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Friday, 30 June 2023

To: The Members of the **Audit and Standards Committee**  
(Councillors: Cliff Betton (Chair), Bob Raikes (Vice Chair), Jonny Cope, Rob Lee, Leanne MacIntyre, Josh Thorne and Pat Tedder)

**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 Valerie White, Victoria Wheeler, Kevin Thompson and Shaun Garrett

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 **Tuesday, 11 July 2023 at 7.00 pm**. The agenda will be set out as below.

Please note that this meeting will be recorded.

Yours sincerely

Damian Roberts

Chief Executive

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## AGENDA

	<b>Pages</b>
<b>1 Apologies for Absence</b>	
<b>2 Minutes</b>	<b>3 - 6</b>
To confirm and sign the non-exempt minutes of the meeting held on 17 April 2023.	
<b>3 Declarations of Interest</b>	

Members are invited to declare any disclosable pecuniary interests and non pecuniary interests they may have with respect to matters which are to be considered at this meeting. Members who consider they may have an interest are invited to consult the Monitoring Officer or the Democratic

Services Manager prior to the meeting.

<b>4</b>	<b>Internal Audit Annual Report</b>	<b>7 - 18</b>
<b>5</b>	<b>Annual Review of the Effectiveness of the Internal Audit System</b>	<b>19 - 26</b>
<b>6</b>	<b>Internal Audit Medium Term Plan 2023-2026</b>	<b>27 - 34</b>
<b>7</b>	<b>Matters Arising</b>	<b>35 - 44</b>

To note the timeline prepared by Councillor Rodney Bates as referred to at minute 20/AS, 17 April 2023.

**Minutes of a Meeting of the Audit and Standards Committee held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on 17 April 2023**

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+ Cllr Cliff Betton (Chairman)  
- Darryl Ratiram (Vice Chairman)

+ Cllr Rodney Bates  
+ Cllr Edward Hawkins  
Cllr Charlotte Morley

+ Cllr Sashi Mylvaganam  
+ Cllr Valerie White

+ Present  
- Apologies for absence presented

Members in Attendance: Cllr Robin Perry

Officers Present: Alex Middleton, Gavin Ramtohal, Damian Roberts and Bob Watson

**14/AS Apologies for Absence**

Apologies for absence were received from Councillor Ratiram.

**15/AS Minutes**

The minutes of the previous meeting held on 21 November 2022 were approved as a correct record.

**16/AS Declarations of Interest**

There were no declarations of interest.

**17/AS Internal audit Annual Plan for 2023/24**

The Internal Audit Plan for 2023/24 was presented to Members. The Internal Audit Plan was operated on a risk based approach and within the report a number of criteria that helped prepare the Internal Audit Plan for 2023/24 were identified. These included:

- Identifying staff turnover.
- The income and expenditure as it relates to that particular action.
- Inherent risk.
- Risks identified in previous audits.
- Frequency of audit carried out.

Members were informed that Internal Audit covers all service areas but has in the past focused on financial services in particular as these presented a higher risk to income and expenditure. It was noted that 522 working days were resourced for

the Internal Audit Plan. In the plan, the option to request additional resources from CMT was available by exception.

Internal Audit formed one element of assurance for Council services and there were a number of external and internal assurance bodies that services also had access to.

The Internal Audit plan was broken down into several different directorates and were as follows:

- Finance; annual and had been shared with External Auditors in the past.
- Planning.
- Environment and Community.
- Performance and Communications.
- Investment and Development.
- Legal and Democratic Services.

Members discussed the resourcing available for the Audit Department. Internal Audit retained 50 additional working days for contingency.

Members noted the report and thanked Internal Audit team for their work.

#### **18/AS Appointment of Independent Person Report**

The appointment of a pool of Impendent Persons for a 4 year period commencing May 2023. The Recommendation was to recommend to full Council that the short listed individuals were appointed. Monitoring Officers representing Epsom and Ewell, Guildford, Mole Valley, Spelthorne, Reigate and Banstead, Waverley in addition to Surrey Heath Borough Council formed an interview panel. The Panel provided a shortlist of appropriate candidates to support the Monitoring Officers.

Every Council was required to have an Independent Person to support the Monitoring Officer and Councillors undergoing investigation.

The Report was noted by the Committee.

#### **19/AS Update Report on Accounts**

The Committee received an update regarding the outstanding accounts dating back to 19/20. Members were informed that accounts were still being worked on and that all Councils were requested to bring an update to their respective audit committees due to the national backlog of accounts by the Director General of the Department for Levelling Up, Housing and Communities.

It was not expected that the 19/20 accounts would present any material errors, and the Council Officers believed that there were only 4 outstanding errors in the accounts to be addressed. The Council was working closely with BDO to resolve outstanding issues on the 19/20 accounts.

The Council was undergoing a financial stabilisation review to bring in additional technical accounting resources to ensure that the 20/21 and 21/22 accounts were

completed. These additional resources were to ensure that the 20/21 and 21/22 accounts were prepared for BDO to complete their audit in a timely manner. It was noted that the pandemic and remote working hindered the completion of the audit.

Members were informed that the Council only had a small window to work with BDO, and if the window passed, even if the work was not completed, BDO would have to move on according to their annual plans. The Council was working towards the reconciliation of the 19/20 accounts with BDO. Changes between the first and final set of accounts were planned to be published once the reconciliation was completed.

The Redmond Report (Ministry of Housing, Communities and Local Government 2020) stated that existing audit partners were required to complete all outstanding audits before handing off to incoming audit partners, but it was likely that incoming audit partners would also be impacted by the backlog.

The Committee were informed that an audits in a District Authority took between 5-6 weeks to complete before being submitted to the Audit Committee for approval. There were outstanding issues with Surrey Heath's accounts that required adjustment before the 19/20 audit could be completed.

It was noted that BDO had the resources to complete the 19/20 audit, but staff turnover and a shortage nationally of qualified staff presented an issue.

The report was noted by the Committee.

## **20/AS Update from BDO, appointed auditor**

The Committee received an update from the appointed external auditor, BDO. The report presented by BDO set out a number of reasons that have contributed to the backlog of accounts. These included the COVID pandemic and lockdown, the enhanced quality requirements, new auditing standards and recruitment issues. The national state of auditing reflected these circumstances.

In October 2022, a number points were submitted to the Council by BDO that needed to be worked through. All but one of these points had been resolved, however there were further issues to be resolved. The financial statements provided to BDO at the beginning of their audit and the most up to date statements were significantly different, and further reconciliation was required. Issues in the 19/20 accounts were centred around the collection fund and bad debt fund.

Before BDO was able to sign off on the 19/20 accounts, reconciled accounts needed to be provided with a view to publish by September 2023.

Following discussion between Members, the following key points were raised regarding outstanding financial accounts:

- Members raised concern over the delay in completing the accounts.
- A lack of communication between the Council and BDO contributed significantly to the lack of progress on accounts.

- Members accepted that the pandemic was responsible for a reasonable delay.
- It was noted that the Council had made mistakes historically and technical mistakes had made signing of the accounts impossible. However, it was also noted that BDO had not provided an acceptable level of customer service.
- BDO were required to complete all audits up to 22/23, but would not start the 20/21 audit until 19/20 was completed.
- BDO worked through a program to reschedule audits that followed 19/20.
- Members expressed concern over the failure of BDO and the Council to meet and resolve issues on a regular basis.
- It was agreed that the Council and BDO, during the next audit window, worked together during the audit window with BDO teams being on site to complete the audit.
- The next audit window was expected to take place in September 2023.
- Members agreed to provide a timeline of the accounts for incoming Audit and Standards Committee Members.
- It was noted that BDO required a finalised set of accounts in order to complete the 19/20 audit.

Members noted the update.

Chairman

**Surrey Heath Borough Council**  
**Audit and Standards**  
**11 July 2023**

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**Internal Audit Annual Report**

<b>Strategic Director/Head of Service</b>	Gavin Ramtohal
<b>Report Author:</b>	Alex Middleton – Senior Internal Auditor
<b>Wards Affected:</b>	n/a

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**Summary and purpose**

To provide an annual review of Internal Audit for the financial year 2022-23 and an opinion from the Section 151 officer on the adequacy of the Council's systems of internal control

**Recommendation**

The Committee is advised to RESOLVE that

- (i) The Annual Audit Report for 2022-23 is agreed and noted.

**1. Background and Supporting Information**

1.1 The Public Sector Internal Audit Standards require local authorities to report on the work of internal audit on an annual basis. The Section 151 officer 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 for 2022/23

**2. Reasons for Recommendation**

2.1 To agree the adequacy of the Council's systems of internal control.

### 3. Annual Review of Internal Audit Work for 2022-23

- 3.1 The Internal Audit work programme is directed by the 3-year Audit Medium Term Plan as well as the annual Audit Plan. The annual Plan is agreed by Members at the Audit & Standards committee each spring.
- 3.2 For the last reporting period a total of 16 scheduled audits have been undertaken from the Audit Plan. These included all the key financial audits that are conducted annually and which are relied upon by the external auditors including Creditors, Debtors, Treasury, Revenues and Benefits audits. Other non-financial audits were also completed in year and which are conducted periodically including Parking, the Theatre, Democratic Services, Health & Safety and Insurance.
- 3.3 Internal Audit also undertook a number of consultancy activities and professional advice including assisting with the conclusion of an investigation, assisting a complaints case, a review of the Business Improvement District (BID) and assisting with a separate employee code of conduct matter.
- 3.4 Opportunities for improvement and increased service efficiencies along with quality control were identified in the audit process and reported to management through internal audit reports. Areas for improvement are reported through audit recommendations.
- 3.5 Audit has also supported senior management in helping to meet the needs of the business and assisting the delivery of the 5 year Plan by participating in various corporate officer working groups including the equalities officer group, and the risk management group. Audit has also been active in processing and co ordinating the authorised signatories process, and reviewing compliance over contract standing orders, and the Council's financial regulations.
- 3.6 The internal audit team currently offers four levels of assurance for each audit it reviews as below:

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



3.7 **For 2022/23 there were 16 audits that resulted in substantial assurance, and there were zero nil assurance audits.** 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 instead of just a sample, and audits scoring nil assurance would need to have zero internal controls in place, or serious fraud or other irregularity, or major breaches in rules and regulations.

3.8 Audit recommendations are classified into three categories - 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; possible fraud or maladministration

**Desirable** - maintaining an effective control environment and ensure policies and procedures are met; ensures council priorities and milestones are met; shorter term implementation

**Best Practice** – industry best practice suggestions; helps to improve overall control and efficiency; assist management deliver services; medium to long term implementation

3.9 In total 60 audit recommendations were raised in 2022-23:

- 6 Essential
- 54 Desirable
- 0 Best Practice

#### **4. Proposal and Alternative Options**

4.1 No alternative proposal.

#### **5. Contribution to the Council's Five Year Strategy**

5.1 No matters arising.

#### **6. Resource Implications**

6.1 The audit team operates with two full time members of staff. In total there were approximately 430 days in the budget available to the audit team for 2022-23 which excludes training and development time, annual leave and other absences.

## **7. Section 151 Officer Comments:**

- 7.1 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. Whilst the Audit Plan is challenging the Audit team is covering a wide remit across the authority.

## **8. Legal and Governance Issues**

- 8.1 CIPFA's Code of Practice has been replaced by the Public Sector Internal Audit Standards and these Standards have been adopted by local authorities including Surrey Heath council. The work of the Council's internal audit team continues to demonstrate compliance with these Standards.

## **9. Monitoring Officer Comments:**

- 9.1 No matters arising.

## **10. Other Considerations and Impacts**

### **Environment and Climate Change**

- 10.1 No matters arising

### **Equalities and Human Rights**

- 10.2 No matters arising.

### **Risk Management**

- 10.3 No matters arising.

### **Community Engagement**

- 10.4 No matters arising.

## **Annexes**

Annex A – Detail of Internal Audit Work for the Year 2022-23.

## **Background Papers**

Insert text

## **Detail of Internal Audit Work for the Year 2022-23**

Details of the work programme undertaken by the Internal Audit team for the reporting period are set out below:

### **Finance Audits**

A number of finance audits are carried out annually which the Council's external auditors can use to help place reliance on as part of their audit of the Council's set of accounts and Financial Statements. In completing the work programme for the year both the external auditors and Internal Audit will be mindful of both the effectiveness of the Council's financial systems and the adequacy of the arrangements for preventing and detecting fraud and corruption. A number of recommendations were raised in respect of the finance audits and the majority of these have since been actioned by managers and whilst a number of recommendations are not yet due.

### **Cash & Bank**

The brief for the 2022/23 cash and bank review covered cash transactions and records paid in through various income streams, including the internet, automated telephone payments or other Council systems, cash collection and arrangements with the Council's cash collection contractor, bank reconciliations, the Kiosk operation, bank mandates and signatory arrangements, along with Bankline use and access. The audit also covered a review of the Payment Card Industry Data Security Standards (PCI DSS), a set of security standards designed to ensure that all companies that accept, process, store or transmit credit card information maintain a secure environment. A single recommendation relating to bank mandates has since been actioned.

### **Debtors & Income**

Raising sundry debts was reviewed for this audit checking that debts have been raised accurately and on a timely basis. The review also tested a sample of unpaid sundry debts to test the debt recovery process and ensure debts are chased promptly and legally recovered as far as possible. Audit also examined whether debts are written off correctly and only when it is valid to do so, as well as testing that Council debts are cancelled correctly upon receipt of valid Credit Notes. For 2022/23 the audit focused upon debt recovery by the Council's Legal team along with recovering small value debts under £500.

In total 11 recommendations were raised, which mainly centred around suggesting improvements to the debt recovery process, and the Finance team are working hard to action these by the due dates.

### **Creditors and Expenditure**

The creditors audit examined the following areas: invoice payments made to the Council's creditors, exception reports run from Civica, e.g. payments over £20k, controls operating over new suppliers, changes to supplier bank accounts, and access to the finance system.

In addition a number of duplicate payments were made to suppliers back in 2021/22 which were reported in the previous creditors report, so a particular focus was given to examining the extent to which the new controls were fully working including the implementation of new creditor supplier software used to review payments and be used as a forensic tool to analyse and investigate supplier accounts and possible fraudulent or duplicate payments. In total two recommendations were raised to address internal controls operating over raising of Purchase Orders as well as officer sign off limits which have since been actioned by the Finance team.

## **Revenues**

The annual revenues audit reviewed refunds for commercial rates and council tax, reconciliations carried out between Revenues system and Valuation Office records, and cash receipting/feeder systems, processes for awarding discounts/exemptions to accounts and testing a sample of transactions for administering and applying discounts and exemptions to council tax and commercial rates accounts.

The Business Improvement District (BID) operation was examined, including levy bills issued and payments collected from local businesses. The audit reviewed the process for awarding exemptions as well as the debt recovery process for business who had not paid/paid late their levy payment.

Several recommendations were put forward mainly around the BID processes and operations and these are being addressed by the service.

## **Housing Benefits**

New claim assessments that support benefits payments were tested as well as testing for accuracy of assessments and payments. The audit also examined the checks carried out by benefits staff to check claimant identification, accuracy of claims and supporting documentation, and income/capital assessments. Housing benefit overpayments were also looked at in detail to see whether they were being identified, and recovered from claimants as well as examining the reasons for the overpayment. There were no material issues found and no recommendations were made.

## **Treasury Management**

This audit aimed to provide assurance over Council money market investments and to check that the Council is getting a reasonable level of return on its treasury investments, taking into account yield, security, and risk.

The following areas were reviewed in detail as part of the audit: Treasury Management Strategy and Treasury Management Indicators, Council investment performance monitoring and reporting to senior management/Members, examination of officers' access to Bankline and other financial records, prudential borrowing in terms of approval, servicing, and assessment of risk. The audit tested in detail investments to make sure they are in line with rules and Council's Treasury Management Strategy. The Council's borrowings and loans were also tested. In total one recommendation was made which has now been implemented.

## **Capital**

Annually Internal Audit conducts a check to confirm whether a firm of professionally qualified chartered surveyors has valued Council assets. A report was obtained and was found to be satisfactory. The Council's Financial Regulations require all services to maintain an up to date inventory of their assets which was tested, and where a couple of recommendations were made to tighten up on procedures in this area.

The audit also considered controls over capital accounting budgets and as well as fixed asset accounting. In total four recommendations were made, around managing capital projects and service department inventory records.

## **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.

The review also tested access to Civica, tested a sample of journals posted on Civica, carried out a fully documented check of the Council's Trial Balance to statement of accounts, as well as an independent check of opening balances on Civica.

The audit also reviewed the authority's corporate budget monitoring process and year end arrangements with accruals, and prepayments. Three recommendations were made relating to budget monitoring reports and the approval process for journals.

## **Non-Financial Audits**

### **Payroll**

Payroll is one of the audits that is reviewed annually and follows a similar pattern each year. The following areas were covered: testing a sample of starters to confirm they have been set up correctly and they are paid the correct amount, testing a sample of leavers to they have been removed/suspended on the system and that their last pay is correct, testing a sample of overtime claims and wages by timesheet and checking each has been approved and evidenced.

A total of 4 recommendations were made relating to proper records being maintained on the payroll system for overtime claims, the induction process, and ensuring establishment lists are reviewed and actioned by managers to better inform staffing budgets and staff requirements. These actions have now been implemented.

### **Land Charges**

The land charges system is audited periodically and for 2022/23 it covered reviewing the Land Charges Register, confirming how often it is amended, and if it is up to date, testing a sample of applications for local land searches and check to ensure plans and other supporting documents are sent and accounted for, reviewing land charges fees, and confirming whether fees charged are in compliance with the Council approved fees & charges for Local Land Charges.

The audit also examined the cancellation of searches and confirming whether appropriate refunds have been applied, and ascertaining whether performance or search turnaround times are monitored, and statistics compiled and reported.

Two actions were suggested to improve performance and the Head of Service has since confirmed that both of these have been fully implemented.

### **Democratic Services**

The operations of the Democratic Services team were examined excluding the elections process which is subject to a separate review. The audit focused upon compliance with legislation deadlines in relation to the publication of agendas, key decisions, and notices of intention for exempt items, administration of the public speaking scheme, and the rules around who can and cannot speak/attend at committee meetings, the Scheme of Delegation and the administration of the Council's Constitution, Member remuneration, including allowances and expenses and finally training and development provided to Members.

All in all there were no material issues found but in total four separate recommendations were made which centred around providing a training programme for Members as well as meetings deadlines for publishing committee reports.

### **Parking**

The Parking audit focused upon cash collections and the issue, payment and recovery of Penalty Charge Notices or PCNs. The key testing centred around parking income generated from Council car parks as off street parking may not be collected in full, recorded, reconciled, or banked, parking income discrepancies/variances may not be identified, investigated properly or resolved, the cash collection contract may not be being managed effectively, and Penalty Charge Notices may not be pursued or paid, or the challenge process may not be working.

The audit has been completed and a report for management is due to be issued shortly.

### **Corporate Health & Safety**

The brief of the corporate Health and Safety audit focused on the following main areas: reviewing the Council's Health & Safety policy and procedures, reviewing risk assessments undertaken by service departments, examining display screen assessments undertaken by new starters/refresher training for existing staff in respect of their equipment and workstations, as well as assessing the arrangements put in place to provide training for the Council's first aiders/fire wardens.

In addition the audit examined the arrangements for the reporting and recording of accidents and incidents, and reviewing arrangements set up for lone working and staff working remotely or working from home.

Nine recommendations were advised, including suggesting improvements to the risk assessment process by service departments as well as DSE assessments being completed and records brought up to date.

The audit did not identify any material H&S concerns that would cause danger to life or limb.

### **Camberley Theatre**

The theatre operation is normally audited annually due to the high income and expenditure. For 2022/23 the audit looked at venue and ticket event management arrangements to ensure that checks are in place to manage ticket sales through the box office, contracts with agents/performers, and income received from show settlements, along with the processes for cancelling shows and arranging refunds/exchanges.

In addition the audit scope included testing cash handling arrangements in operation, including cashing up procedures, accounting for receipts, and banking records, checking venue hire processes, including the booking process, and charging and receiving hire income as well as stock controls over the bar and catering facilities.

Five recommendations were put forward to shore up weaknesses in control, around income records and the safe security, and contract approvals with hirers and show performers. The service have implemented these action points where due.

### **Insurance**

Sutton Council manage the majority of the insurance processes on behalf of the Council so the audit examined many of the processes carried out by them as well as the working relationship between Surrey Heath and Sutton. It included a review of the insurance agreement between the Council and the London Borough of Sutton, as well as a review of the other brokerage services provided to the Council, and a review of the premiums and fees paid by the Council and how they have been accounted for/apportioned.

The audit tested in detail a number of claims made against the Council and how these have been handled by Sutton and settled. The audit also considered the roles and responsibilities for the insurance work as it wasn't particularly well defined, and the audit also examined asset registers and inventories.

In total 7 recommendations were agreed with management to improve the in house insurance processes and these are being addressed by the Finance team.

### **HR & Expenses**

A limited scope of the HR function was agreed for 2022/23. This year the audit focused on payments made to staff and Members in respect of travel, subsistence and other business expenses.

The audit tested mileage claims payments made to staff and the associated paperwork and claims. The audit tested other expense claims made including transport costs, accommodation and meals, any caring allowances and membership subscription fees and any uniform costs.

The audit also tested how the Council manages the Corporate Manslaughter rules in terms of making sure that staff have the appropriate driving documentation in place,

and that their vehicles have passed all the necessary checks to enable them to be used safely for business purposes.

The main audit findings are in the process of being reported to management.

### **OTHER CONSULTANCY WORK AND CORPORATE PROFESSIONAL ADVICE**

- ✓ **Business Improvement District (BID)** – Audit was asked to review the arrangements in place in respect of the BID Camberley, focusing on the additional voluntary contributions paid by the Council over the 4 year period 2018/19 to present day. As part of the exercise the review considered a variety of factors including BID regulations and protocols that have been established, the BID Business Plan, the controls and governance arrangements in place, for example any delegated authority, or provisions within the Constitution. Audit made a number of recommendations in respect of the operation which were reported to senior management.
- ✓ **Financial Regulations and SCOs** – Internal Audit continues to provide advice to staff about the Council's financial rules and regulations especially with regard to procurement matters and Delegated authority.
- ✓ **IR35** - Audit has continued to offer help and advice in regard to the IR35 off payroll working arrangements for contractors working in the public sector. Non-compliance of IR35 could set the Council back thousands of pounds in fines. Audit has carried out a number of self-assessments for workers thinking about joining the authority.
- ✓ **Card Use** - Audit carried out an extensive review of purchasing card and credit card use back in 2022 and has built on this work in 2022/23 by continuing to check compliance with car rules spend, and the overall number of officers with card access, so that the process is kept self-contained.
- ✓ **Investigations** - Audit contributed to the conclusion of 2 pieces of investigation work in 2022, one involving a complaint from a member of the public, the other around parish Councillors.
- ✓ **National Fraud Initiative (NFI)** – a national exercise and database set up by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Audit was appointed Key Contact for this activity, and tasks include co ordinating the exercise for the Council, working with the NFI to deliver data matches, and setting up and deleting users.



- ✓ **Corporate risk management group** – IA has continued to participate, and has contributed to reviewing the corporate risks and the risk register, and providing risk updates that relate to the audit function.
  
- ✓ **Monitoring Financial Regulations** – part of the audit role is to monitor and report on Financial Regulations compliance, and reporting breaches of non-compliance where necessary to the S151
  
- ✓ **Scheme of Delegation and authorised signatory processes** – the powers of certain officers to sign for financial transactions are managed and monitored by IA. New users are set up by audit, and leavers are deleted. Audit also reviews current levels and makes amendments if required. Audit also monitors compliance throughout the year and reports breaches if necessary. A new sign off process has recently been introduced using Boxsign to enable amendments to the signatory system to be more streamlined.

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**Surrey Heath Borough Council**  
**Audit and Standards**  
**11 July 2023**

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**Annual Review of the Effectiveness of the Internal Audit System**

**Strategic Director/Head of Service**      Gavin Ramtohal  
**Report Author:**                              Alex Middleton – Senior Internal Auditor  
**Wards Affected:**                              N/a

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**Summary and purpose**

To provide an annual review of the effectiveness of the Internal Audit function operating at the Council for the year 2022-23

**Recommendation**

The Committee is advised to RESOLVE that

- (i) to note and approve the report on the Review of the Effectiveness of Internal Audit for the reporting period 2022-23

**1. Background and Supporting Information**

- 1.1 The Accounts and Audit Regulations 2006 (amended 2011) require local authorities to carry out an annual review of the effectiveness of the internal audit function.

**2. Reasons for Recommendation**

- 2.1 The Accounts and Audit Regulations require local authorities to carry out an annual review of the effectiveness of the internal audit function.

**3. Proposal and Alternative Options**

- 3.1 No alternative proposal.

**4. Contribution to the Council's Five Year Strategy**

- 4.1 Failure to operate an effective internal audit service could reduce the level of assurance given to senior management and Members over the level of risk,

controls, accounting records and governance arrangements operating at the Council.

**5. Resource Implications**

5.1 No matters arising.

**6. Section 151 Officer Comments:**

6.1 No matters arising.

**7. Legal and Governance Issues**

7.1 No matters arising.

**8. Monitoring Officer Comments:**

8.1 No matters arising.

**9. Other Considerations and Impacts**

**Environment and Climate Change**

9.1 No matters arising.

**Equalities and Human Rights**

9.2 No matters arising.

**Risk Management**

9.3 No matters arising.

**Community Engagement**

9.4 No matters arising.

**Annexes**

Annex A – Annual review of the Effectiveness of Internal Audit Systems Report

**Background Papers**

Insert text

## 1. INTRODUCTION

- 1.1 An effective and productive Internal Audit function should enable the Council to fulfil its duties as being accountable and transparent to the public, while achieving its objectives effectively, efficiently, economically, ethically and at the same time sustainably.
- 1.2 The governing body for Internal Audit within the UK, the Chartered Institute of Internal Auditors (CIIA) has identified nine key elements that that help to define a proficient internal audit function:
- ✓ organisational independence
  - ✓ adoption of a formal mandate
  - ✓ rights of access
  - ✓ sufficient funding
  - ✓ competent leadership and culture
  - ✓ objective staff
  - ✓ competent staff
  - ✓ stakeholder support, and
  - ✓ conformance to professional audit standards.
- 1.3 This report examines the extent to which these nine elements have been met by Surrey Heath's Internal Audit team for the reporting period April 2022 to March 2023.

### 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.*

For the reporting period 2022/23 the Internal Audit team has continued to operate independently and at arm's length from management. The audit team have operated with honesty, truthfully, and impartially. The team has demonstrated that it is free from conflicts of interest, including any political or commercial pressures.

The IIA Standards require the Internal Audit team to form its own judgement on how best to segment the audit universe given the structure and risk profile of the Council. It should take into account business strategy and should form an independent view of whether the key risks to the organisation have been identified and assess how effectively these risks are being managed. Internal audit's independent view should be informed, but not determined, by the views of

management. In setting out its priorities and deciding where to carry out more detailed work, internal audit should focus on the areas where it considers risks to be higher.

Audit does not have direct operational responsibility for day to day business matters, but instead advises managers of their operational and strategic responsibilities.

The Internal Audit team reports into the Head of Legal and Democratic Services which provides strategic oversight but also ensures there is some degree of resilience. Audit can also report directly into the Audit & Standards chair, as well as the Council's Section 151 officer. In addition Internal Audit has a direct reporting line to the Chief Executive and senior officers when matters need to be reported or escalated.

## **2.2 Adoption of a Formal Mandate**

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

The objectives and mission of the Internal Audit service is outlined in the Internal Audit Charter, which also highlights the position of the service in the context of the Council's organisation. This mandate outlines the purpose, authority, scope and responsibility of the Internal Audit function and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). The Charter is reviewed periodically and is next scheduled to be refreshed in 2023.

## **2.3 Rights of access**

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

The Audit Charter sets out the rights of access for the audit function and how it is able to operate as well as its boundaries of jurisdiction. In addition rights of access are provided for within larger contracts with external service providers. Examples include the current joint waste contract and Community Shared Services partnership with Runnymede council.

The Audit team have worked hard in the last few years in making sure that audit is allowed access to all Council related records, documents, staff, and meetings it requires to fully and effectively conduct its business. The team's profile within the organisation also ensures that access to material is readily made available.

## **2.4 Sufficient Funding**

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

The Internal Audit function needs to be funded to enable a balance of assurance needs and resources within a defined budget to provide reasonable assurance to audit committee and senior management.

In spite of continued budgetary constraints set by government the Internal Audit function is still resourced with minimum margin for error. The Council's annual budget setting process reviews and agrees the funding for Internal audit each year. In addition the audit activity is subject to CMT and Member scrutiny as part of the Budget Review (formally the Star Chamber) process, where the funding for Internal Audit need to be justified and any savings or efficiencies highlighted.

Council funding is flexible so there may be scope to provide additional funding to the audit service by exception and agreed by management. For example should audit be involved in any special investigation, or where it is found that a service is non-compliant with legislation and requires additional review.

## **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 Council benefits from audit officers with many years local government experience. The Senior Auditor as lead auditor for the service has been a member of the Chartered Institute of Internal Audit for a number of years and the junior officer is part qualified.

The Senior Auditor represents Audit at CMT level as well as at Audit & Standards committee. The Senior Auditor leads on a number of Council initiatives including IR35 and actively participates in officer working groups, including the Corporate Risk group and Equalities working group.

## **2.6 Objectivity**

*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 CIAs declaration of interests.

Audit staff have also signed a confidentiality agreement with HR to ensure staff records accessed are held secure.

Auditors aim to report their findings objectively, impartially whilst taking a balanced view wherever possible but being sensitive to the needs of the business and its stakeholders CMT, Councillors as well as the local residents.

## **2.7 Competent Staff/Professional Capability**

*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 is considered appropriately skilled, trained and supported in its roles and professional development. 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 CIIA. The auditors demonstrate sound judgement, act professionally, work collaboratively, and behave responsibly at all times, have clearly defined roles and responsibilities, and have been provided with the time and resources required to develop its skills, knowledge and competencies.

## **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 continues to be supported by the Chief Executive, the Section 151 Officer, as well as other members of senior management. Audit and Standards Committee members have also commented upon the work and professionalism of the audit team in light of continued budgetary constraints.

The Council is committed to continuing to support the work that Internal Audit delivers. External audit where required placed reliance on the work of Surrey Heath's internal audit as part of their annual audit of the Council's financial statements.

## **2.9 Conformance to Professional Audit Standards**

There are a number of Quality Management System elements that the Internal Audit team have adopted and follow. 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. IMPROVEMENTS FOR INTERNAL AUDIT IN 2022/23

- 3.1 The 2021-22 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 2022/23:*

<b>Areas for Improvement identified in the 2021/22 effectiveness report</b>	<b>Improvements implemented in financial year 2022/23</b>
Addressing technical issues and actioning technical based audits	A number of technical based audits were undertaken in 2022/23 including Housing, Health & Safety, parts of the Planning system, and certain aspects of IT. This work will continue to be built upon in the forthcoming year. The Audit team continues to be supported by the use of laptops, and cloud based platforms to enable work to be successfully performed remotely.
Providing important corporate advice and consultancy work to CMT & engaging in corporate activities	Internal Audit have provided support to management in a variety of areas in 22/23, including a Member investigation, the Complaints policy, governance issues around the operation of the Business Improvement District (BID), risk processes and risk management, the Annual Governance Statement and employee Code of Conduct.
Quality management assessment	The QMA exercise and Peer review challenge with Spelthorne and Elmbridge borough councils was deferred in 2022 and has been re scheduled for summer 2023, with the agreement of the 3 authorities and was

	due to work commitments of the audit teams.
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#### **4 CHALLENGES FOR 2023-24**

- 4.1 The following challenges for Internal Audit have been identified for the forthcoming financial year:
- 4.2 Internal Audit must remain agile when developing and delivering its core business as the Council and the public sector face evolving challenges. The risk landscape has shifted over the past year and the audit team at Surrey Heath should be able to adapt to these ever changing issues. Areas that need attention include climate change and sustainability, digital disruption and new technologies, and 3<sup>rd</sup> party relationships with our key contracts and supply chain issues.
- 4.3 The Peer Review and Quality Assurance assessment that was earmarked for 2022 has been deferred until 2023, which was delayed due to the work commitments of the 3 teams. The Council will work with Elmbridge and Spelthorne councils to undertake an independent challenge of the audit processes, records, performance as well as its quality management systems.
- 4.4 The Annual Audit Plan that was agreed back in March 2023 is both challenging and demanding but affords the opportunity for audit to demonstrate its value to the organisation. Whilst the work programme is challenging it will enable a number of Council activities to be reviewed and improvement plans put in place for service departments. This should result in a more robust, consistent and better governed organisation that can meet the challenges ahead.

#### **5 CONCLUSION**

- 5.1 This review demonstrates that the Council has continued to operate an effective system of internal audit throughout 2022-23, with an internal audit function that is compliant with the requirements of the Public Sector Internal Audit Standards.

**Surrey Heath Borough Council**  
**Audit and Standards**  
**11 July 2023**

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**Internal Audit Medium Term Plan for 2023-2026**

<b>Strategic Director/Head of Service</b>	Gavin Ramtohal
<b>Report Author:</b>	Alex Middleton – Senior Internal Auditor
<b>Wards Affected:</b>	N/A

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**Summary and purpose**

To consider and approve the Internal Audit Medium Term Plan for 2023 to 2026.

**Recommendation**

The Committee is advised to RESOLVE that

- (i) Members review and approve the Internal Audit Medium Term Plan for 2023-2026.

**1. Background and Supporting Information**

- 1.1 Managing the Internal Audit service for Surrey Heath requires a degree of strategic planning which ensures that all internal resources are applied and effectively deployed. It should be used to direct all audit resources to those aspects of the Council that represents the greatest risk.
- 1.2 The Internal Audit Medium Term Plan has been prepared in accordance with the Public Sector Internal Audit Standards which apply to the Chartered Institute of Internal Auditing (IIA) International Standards to the UK public sector.
- 1.3 The Medium Term Plan demonstrates how the Internal Audit service for Surrey Heath plans to support the Council's 5 Year Plan as well as engaging with the Council's Key Priorities and Corporate Objectives. The Medium Term Plan provides an annual opinion on the internal control environment of the Council and to support managers in ensuring that the control systems and governance framework operated within their services are adequate and effective and risks are being adequately managed.
- 1.4 The Internal Audit Medium Term Plan has been produced with the purpose of:

- Providing an opinion on the internal control environment to support the completion of the Annual Governance Statement which support the Council's Financial Statements and Set of Accounts
- Preparing audit plans that give suitable priority to the Council's objectives and key risks and concentrate audit resources on areas that have been identified as having been the most vulnerable
- Provides a Council wide framework for internal audits with the aim of covering all the Council's main activities within a 3 Year period. Internal Audit is using a risk based approach to audits rather than simply providing blanket coverage of the 'audit universe' on a set cycle
- Agreeing actions with managers at the conclusion of each audit assignment that will assist in identification of weaknesses in control, maintain robust procedures and processes, ensure continuous service improvement and help to manage risks and threats to the organisation
- Periodic reporting to both CMT and Audit & Standards committee regarding compliance with recommendations made and advising on action taken in cases of non –compliance
- Identifying the audit resources required to deliver an audit service that is cost effective, resilient but at the same time meets the required professional standards.

## **2. Reasons for Recommendation**

- 2.1 Both the Annual Audit Plan and the 3 Year Medium term Plan will normally be subject to audit committee review and approval.

## **3. Details of the Medium Term Plan**

- 3.1 The Medium Term Plan covers a 3 year reporting period and has been prepared utilising the following sources:
- The Corporate Risk Register that identifies the key risks to the authority
  - Discussion with CMT and Members on their views of key risks as well as management's appetite to risk – this exercise was carried out as part of the annual Internal Audit Annual Plan setting exercise. An 'Audit Needs Assessment' exercise that was undertaken to produce the Annual Plan is valuable in informing the details of the Medium Term Plan.
  - Materiality – the level of income and expenditure projected in the Council's financial accounts.
  - Emerging risk landscape- new and forecasted major risks affecting the public sector

- Audit history – the frequency and when audits were last carried out
- Control environment – the quality of the control environment and inherent risks in the system, control weaknesses, staff turnover, new systems or reliance on legacy systems
- Growth areas identified in the Council’s 5 Year strategy, as well as any new work streams – examples include threats from cyber security, and the climate change landscape and the Council’s Environmental Action plan

3.2 The timing of audit reviews will be driven by a number of factors including:

- Level of risk and risk appetite of the Council
- Management or audit committee concerns regarding a particular area

#### **4. Integrated Assurance**

4.1 The work of internal audit is supported by other assurance providers and agencies, including Investors in People, the Health and Safety Executive, and the Council’s existing external auditors BDO. Senior managers and Members obtain assurance from various bodies and as wide a range of services as possible. The Council’s main contractors including the leisure centre provider and the joint waste service also undertake their own self-assessments of their own performance and delivery which also provide valuable information to the Council’s management team.

#### **5. Specialised Reviews**

5.1 Some audit assignments by their very nature may require specialist technical knowledge that is not available in house or where the Council simply doesn’t have the expertise to deal with. Such systems may include IT penetrating testing, and the auditing of large engineering projects. In order to place reliance on these systems the authority will need to obtain additional services or provide dedicated training.

#### **6. Proposal and Alternative Options**

6.1 No alternatives proposed.

#### **7. Contribution to the Council’s Five Year Strategy**

7.1 The work of Internal Audit supports the Council’s Annual Plan as well as supporting its corporate objectives and key priorities.

#### **8. Resource Implications**

8.1 No matters arising.

**9. Section 151 Officer Comments:**

9.1 No matters arising.

**10. Legal and Governance Issues**

10.1 No matters arising.

**11. Monitoring Officer Comments:**

11.1 No matters arising.

**12. Other Considerations and Impacts**

**Environment and Climate Change**

12.1 No matters arising.

**Equalities and Human Rights**

12.2 No matters arising.

**Risk Management**

12.3 No matters arising.

**Community Engagement**

12.4 No matters arising.

**Annexes**

Annex A – Medium Term Plan 2023-2026

**Background Papers**

Insert text

COUNCIL ACTIVITY	EXPECTED CYCLE	2023-2024	2024-2025	2025-2026
<b>FINANCE &amp; CUSTOMER SERVICE</b>				
Debtors and Income	annual	√	√	√
Creditors and Expenditure	annual	√	√	√
Main Accounting system	annual	√	√	√
Housing Benefits	annual	√	√	√
Revenues	annual	√	√	√
Treasury Management	annual	√	√	√
Cash and Bank	annual	√	√	√
Capital Accounting	annual	√	√	√
Procurement	periodic	√		
Contact Centre	periodic	√		
Insurance	periodic			√
Grants	periodic		√	
<b>PLANNING</b>				
Development Control	periodic	√		
Land Charges	periodic			√
Planning Policy & Conservation	periodic	√		
Building Control	periodic		√	

ENVIRONMENT & COMMUNITY				
Grounds Maintenance	periodic	√		
Emergency Planning, Business Continuity	periodic		√	
Community Services Partnership	periodic			√
Health & Safety	periodic			√
Licensing	periodic	√		
Environmental Health	periodic	√		
Parking	annual	√		
Theatre	annual	√		
Leisure Centres	periodic	√		
Parks & Greenspace	periodic		√	
Museum	periodic			√
Corporate Enforcement	periodic		√	
Climate Change	periodic	√		
Joint Waste	periodic			√
Housing & Homelessness	periodic	√		
Family Support	periodic	√		
Private Sector Housing	periodic		√	



<b>HR, PERFORMANCE &amp; COMMUNICATIONS</b>				
ICT	annual	√		
HR	bi-annual	√		√
Marketing & Communications	periodic		√	
Payroll	annual	√		
Cyber Security	periodic	√		
<b>INVESTMENT &amp; DEVELOPMENT</b>				
Property/Estate Management	bi-annual	√		√
Investment & Development	bi-annual	√		√
Economic Development	periodic		√	
Facilities	periodic		√	
<b>LEGAL &amp; DEMOCRATIC SERVICES</b>				
Legal & Democratic Services	periodic			√
Legal Services	periodic		√	
Information Governance	bi annual	√		√
Fraud	bi annual	√		√

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**Audit Committee summary report into delay of 19/20 accounts.**

At the final Audit Committee of the previous Council, I offered to draw up a report for the incoming Audit Committee members to factually summarise the delay in agreeing these accounts. The best and fairest way of doing this is to directly quote the minutes of the Audit Committee for the relevant period as these have been agreed on a cross party basis by the Councillors on the committee.

**Agreement of previous 2018/19 accounts**

The 2018/19 accounts were agreed by Audit Committee at their meeting of 20 April 2020 and were done by BDO. The minutes record,

*“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 31<sup>st</sup> 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.”*

**Timetable for 2019/20 accounts**

At the meeting on 23 November 2020, the following was recorded: -

*“The Committee received a report setting out BDO’s (the Council’s external auditor) plans for their audit of the Council’s 2019/20 financial records*

*It was noted that there had been a delay in the current Interim Executive Head of Finance and committee members receiving the report, therefore limiting the opportunity for Members to review the Audit Plan and thus inform the audit process. The delay had been caused by a number of issues, including the departure of the Council's Executive Head of Finance earlier in the year, his interim replacement then leaving in July and a second interim Executive Head of Finance not taking up the role until mid-August. It was recognised that the circumstances leading to these delays would need to be addressed to ensure they would not be repeated.*

*Both the Interim Executive Head of Finance and BDO's Audit Partner accepted that these delays should have been avoided and undertook to ensure in future:*

- i. A wider distribution of the draft Audit Plan (e.g., to Chief Accountant as well as Executive Head of Finance);*
- ii. The receipt, acknowledgement and actioning of papers from BDO to the Council to be a standing item on the agenda of periodic meeting between BDO and the Council's Finance Officers.*

*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*
- Valuation of non-current assets*
- Pension liability valuation*
- Allowance for non-collection of receivables*
- Going concern*
- Sustainability of finances*
- Finance statement preparation and informed decision making*

*Arising from the Committee's questions and comments the following points were noted:*

- It was clarified that the reference to fraud related to fraudulent claims perpetrated against the Council for example Housing Benefit and the majority of these were worth less than £10,000.*
- The Jersey Property Unit Trust would be audited by the BDO Jersey Team and the findings include in the main audit report however the Trust's year end was December 2019.*
- The additional audit fee reflects a combination of the additional work required to deal with the number of errors identified in the 2018/19 accounts and the increased complexity of the audit in recent years for example the audit of the JPUT and the Council's expanded investment property portfolio.*

*It was clarified that if a property was bought solely for the purposes of income generation then it would be recognised as an investment in the accounts. If a property was acquired for a combination of investment income and regeneration purposes then in accordance with the CIPFR Code of Audit and Practice it must be shown in the accounts as 'Other Land and Buildings'.*

*It was noted that, due to the Covid-19 pandemic, the reporting deadlines in relation to completing the audit had been changed. Councils had been given until the end of July 2020 to finalise their accounts and audits had to be completed by the end of November 2020. An additional meeting of the Audit and Standards Committee to discuss the audited report had been scheduled for Monday 18<sup>th</sup> January 2021."*

The meeting planned for 18<sup>th</sup> January 2021 was cancelled as the report was not ready.

The next meeting was held on 26<sup>th</sup> April 2021 and the relevant minutes are as follows:

*"The Committee received a report from BDO, the Council's external auditor, on the progress being made to finalise their audit of the Council's 2019/20 accounts.*

*It was acknowledged that there had been significant delays in completing the audit of the accounts for the 2019/20 financial year. There had been a number of reasons for the delays including changes to the regulatory requirements for external audit work and the Covid-19 pandemic which had impacted not only on staffing levels at BDO but also raised practical challenges when sharing evidence and conducting testing under remote working conditions.*

*It was reported that, notwithstanding the Government's decision to extend the deadline for completion of the audit of local authority accounts to 30<sup>th</sup> November 2020, figures obtained by Public Sector Audit Appointments Ltd. showed that 55% (267) of local authority accounts audits for the 2019/20 financial year had still not been completed by the date of the extended deadline.*

*The Committee was informed that whilst the audit had not yet been completed the work carried out to date had concluded that the mechanisms in place to prevent management override of controls were appropriate, that sample testing of revenue and expenditure had confirmed processes were appropriate and that the assumptions and estimates used in the valuation of the Council's land, buildings and investment properties were reasonable. Audit work still to be completed included the valuation of non-current assets, allowances for non-collection of receivables and an assessment of going concern. It was BDO's contention that whilst the audit was substantially complete they still required a number of pieces of information before the audit could be finalised.*

*The Auditors informed the Committee that Government changes to the regulatory requirements governing audit work had resulted in a significant increase in the scale of work required for each audit; consequently BDO would be seeking a variation in their fee to cover this increased work.*

*The Committee stressed that the delay in completing the audit was unacceptable particularly in view of the fact that the Committee had been assured by BDO in November that the audit would be completed by January 2021. Officers were*

*instructed to work with BDO to establish all issues which were still outstanding and develop a timetable to expedite their resolution so that the audit would be completed.*

*The Committee noted BDO's stated commitment to bring an audit completion report to the Committee's next meeting in July 2021; however whilst noting the pressures on DBO's work load the Committee stressed that this ongoing delay was considered to be unacceptable.*

**RESOLVED that:**

- i. The progress made by BDO to audit the Council's accounts for the 2019/20 financial year be noted.*
- ii. Officers to work with BDO to establish all outstanding issues and develop a timetable to expedite their resolution which would be shared with the Committee.*
- iii. The Committee's concerns about the delays to the audit be raised with the Council's Chief Executive."*

At the next meeting of the Audit Committee on 4<sup>th</sup> August 2021, the following was minuted: -

*"The Committee received an update in respect of the work taking place to bring the external audit of the Council's accounts for the 2019/20 financial year to a conclusion.*

*The Committee was informed that a recent Public Service Auditing Authority webinar focusing on the auditing of public sector accounts had drawn attention to the fact that there were insufficient auditing firms qualified to audit public sector accounts which was causing delays. In addition, the public sector audit system was set up in such a way that auditors were given a set period in which they had to complete an audit. If the audit was not completed within this timeframe then, instead of completing the audit before moving to the next piece of work, the auditor automatically moved on to the next piece of work leaving the previous audit unfinished. It was stressed that this situation affected all public sector audits including police authorities, the NHS as well as local authorities.*

*It was confirmed that the audit of the Council's accounts for the 2019/20 financial year was progressing. All the papers requested by BDO, the external auditors, had been passed on and answers to the questions arising from these documents would be provided to BDO by the end of this week. Following the Committee's last meeting in April 2021, it had been necessary for a number of amendments to be made to the financial statement, work which was currently underway. Once the amended financial statements had been received by BDO these would be reviewed before they were signed off.*

*BDO confirmed that they had the resources available to review the financial statements as soon as they were received. If no further issues were identified then it was expected that the audit would be swiftly concluded and it was expected that the final audit report would be available for the Committee's consideration in September.*

*The Committee noted the update and expressed their frustration and disappointment at the fact that the audit still had not been completed two years after it had started."*

The Audit Committee planned for 20 September 2021 was cancelled as the Audit was not ready.

22 November 2021 – the next Audit Committee minutes record the following: -

*“The Committee was informed that work to complete the audit of the 2019/20 accounts was still ongoing. The Council had employed an additional member of staff to focus solely on working with BDO to finalise the audit and weekly focus meetings would take place going forward.*

*The Committee expressed concern about the length of time that it had taken the Council to put additional resources into place to respond to the BDO’s queries and clarification was sought on the reasons for this delay.*

*It was clarified that any variations to the fee scales had to be submitted with supporting evidence to the PSAA for approval and the Council had no influence or input into this process.”*

At the same meeting, the Committee also considered a report setting out proposals for the appointment of an external audit function to the Council for the five-year period from 2023/24. The minutes of this item record the following: -

**“Minutes:**

*Under the Local Government Audit and Accountability Act 2014, the Council was required to appoint an independent auditor to audit its accounts for each financial year, within this requirement there were three options available to the Council:*

- To appoint its own auditor*
- To act jointly with other authorities to procure an auditor*
- To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’ (currently PSAA)*

*The Committee was informed that the Council had previously opted into the Public Sector Audit Appointment’s (PSAA) national auditor appointing process for the period covering the accounts for 2018/19 through to 2022/23. The PSAA was in the process of undertaking a procurement exercise for the periods covering the financial years between 2023/24 and 2027/28 and all relevant bodies were being invited to opt into the scheme. If the Council was to opt into the national procurement scheme then the Council had to return completed opt-in documents to the PSAA by 11<sup>th</sup> March 2022.*

*It was reported that there had been a number of significant changes in the audit market since audit contracts were last awarded in 2017 including an expectation of imminent significant changes to the audit regime and the complexity of local government financial statements meant that there would be increasing pressure on the limited pool of audit firms able to undertake the audit work required.*

*It was confirmed that the PSAA were aware of resourcing issues within audit firms and the impacts that this was having on the timely completion of audit work. It was expected that amendments to the National Fee scales would be brought in at the same time as new codes were introduced.*

**RESOLVED** *that the Audit and Standards Committee recommends to Council that it accepts the invitation from Public Sector Audit Appointments to opt in to the sector led process for the appointment of external auditors to principal local government and police bodies for the five financial years from 1<sup>st</sup> April 2023.*

The next meeting was held on 25 April 2022 and the minutes of this meeting record: -

*“The Committee received an update in respect of the progress of work to audit the Council’s financial statements for the 2019/20 financial year.*

*It was reported that although that Council’s annual accounts for the financial year ending 31<sup>st</sup> March 2020 remained unaudited it was not a situation unique to Surrey Heath and there were a significant number of local authorities in England in the same position. These delays, which had initially originated from a shortage in resources and recruitment difficulties for the external audit firms who serviced local government audits, had been recognised in a recent review by Sir Tony Redmond, for the Department for Levelling Up, Housing and Communities (DLUHC). The situation had been further exacerbated by the Covid-19 pandemic and the associated Government restrictions which had impacted on the ability of council finance teams to prioritise the annual statements over new burdens for making support payments to residents and businesses, monitoring grant funding, acting as a payment agency for central government and completing a significant number of new government returns whilst still ensuring the probity of public monies. Similarly the need to work remotely had made the audit processes more time-consuming and impeded effective communication between finance officers and the external audit team.*

*The publication of the first draft of the Council’s accounts for 2019/20 had generated a number of audit questions from our external auditors which is not uncommon in the process of moving from draft to final accounts. With a number of concerns being raised about the accounting treatment for the Jersey-based Property Unit Trust and how it had been presented within the Council’s formal statement of accounts. Over the past six months, Council finance officers had been in close dialogue with the audit team at BDO and have now agreed the accounting treatment approach with them. The latest draft Statement of Accounts had now been passed to the external auditor for their review and a copy had been published on the Council’s website. Officers would be working with BDO to ascertain when the Auditor would have the resources available to complete the audit process so that Council resources could be made available to respond to any questions and queries in a timely manner.*

*Concerns about the mis-posting of £40million between the publication of the draft accounts and the publication of the latest revised draft accounts were noted. It was clarified that this mis-posting had originally occurred when, during the production of the original draft accounts, money had been incorrectly categorised as being available in the useable reserves budget. This mis-posting had been rectified and the money was now correctly assigned to the unusable reserves budget in the latest draft*



accounts. It was stressed that the true position of the Council's reserves balance had always been between £35 and £40million, a sum that was considered sufficient to support the Council's current budget.

It was clarified that although regular meetings had taken place with the Auditors and a range of officers including the Section 151 Officer, the Chief Accountant and members of the Finance Team. It was noted that meetings had only been held when there had been matters to discuss or resolve and consequently meetings whilst regular they had not been the weekly ones specified by the Audit and Standards Committee.

The statutory requirement for local authorities to publish an audited set of accounts was acknowledged however it was stressed that at the current time there were no sanctions that could be applied to a local authority if this was not done.

The amount of time that was required to audit a local authority's account varied according to the size and complexity of the local authority in question. However for an organisation of Surrey Heath Borough council's size six weeks would normally be considered to be sufficient.

The Committee was informed that it would not be possible to run the audit of the 2020/21 accounts concurrently with the 2019/20 accounts audit because the opening position of the 2020/21 balance sheets would not be available until after the completion of the audit of the 2019/20 accounts.

The Committee agreed that it would welcome the opportunity to discuss what input of the relevant Executive Portfolio Holder had had into the situation. It was agreed that the Chairman would invite the Portfolio Holder to meetings of the Audit and Standards Committee.

It was agreed that:

- i. A log of the outstanding queries submitted by BDO would be circulated to the Committee.
- ii. Monthly progress updates would be provided to the Committee
- iii. The Finance Portfolio Holder would be invited to the Committee's meetings."

The next Audit Committee was held on 25 July 2022 and the minutes record the following: -

*"The Committee received an update on the progress being made by BDO, the Council's External Auditors, to complete their audit of the Council's accounts for the 2019/20 financial year.*

The Committee was informed that the auditors had spent the majority of May, June and July working on NHS audits to ensure that nationally set Government deadlines were met. Consequently there had been limited opportunities for BDO to review the Council's revised accounts since their submission to BDO at the end of April. Notwithstanding this, officers had been in regular contact with BDO to seek assurances that the accounts would be reviewed as soon as possible after the

completion of the NHS audits. At the current time, it was expected that the audit report would be ready in time for the Committee's meeting in September.

It was acknowledged that these delays would have implications for the audits of the 2020/21 and 2021/22 accounts and consequently to minimise disruption and expedite subsequent audit work, officers were preparing both sets of accounts for audit using the balances from the unaudited 2019/20 accounts as a baseline.

The Committee reiterated the frustrations that it had previously expressed in relation to this situation. The Committee was reminded that the Council was not in a unique position and nationally there were currently 57 local authorities waiting for the outcomes of the audits of their 2019/20 accounts and 212 local authorities were awaiting the outcomes of the audits of their 2020/21 accounts and to date only 4% of 2021/22 accounts had been submitted by the deadline.

The suggestion that the Council seek new auditors was acknowledged however it was stressed that the number of firms with the knowledge and experience of completing public sector audits was limited and there was a shortage of auditors nationally. Furthermore, the situation had recently been exacerbated by Government changes which had made auditors personally liable if there were errors in an audit, a situation which had resulted in a significant number of experienced auditors leaving the profession.

Local authorities had been intensively lobbying both representative bodies and the Government directly, through the Treasury and the Department of Levelling Up, Housing and Communities, with their concerns not only with the capacity of the audit industry but also the impact that recent changes to the way that local government audits were to be carried out were having on the process. These concerns were now being examined by a Government Select Committee however the situation was not expected to change imminently.

The Committee expressed concern that they had not been provided with progress updates following an agreement to provide these on a monthly basis at the Committee's last meeting. Whilst it was acknowledged that no progress had been made in the interim, it was stressed that regular monthly updates of officer's communications with BDO and the status of the Audit should be provided to the committee, even if it was to report that no progress had been made.

The Committee requested that a full breakdown setting out when and where delays had occurred during the audit process be provided alongside the completed audit report. It was agreed that a briefing would be provided for members of the Committee to take them through the audited accounts and the audit report in detail before it was brought to the Committee proper.

The Committee was reminded that the Council would not be subject to any form of penalty, beyond reputational damage, as a consequence of the lateness of the audit and there would be no impact on the Council's ability to raise funds either.

The Committee noted the update."

The Audit Committee planned for 19 September 2022 was cancelled as the report was not ready.

The next Audit Committee took place on 21 November 2022 and the minutes record the following: -

***“Minutes:***

*The Committee received an update on the audit of the Financial Statements for the 2019/20 financial year. Members were informed that the External Audit report was planned to be finished before the end of the 2022/23 Financial Year, but the External Auditors had not committed to this target. Upon receiving the report, a special Committee meeting had been planned for late January 2023.*

*Members were updated on the number of unresolved queries stored on the Inflo system stood at 19, however, the Committee were informed that as of 21/11/2022 the number of unresolved queries had risen to 24. This was attributed to the discovery of further discrepancies, but the majority of these issues were considered inconsequential.*

*Following discussion between Members, the following key issues were raised:*

- 1. The number of outstanding queries on Inflo had been 9 at the end of November 2020. It was noted that the remaining queries would need to be actioned on prior to the Council elections.*
- 2. BDO had already been replaced for 2023, with new Auditors being contracted.*
- 3. Council Members and Officers could not influence the External Auditors failure to deliver on their contracted work.*
- 4. The Council signed up to Public Sector Audit Appointments (PSAA) and agreed to accept the changes to the appointed External auditors. PSAA carried out a full tendering process and advised the Council on the new auditors appointed through the scheme. The Council could have rejected the appointed firm, but then had to tender its own external audit and this was from a limited field and did not offer the cap on fees that PSAA provided.*
- 5. The External Auditors had allocated additional resources to finish the audit on the 2019/20 Accounts.*

*The Committee expressed concern that the External Audit report had yet to be produced and noted the report.”*

A meeting did not happen in January 2023 because the Audit report was not ready.

April 2023 – The minutes of the meeting will be separately produced for the meeting.

**Summary:**

- There have been several reasons given regarding the delay although Cllrs have had differing views as to the primary reasons and whether this is down to the Council, BDO or a combination of both. These reasons have been mentioned in the minutes of the Audit Committee over the last 3 years as outlined above.

Rodney Bates

Audit Committee member 2019 to 2023

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