a view to frustrating them into selling their land to him. It was also alleged that Councillor Gandhum had sought to pressurise the Gostages into selling their property to him whilst at the same time working to undermine the chances of their planning application being approved.

As the Independent Investigator assigned to investigate the complaint, Richard Lingard had met and interviewed the complainants, the complainant's agent and Councillor Gandhum.

The Sub-Committee carefully considered all the information presented, both written and oral, from:

- the Independent Investigator;
- the Monitoring Officer
- together with reference to the Council's Constitution and Code of Conduct and Windlesham Parish Council's Code of Conduct

The Sub Committee noted that a copy of the Independent Investigator's draft report had been sent to all parties for comment. Responses from the complainant's had been incorporated into the report and Councillor Gandhum had advised the Investigator that he had no comment to make on the report. It was noted that extensive efforts had been made to ensure that Councillor Gandhum was aware of the hearing and his right to be present to present his side of the case. However, no response had been received and given the seriousness of the allegations it had been agreed that the hearing would be held in his absence.

The Sub Committee noted the concerns raised including:

- The failure to declare an interest during Windlesham Parish Council's Planning meeting.
- Councillor Gandhum's denial of any knowledge of who had called in the Gostages' planning application when it was a matter of public record that it was he who had done so.
- The inappropriate and unprofessional manner displayed by Councillor Gandhum towards the Complainants' agent and his implication that the Complainants were only repeating what their agent had told them to say.
- The hand written note given to the Complainants by Councillor Gandhum clearly implied that he was interested in purchasing land from the complainants.

The Sub-Committee also took note of the fact that;

- In addition to the Call-In request, only one other representation had been received in relation to the Gostages' planning application.
- Although the Call-in request had not referenced a specific planning reason this had not been a requirement at the time the request had been made.
- Although Councillor Gandhum had attended the Planning Applications Committee meeting in December 2018, he had not been in attendance when the Committee considered the Complainants' planning application. The Chairman had given a clear steer to the Committee that a note on the application circulated by Councillor Gandhum did not form part of the application papers and was to be disregarded by the Committee.
- The Investigating Officer considered the Gostages to be plausible and reliable witnesses and that they were reluctant complainants. Furthermore, the Investigating Officer considered the Councillor's responses to his questions to be evasive and contradictory.

The Sub Committee considered that the concerns raised in the complaint clearly breached the Nolan Principles and the Council's Code of Conduct for Councillors and in particular:

- i. Selflessness – It was considered that the Councillor's actions had been influenced by a potential opportunity to gain a financial or material benefit either for himself or for an associate and consequently he had not acted solely in terms of public interest in this instance.
- ii. Integrity - The initial advice given to the Complainants in respect of lifting planning restrictions on their land whilst technically incorrect was not in itself considered to be a breach of the Code of Conduct.

However, the Sub Committee considered that the Councillor's actions had clearly indicated that he had considered the possibility of buying the land in question either for himself or an associate and this had coloured his subsequent actions. Consequently, it was considered that the Councillor had failed to act with integrity on this occasion.

- iii. Accountability – It was considered that because the Councillor did not, at the time of the meeting, have a pecuniary interest in the application under Windlesham Parish Council's Code of Conduct he did not need to declare an interest when the application to lift the agricultural tie was discussed by the Parish Council. Notwithstanding this it was considered that elected officials should do all in their power to ensure that they were perceived to be acting with propriety at all times and consequently it was considered that a declaration ought to have been made to avoid any suggestion that the Councillor had been seeking to exert undue influence.

In relation to breaching standards of accountability it was considered that this was unproven.

- iv. Openness and Honesty- It was felt that whilst the Councillor's reasons for calling in the planning application were weak the Council's rules at the time did not state that full and proper planning reasons had to be provided when calling in a planning application. The rules relating to the call in of planning applications since changed however it was agreed that the Governance Working Group should be asked to look at this area.

In relation to the Councillor's denial of any knowledge of who had called in the planning application when questioned about it by the complainant, it was felt that this was clearly dishonest and breached the Code of Conduct.

- v. Leadership – It was agreed that in his dealings with the Complainants, the Councillor had failed to promote and support the seven principles of public life and this failure of leadership clearly breached the Council's Code of Conduct.
- vi. Treating Others with Respect – The Sub Committee considered that whilst the Councillor's conduct towards the complainants was not overly disrespectful, the Code of Conduct placed a general obligation on councillors to 'treat others with respect'. In view of this fact, the manner in which the Councillor had referred to the complainant's agent was clearly disrespectful and fell short of the standards expected of councillors. Consequently, it was agreed that this aspect of the Code of Conduct had been breached.
- vii. Disrepute – It was the Sub Committee's view that the Councillor's handling of the situation had not met the obligation in relation promoting and maintaining high standards of conduct and as such the Code of Conduct had been breached in this instance.

- viii. Improper Use of Position – It was agreed that calling in the planning application could be interpreted as an attempt to thwart its progress. Furthermore, given the vagueness of the reasons given for calling in the decision, it was considered that the Councillor had made improper use of his position to gain an advantage for either himself or an associate and as such had breached the Code of Conduct.
- ix. Declaration of Interests – It was stressed that the Nolan principles applied to all public appointments including parish councillors. It was felt that in this particular case, the handwritten note given by the Councillor to the Complainants showed a clear intention to buy the land in question and as such, his participation in the Parish Council meeting and the calling in of the application demonstrated that the Councillor had failed to avoid action which might reasonably lead others to conclude that he was not acting selflessly and with integrity and his actions had breached the Code of Conduct.

The decision making process was a matter of judgement by the Sub Committee and having weighed all the evidence provided by the Independent Investigator it was considered that in his handling of the matter the Councillor had failed to adhere to the Nolan principles and his actions had clearly breached the Members' Code of Conduct on several fronts.

The Sub Committee noted that the Councillor would not be seeking re-election in the upcoming elections and accepted that the proximity of the elections meant that their options were limited. Notwithstanding this, the Sub Committee agreed that the severity of the breach was such that it warranted being brought to the attention of a wider audience and that the Councillor should be publically censured for his actions. It was also agreed that the Councillor should be asked to formally apologise to the Complainants.

**RESOLVED** that:

- i. The Sub Committee censure Councillor Gandhum for his actions.
- ii. Councillor Gandhum to be asked to apologise formally to the Complainants by letter.
- iii. The Member's Group Leader would be advised formally of the complaint and the outcome of the subsequent investigation and Sub Committee hearing.
- iv. The full report of the Independent Investigating Officer to be taken to the next meeting of the Audit and Standards Committee.

**Chairman**