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Friday, 13 November 2020

To: The Members of the **Audit and Standards Committee**
(Councillors: Cliff Betton (Chairman), Darryl Ratiram (Vice Chairman), Rodney Bates, Edward Hawkins, Charlotte Morley, 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 Richard Brooks, Shaun Garrett, Ben Leach, Robin Perry, Victoria Wheeler and Kristian Wrenn

Dear Councillor,

A meeting of the **Audit and Standards Committee** will be held virtually on **Monday, 23 November 2020 at 7.00 pm**. The agenda will be set out as below.

Please note that this meeting will be recorded and live streamed on <https://www.youtube.com/user/SurreyHeathBC>

Yours sincerely

Tim Pashen

(Acting) Chief Executive

AGENDA

	Pages
1 Apologies for Absence	
2 Minutes of Previous Meeting	3 - 6

To receive the minutes of the meeting of the Audit and Standards Committee held on 20th April 2020.

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 Officer prior to the meeting.

4 External Audit

To receive an update from DBO, the Council's External Auditors, on their work to audit the Council's financial statements.

5 Internal Audit Annual Report

7 - 14

To receive the Annual report of the Council's Internal Audit Function.

6 Effectiveness of the Internal Audit Function

15 - 20

To receive a report setting out the findings of the annual review of the effectiveness of the Council's Internal Audit function.

7 Annual Standards Report

21 - 24

To receive the annual report of the Council's Monitoring Officer.

8 Date of Next Meeting

The next scheduled meeting of the Audit and Standards Committee will take place on Monday 18th January 2021 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 20 April 2020

- | | |
|-------------------------|-------------------------|
| + Cllr Rodney Bates | + Cllr Sashi Mylvaganam |
| + Cllr Cliff Betton | + Cllr Darryl Ratiram |
| + Cllr Edward Hawkins | + Cllr Valerie White |
| + Cllr Charlotte Morley | |

+ Present

- Apologies for absence presented

Substitutes in attendance: Cllr Victoria Wheeler

Members in Attendance: Cllrs Graham Alleway, Sharon Galliford,
Emma-Jane McGrath and Alan McClafferty

Officers Present: Michael Asare Bediako, BDO
Stephen Bladon, BDO
Adrian Flynn, Chief Accountant
Simon Little, Executive Head: Finance and Section 151 Officer
Leigh Lloyd Thomas, BDO
Julia Hutley-Savage, Principal Lawyer
Tim Pashen, Acting Chief Executive
Richard Payne, Executive Head: Corporate
Alex Middleton, Senior Auditor
Gavin Ramtohal, Head of Legal and Monitoring Officer

6/AS Election of Chairman

RESOLVED that Councillor Betton be elected Chairman of the Audit and Standards Committee.

COUNCILLOR BETTON IN THE CHAIR

7/AS Appointment of Vice-Chairman

It was noted that the appointment of Councillor Ratiram to the position of Vice Chairman of the Audit and Standards Committee would continue until the start of the new municipal year.

8/AS Minutes of Previous Meeting

RESOLVED that the minutes of the meeting of the Audit and Standards Committee held on 22nd July 2019 be approved as a correct record and signed by the Chairman.

9/AS External Audit ISA 260 Report

The Committee considered a report setting out the External Auditors ISO 260 report for the 2018/19 financial year.

Leigh Lloyd-Thomas, BDO, presented the ISA260 External Audit Report 2018/19. The report set out any key issues identified following BDO's audit of the Council's financial statements for the year ending 31 March 2019 and provided an assessment of the Authority's arrangements to secure value for money.

It was noted that completion of the audit had taken longer than initially envisaged due to the identification of a number of anomalies that had required further investigatory work including:

- Freehold interest in the JPUT land had been included in both the Council's assets and its valuation of The Square shopping centre.
- A number of omissions had been identified in the accounts with respect to income, expenditure, assets and liabilities.
- Expenditure for pension costs, depreciation and impairments had been incorrectly included as other costs instead of cost of services.

It was reported that it was the Auditor's opinion that the Square's blended yield value of 6.32% at 31st March 2019 was considered optimistic but not unreasonable in view of the explanation provided by the Valuation Service. Notwithstanding this the Auditors had raised concerns over a number of the complex transactions that the Council was involved with and it was stressed that there was a need to ensure that the Council had sufficient depth of specialist knowledge to ensure these transactions were scrutinised appropriately.

The Committee was informed that the level of anomalies and errors identified during the audit had required significant additional levels of work and this had impacted on the timescales and caused the subsequent delays in the delivery of the final audit report. Following the completion of its investigative work into the identified anomalies and any necessary corrections it was the Auditor's opinion that the 2018/19 Accounts could be considered as being a true and fair reflection.

It was confirmed that when considering income and expenditure the level of materiality at which auditors started working from was £1.3million; any expenditure below this amount was not considered by auditors as part of their audit work on the annual accounts.

A concern was expressed that the audit report made no reference to the outcomes of the recent independent investigation into the remuneration of the former Chief Executive and the governance surrounding the matter. The Auditors advised that the original payment had been reported in the accounts and as such the 2018/19 accounts could be considered as being a fair and accurate record; they could not comment on the governance matters unless a material failure of governance had been identified.

The Committee noted the report.

10/AS Internal Audit Three Year Strategy

The Committee received a report setting out the proposed Internal Audit Three Year Strategic Plan 2020 – 2023.

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 in question each year.

It was noted that procurement and contract matters were audited as part of any audits of wider service areas however it was agreed that, in light of the comments of the External Auditors, there needed to be a greater focus on procurement and contracts and standalone audits of both areas should be incorporated into the plan.

It was agreed that the following areas would also need to be incorporated into the audit strategy: property holdings and the Property Investment Strategy. It was also considered that, due to the recent findings of an independent investigation of personnel matters, human resources functions should be audited more frequently.

The Committee was informed that one of the new Executive Head of Finance's first tasks would be to complete a review of the Council's Property Investment Strategy.

It was acknowledged that the addition of these areas to the Audit Strategy would have implications on resources and that it would be necessary to prioritise areas for audit. It was agreed that officers would review the strategy in light of these comments, and in consultation with the Chairman and Vice Chairman, agree an appropriate prioritisation of internal audit work.

RESOLVED that, subject to the changes agreed above, the Internal Audit Three Year Strategic Plan 2020-2023, as set out in the report annex, be approved.

11/AS Internal Audit Annual Plan

The Committee considered a report setting out the proposed work programme for the Council's Internal Audit function for the 2020/21 municipal year.

The proposed work plan had been based on the draft Internal Audit Three Year Strategic Plan, as discussed at item 7 on the agenda for this meeting, and consisted of a combination of audit activities carried out on an annual basis, activities 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 agreed that audits of the Council's Human Resources and Procurement functions would be included in the 2020/21 Annual Audit Plan.

It was acknowledged that the majority of the Council's staff were currently focused on activities relating to the Council's response to the Covid-19 pandemic and this would impact on the Council's ability to deliver the audit programme set out.

RESOLVED that the Internal Audit Annual Plan for 2020/21, as set out in the report annex and as amended above, be approved.

12/AS Date of Next Meeting

It was noted that the next scheduled meeting of the Audit and Standards Committee would be held on Monday 20th July 2020 at 7pm.

It was agreed that if the situation with regard to the Covid-19 pandemic had not changed, and it was necessary to conduct the meeting by video-conference, then the start time of the meeting would be brought forward to 6pm.

Chairman

INTERNAL AUDIT ANNUAL REPORT

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

To provide an annual review of the work of Internal Audit for 2019-20 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. Section 151 officers should also 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 arising.

1.2 This audit report compliments some of the findings reported in the Annual Governance Statement 2019/20.

2. **Annual Review of Internal Audit Work for 2019-20**

2.1 The Internal Audit work programme is directed by the 3-year Audit Strategy as well as the annual Audit Plan. The annual Plan is agreed at Member level annually.

2.2 For the period 2019-20 a total of 21 internal audits were completed from the Audit Plan. In addition 2 ad hoc pieces of work were undertaken, the details of which are covered later in the report. Weaknesses in control and areas for improvement are reported back to management through internal audit written reports. Areas for improvement are reported using audit recommendations ranging from desirable to essential and reported in management action (improvement) plans.

2.3 Audit has also been involved in numerous other Council activities during the year including co-ordinating IR35 assessments, participation in a number of corporate officer working groups including the equalities action group, the risk management group, as well as the Elections officer project group. Audit has also been active in helping to develop the team's business continuity and emergency plans as well as co ordinating and supervising the authorised signatories process, and reviewing compliance over contract standing orders, and the Council's financial regulations.

2.4 It should be noted that the Audit work programme was disrupted at the end of the financial year with the outbreak of covid 19 and the re deployment of staff to help with the pandemic response and the welfare work, as well as unplanned staff absences.

2.5 One of four levels of assurance is provided at the conclusion of each audit, ranging from full assurance to nil assurance, as below:

Level of assurance	Definition
FULL(green)	Controls are strong and being fully complied with, service is continually developing and offering added value, business objectives are being met and exceeded
SUBSTANTIAL(green)	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
LIMITED (amber)	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
NIL (red)	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 In practice the majority of audits score either substantial or limited assurance, as full assurance would only be offered where the entire population is tested rather than just a sample, and audits scoring nil assurance would need to have absolutely nil checks and balances in place and this would normally be addressed by management before Audit steps in.

2.7 Audit recommendations are given one of three categories namely essential, desirable, or best practice.

Essential – 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 - 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 – industry best practice suggestions; help to improve overall control and efficiency; assist management deliver services; medium to long term implementation

2.8 In total 108 audit recommendations were raised in 2019-20:

- 15 essential
- 93 desirable
- 0 best practice

3. **Overdue Audit Recommendations**

- 3.1 The status of audit recommendations are reviewed on a periodic basis using an Access database. Any essential recommendations that have not been satisfactorily actioned will be escalated to CMT and to Member level as necessary.

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

- 4.1 The overall opinion of the Section 151 Officer 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 2019-20 annual Audit Report.

Background papers: None

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DETAIL OF INTERNAL AUDIT WORK FOR THE YEAR 2019-20

When reading this report the reader should note that the audit work programme at the end of the financial year was disrupted by the outbreak of the pandemic and necessary re deployment to help with the welfare cell and the covid response.

Details of the work programme completed by Internal Audit covering the financial year 2019-20 are set out below:

- Key finance systems
- Other scheduled audits from the Audit Plan
- Unplanned pieces of work

KEY FINANCE SYSTEMS

A number of finance audits are carried out annually which the Council's external auditors may wish to place reliance on when they are conducting the end of year audit of the authority's financial statements. In completing the work programme 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.

Treasury Management

This audit aimed to provide assurance over Council money market investments and ensuring the authority is getting a reasonable level of return on its treasury investments, taking into account yield, security, and risk. The audit focused on the treasury strategy, Council investment performance monitoring, access to Bankline and other financial records, separation of duties, Prudential borrowing to meet investments and new acquisitions, as well as Treasury information provided by the Council's treasury advisers. No recommendations were raised.

Capital

The annual audit for capital followed a similar process to previous years. Checks were carried out to ensure Council assets are valued correctly, and assets are accounted for correctly on the ledger, Council assets are adjusted to reflect changes in market conditions and Council assets are recorded/logged and are verified on a periodic basis. Four recommendations were raised and we are working with the service to implement these.

Debtors and Income

The annual debtors audit examined the process of raising sundry debts and to ensure that debts are raised accurately and on a timely basis, but also that the debt recovery process is effective ensuring debts are chased promptly, debt write offs are correctly applied, sundry debts are cancelled correctly upon receipt of valid Credit Notes and any reconciliation processes between Account Receivables and the General Ledger and the cash receipting system are carried out and variances investigated. Two recommendations were raised and these have been implemented.

Creditors and Expenditure

A number of financial areas were covered as part of the creditors audit. We examined the payment run process, including checks on prepayment, post payment, and BACS file reports, and appropriate sign offs, we reviewed exception reports run from Civica, eg. payments over £20k and new suppliers, we sample checked creditor invoices paid through the Civica system. The audit also covered controls over changes to supplier

bank accounts as well as access to the finance system. There were no recommendations raised.

Main Accounting

The annual main accounting audit aimed to provide assurance to management that the Council's financial system and associated feeder systems are working correctly, and are being adequately controlled, and to ensure the accuracy and timeliness of the preparation of the Council's financial statements and set of accounts. The audit examined access to Civica and making sure changes made to system data are with appropriate approval, journal entries are created accurately and postings are correct, accounting for year end/period 12 journals are dealt with efficiently. The review also tested the corporate budget monitoring process as well as accruals processed at year end. Two recommendations were raised and these have been implemented.

Revenues

The audit team reviewed arrangements for processing refunds for business rates and council tax accounts, whether revenues system data is checked/reconciled back to Valuation Office records/cash feeder systems. The review also covered how exemptions or discounts are applied and approved, and whether they are backed up by supporting records/paperwork. One recommendation was raised which has been actioned.

Housing Benefits

The audit re-performed a sample of new claims and a sample of change of circumstances assessments that support the benefits payment regime to ensure accuracy of assessment and payment, we checked a sample of monthly reconciliations undertaken and we checked whether benefit overpayments are calculated correctly and recovered. There were no recommendations.

Cash & Bank

The Processes in place to manage cash received and banked across different services of the Council was the focus of this audit review. Other areas considered included whether income payments made through the web and ATP and other council systems are correctly recorded, accounted for, coded correctly and banked, we reviewed the cash collection contract with Contract Security, we observed the kiosk being emptied and reconciled, bank reconciliations were checked. We also focused this time on Council compliance with the Payment Card Industry in respect of card payments and data protection. Six recommendations were raised and these are being actioned by the service.

OTHER SCHEDULED AUDITS FROM THE AUDIT PLAN

Payroll

An annual review of the payroll system was conducted and focused on checks on starters, leavers and staff amendments. Overtime claims and staff paid by timesheets were also covered. The audit also reviewed the process for setting up and paying temporary workers not on the establishment and paid through creditors. A total of 9 recommendations were raised and HR have actioned those due.

Joint Waste

The audit examined the joint waste contract held with Amey and managed by Joint Waste Solutions (JWS) on behalf of the 4 authorities. This was the first audit of JWS and the joint waste contract. The review covered the following areas: performance management of Amey, change control processes, analysis of financial reporting,

monitoring of KPIs, verification and payment of core and variable invoices, and garden waste invoices. Eight recommendations were raised and those due to be actioned have been.

Procurement

The procurement audit reviewed the Council's procurement toolkit for tendering and awarding of contracts, the process for obtaining quotes and tenders for orders for works and services, the appointment process for professional advisers and consultants, as well as a review of the arrangements for maintaining the contract register. We reviewed a sample of 10 high value contracts and tested them to ensure that contract standing orders were being followed, as well as ensuring value for money and whether the service had been delivered as expected. The final report was agreed in June 2020 and 13 recommendations were raised. None are yet due.

Corporate Property/Investment & Development

This review was started in quarter 4, 2019/20 and was completed in 2020 due to covid. The review covered the work of corporate property and investment and development. The audit focused on the due diligence work and safeguards in place when new assets are being purchased. The audit reviewed the following acquisitions: Theta office building based in Frimley, Trade City light industrial site based in Frimley, and Vulcan Way industrial site based in Sandhurst, Berkshire. The audit also considered the due diligence work that had been undertaken in respect of the Atrium retail park but this was not acquired in the end.

The audit also considered the role of committee, notably the Land and Property Board, as well as the strategic property asset management framework, the asset management plan, the planned preventative maintenance programme as well as the amount of condition surveys undertaken. The report was issued July 2020, and 22 recommendations were raised. We are working with officers to action these.

Health & Safety

Health & safety is audited every two or three years. The following areas were covered in the 19/20 audit: arrangements in place for reporting and recording of accidents and incidents, risk assessments undertaken, health & safety arrangements for mobile/home working/lone working, review of H&S training for new starters and established staff, and arrangements for off site events and ad hoc work delivered by the Council. Six recommendations were raised and have been actioned.

Camberley Theatre

A review of the Council's theatre service was started in 19/20, and finished off in 20/21 due to covid-19. The audit covered the following key risks, financial monitoring, income received, petty cash and banking, cash handling and end of day cashing up, venue hire, booking process and hire income. Audit also examined professional show contracts, ticket sales and show settlements with performers and agents. A number of recommendations were agreed with venue management and these are being addressed. Eight recommendations were raised and all are due to be actioned by March 2021.

Leisure Services

Different aspects of the leisure service are reviewed each year. For 2019/20 it was agreed that we would focus on the action taken by Business service to address the concerns and weaknesses arising out of the Heritage centre review originally conducted in 2018. A number of new issues were identified and an action plan has been agreed with the service to improve controls.

The service has a number of income streams, including gallery sales, 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 ,recording sales accurately, centre policies and procedures, as well as volunteer arrangements. 15 recommendations were raised and all have been actioned.

ICT

The 2020 audit reviewed the controls and functions operating over the Box cloud content platform, as well as the actions taken by ICT to address recommendations from the previous box audit. The audit was started in 19/20 but was finished in 2020 due to covid. The audit also considered the development and roll out of the Council's digital portfolio. The safeguards and checks and balances in place to safeguard and maintain computer equipment and assets such as laptops were also examined in some detail, especially with a view to more agile working and working from home. Nine recommendations were raised and we are working with ICT to action these, most have been actioned.

Fraud Prevention & Detection

The audit checked whether officers are required to make declaration of interests and whether records are retained for gifts and hospitality. The review also covered fraud training provided to staff. A review of corporate polices was also undertaken, covering the anti fraud response plan, whistle blowing policy and the anti money laundering policy. No significant officer or contractual frauds were found, so the audit focused on best practice. Five recommendations have been raised and we are working with officers to ensure these are actioned.

Facilities

The 19/20 review examined the main activities of the facilities team and security officers, and included building control procedures and arrangements for managing office security, building and facilities maintenance procedures and records for fire protection, intruder alarm, lift contracts, barriers, doors, windows, fixed wire testing, as well as heating and air cooling systems. The audit also examined the extent to which the Council's cleaning and sanitation contract was being managed. A number of areas of improvement were recommended and these are being addressed by management. Eight recommendations were raised, which have been actioned, or are in the process of being implemented.

Building Control

Building control is reviewed every two years on average. The 19/20 review concentrated on the building control application process, carrying out inspections, payment of invoices, issue of Completion Certificates, and charging and reconciliation of building control fees. No significant issues were found. No recommendations were made.

Community Transport

A community transport audit was carried out and a substantial level of assurance was provided. Transport scheduling and reporting were examined, including pickups, transfers, and trip cancellations. The audit reviewed the application process and checked customers provided eligibility. Income streams were examined, including weekend trips, trip payments, and setting of fares. Checks were also conducted on driver licence checks, training as well as servicing and maintenance of fleet vehicles. Four recommendations were raised, and we are addressing these with staff.

Business Continuity & Emergency Planning

The Council continues to work with its business continuity partner Applied Resilience to develop and test its emergency planning and business continuity arrangements.

In 2019/20 Internal Audit updated the business continuity service level plan for audit, fraud and enforcement. This plan aims to identify key equipment, loss or denial of access to Council offices, key staff and making sure we have contacted our key suppliers.

Audit also updated the Situation Report for the service, that deals with the impact on the service over the initial 24 hour period following a major incident, and what critical issues the Council would need to be aware about.

Most recently with the outbreak of the Covid-19 pandemic we have reviewed the loss of staff document which focuses on addressing staff absences as a result of the pandemic, as well as staff re deployment to help with the covid 19 response.

UNPLANNED PIECES OF WORK

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

Elections

Internal Audit undertook a critical review and self-assessment of the two elections that took place in 2019, namely the borough, parish and Neighbourhood Plan referendum (2 May 2019), and the European parliamentary election (23 May 2019). The main objective of the audit was to identify areas for improvement for future elections and to report back findings to the Returning Officer and the elections project team.

A number of areas for improvement were identified and these have been addressed by the elections officer project team.

Internal Audit also provided assistance with the preparations for the postponed PCC elections scheduled for May 2020. We examined the election integrity plan and risk assessments. 11 recommendations were raised and all have been implemented.

Swift Lane- Traveller Enforcement Action

Swift Lane, Bagshot was the location of an unauthorised traveller incursion, with a number of unauthorised businesses operating from the site. Audit provided assistance to the corporate enforcement team with the direct action, court case and enforcement action against the travellers on site. Audit assisted with site visits, as well as consulting with the enforcement bailiffs to produce a 'working' risk assessment that covered areas such as risks to staff whilst on site, risks to the project including costs, safeguarding issues and electrics issues.

RESOURCES AND STAFFING

There were a total of 430 working days available to deliver the Audit Plan. The plan also provisions a small element for contingency, team supervision, sickness and training and development. A number of audit days were lost at the end of the financial year due to covid-19.

**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 2019-20 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

Report Author:

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Head of Service:

Louise LKivingston

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. NINE ELEMENTS

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 occasion audit matters are discussed at CMT level.

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.

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. Examples include the current joint waste collection contract and the grounds maintenance contract.

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 with 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. The budget however is at capacity and does not allow for much resilience and there is little contingency.

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, whilst these have changed, 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 international 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.

3. PEER REVIEW

The Internal Audit function has undergone an External Quality Assessment or peer review within the last 5 years as required by the Standards.

4. IMPROVEMENTS TO THE SYSTEM OF INTERNAL AUDIT 2019/20

- 4.1 The 2018/19 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 2019/20

Area for Improvement as identified in the 2018/19 review	Improvements implemented in financial year 19/20
<u>Continuing to meet the needs of a changing Council landscape</u>	The authority has been subject to a number of new initiatives and challenges, and internal audit has needed to keep up to pace to meet these on going challenges. Examples include reviewing changes to working patterns with agile working and working from home and the risks that this brings, reviews of unauthorised encampments and traveller community, and the changing work patterns and the risks the authority faces addressing all the demands of covid 19 and the welfare work. Internal audit continues to contribute to the corporate risk management group, the

<p><u>Meeting the Annual Plan</u></p>	<p>business continuity group and the work of the equalities and diversity officer group.</p> <p>The work at the end of the year was interrupted by staff shortages as well as staff re deployment to help with the welfare work and covid 19, as directed by the Government. That being said, 21 audits were successfully completed from the Annual Plan. 2 additional audits were carried out at the request of management. A number of audits also commenced by the end of the year and are due to be finished in 20/21, mainly due to covid 19.</p>
<p><u>Actioning the Peer Review</u></p>	<p>A number of improvements have begun to be implemented into the internal audit function as a result of the peer review findings, including a review of the Audit Charter and Audit Manual, consideration of audit's reporting line, audit resourcing and the budget necessary to deliver an effective service. More work will continue to be undertaken in 2020/21.</p>

5 CHALLENGES FOR 2020-21

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

Joint Waste

- 5.2 The Council needs to continue to work with the service provider to deliver the joint waste service in line with the contract. The Council has made arrangements to go through arbitration negotiations, and covenants/contingencies have been put in place. The role of internal audit will be to ensure that a comprehensive audit review of the main processes of Joint Waste Solutions and the waste contract is successfully undertaken and any improvements agreed with management.

Organisational Re structure

- 5.3 A senior management restructure is planned for 2020, and the appointment of services. This includes the appointment of a new Chief Executive. Internal audit will need to ensure that the results and fall out of the re structure are incorporated into audit reviews where necessary.

Investment & Development

- 5.4 The Council needs to continue to manage its property portfolio and new acquisitions to ensure income is maximised and new income streams are identified and generated. The Council needs to work with Wilkes, Head and Eve to ensure required assets are correctly valued with external audit. The Council should continue to work with its professional advisors eg. planners and architects to develop the LRB. The role of internal audit will be to review the main processes and checks in place when these projects are undertaken, and to ensure that effective due diligence takes place for all

new acquisitions. Actions arising out of the 2020 corporate property audit will also be assessed.

6 CONCLUSION

- 6.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2019/20, 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.

ANNUAL STANDARDS REPORT

Portfolio	N/A
Ward(s) Affected:	N/A

Introduction and Purpose

To update the Audit and Standards Committee on any standards issues. The Monitoring Officer commenced employment in April this year but reference has been made to matters before April of which he is aware.

1. Key Issues

- 1.1 In accordance with the Localism Act 2011, the Council has adopted a Code of Conduct and has in place local arrangements for dealing with issues of conduct and requests for dispensations for both the Council and Parish Councils. 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 interests as well as any non-pecuniary interests at any meetings. Periodically, Members need to be reminded that when they do this, they must give sufficient detail for the public to understand the nature of the interest.
- 1.3 In addition to the changes to the Constitution referred to in sections 1.5 and 1.6 below, some other changes have been made to the Constitution which reflect issues that have arisen since April this year. These revisions were led by the Governance Working Group. These most recent changes clarified the use of the Chairman's casting vote and the requirement for further debate. Other changes were in relation to the terms of reference for the Employment Committee and Officer/Member protocol.
- 1.4 The Monitoring Officer and Deputy Monitoring Officer have been actively assisting some Parish Councils with Governance issues and advising on best practice. At present, the Monitoring Officer considers that Parish Councils appear, overall, more stable but will continue to monitor and assist where required.

Monitoring Officer's reports and investigations

- 1.5 Following the investigation into the allowances of the Council's former Chief Executive, the Council accepted the recommendations of the investigation and updated the Constitution to incorporate the establishment of an Employment Committee. Some further updates to the Constitution in this respect are expected to be presented to Full Council in December this year.
- 1.6 In July this year the Monitoring Officer reported to Executive that the decision to remove a local land charge at field 81 was potentially procedural ultra vires. The Executive accepted the recommendations of the Monitoring Officer to update the Constitution to incorporate additional safeguards. These updates are expected to be presented to Full Council in December this year.

- 1.7 In October this year Full Council accepted a proposal for a 6 month trial to share the Monitoring Officer role with Elmbridge Borough Council. The arrangement is to provide Elmbridge with the equivalent of 2 days per week of the Monitoring Officer's time. This arrangement started on 1st November.
- 1.8 Since April, a reasonably high number of relatively minor issues have arisen both at Borough and Parish level. The Monitoring Officer did not consider that any of the complaints warranted formal investigations. A minority of complaints did amount to minor breaches of the Code of Conduct and the Monitoring Officer was satisfied that these could be resolved by informal resolution. An independent person was consulted once in relation to an allegation of failure to declare a pecuniary interest. The independent person and the Monitoring Officer were agreed on the informal resolution. Since April this year the Deputy Monitoring Officer has dealt with 3 code of conduct complaints and the Monitoring Officer has dealt with 14 such complaints. Some complaints comprise of several allegations against the same Members.
- 1.9 The Monitoring Officer was also asked to review the decision-making process regarding planning appeals following the progress of a particular appeal. The Monitoring Officer did not find any governance issues regarding the conduct of planning appeals.

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.

Annexes	None
Background Papers	None
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