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TO THE CHAIRMAN AND MEMBERS OF THE STANDARDS AND AUDIT COMMITTEE

You are hereby summoned to attend a meeting of the Standards and Audit Committee to be held on Thursday, 8 March 2018 at 7.00 pm in the Council Chamber, Civic Offices, Gloucester Square, Woking, Surrey GU21 6YL.

The agenda for the meeting is set out below.

RAY MORGAN
Chief Executive

NOTE: Filming Council Meetings

Please note the meeting will be filmed and will be broadcast live and subsequently as an archive on the Council's website (www.woking.gov.uk). The images and sound recording will also be used for training purposes within the Council. Generally the public seating areas are not filmed. However by entering the meeting room and using the public seating area, you are consenting to being filmed.

AGENDA

PART I - PRESS AND PUBLIC PRESENT

1. Minutes

To approve the minutes of the meeting of the Standards and Audit Committee held on 30 November 2017 as published.

2. Declarations of Interest

To receive declarations of disclosable pecuniary and other interests from Members in respect of any item to be considered at the meeting.

In accordance with the Members' Code of Conduct, Councillor John Kingsbury will declare a non-pecuniary interest in any items under which the Thameswey Group of Companies, Brookwood Cemetery or Victoria Square (Woking) Ltd are discussed, arising from his position as a Director of the subsidiary companies. The interest is such that speaking and voting are permissible.

In accordance with the Officer Procedure Rules, the Head of Democratic and Legal Services, Peter Bryant, will declare an interest in any items under which the Thameswey Group of Companies or Brookwood Cemetery are discussed, arising from his position as a Director of the subsidiary companies. The interest is such that speaking was permissible.

3. Urgent Business

To consider any business that the Chairman rules may be dealt with under Section 100B(4) of the Local Government Act 1972.

Matters for Recommendation

4. Review of Arrangements for Dealing with Standards Allegations under the Localism Act 2011 (Pages 3 - 12)
Reporting Person – Peter Bryant

Matters for Determination

5. External Audit Plan (Pages 13 - 34)
Reporting Person – Leigh Clarke
6. Internal Audit Progress Report (Pages 35 - 40)
Reporting Person – James Graham
7. Internal Audit Strategy and Proposed 2018/19 Plan (Pages 41 - 48)
Reporting Person – James Graham
8. Appointment of External Auditors (Pages 49 - 50)
Reporting Person – Leigh Clarke

AGENDA ENDS

Date Published - 28 February 2018

For further information regarding this agenda and arrangements for the meeting, please contact Doug Davern on 01483 743018 or email doug.davern@woking.gov.uk



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STANDARDS AND AUDIT COMMITTEE - 8 MARCH 2018

REVIEW OF ARRANGEMENTS FOR DEALING WITH STANDARDS ALLEGATIONS UNDER THE LOCALISM ACT 2011

Executive Summary

This report advises the Committee of the outcome of the review of the Council's Arrangements for dealing with Standards Allegations under the Localism Act 2011.

Recommendations

The Committee is requested to:

RECOMMEND to Council That the Council's Arrangements for dealing with Standards Allegations under the Localism Act 2011 be amended as set out in the appendix to this report.

The item will need to be dealt with by way of a recommendation to the Council.

Background Papers:

None.

Reporting and Contact Person:

Peter Bryant, Head of Democratic and Legal Services/Monitoring Officer
Ext. 3030, E Mail: Peter.Bryant@woking.gov.uk

Date Published:

28 February 2018

1.0 Introduction

- 1.1 Under the Localism Act 2011, the Council must have “arrangements” under which allegations that a Member has failed to comply with the Members’ Code of Conduct can be investigated, and decisions made on such allegations.
- 1.2 The Council adopted “Arrangements for Dealing with Standards Allegations under the Localism Act 2011” (“Arrangements”) on 28 June 2012. These were amended on 24 October 2013.
- 1.3 At its meeting on 30 November 2017, the Committee noted that the Monitoring Officer proposed to review the Arrangements in the light of experience gained in investigating standards allegations since 2012. The Committee requested that all Members should be notified of the review, and given the opportunity to submit comments.

2.0 Review of the Arrangements

- 2.1 All Members, the co-opted independent Member and the Council’s Independent Person were notified of the review. The Monitoring Officer has taken account of comments received in proposing three amendments to the Arrangements.
- 2.2 The amendments are:-
 - (i) Remove the right for a complainant to keep his/her identity confidential from the Member who is the subject of the complaint. In future, this would only be allowed in exceptional circumstances. This change is justified as it is reasonable for that someone subject to a complaint should know who is making that complaint.
 - (ii) Remove the requirement that all Group Leaders are advised of the receipt of a complaint. Only the Leader of the Council, and the Group Leader of the individual councillor who is the subject of the complaint, would be informed of the receipt of the complaint. This change will ensure that only persons who have a legitimate reason for knowing a complaint has been submitted do know about it.
 - (iii) Make it clear (by including a statement to that effect) that the Standards Hearings Sub-Committee can censure or reprimand a member if these has been a breach of the Members’ Code of Conduct.
- 2.3 The proposed amendments are shown, in track changes, in the copy of the Arrangements appended to this report.

3.0 Implications

Financial

- 3.1 None.

Human Resource/Training and Development

- 3.2 None.

Community Safety

- 3.3 None.

Risk Management

3.4 None.

Sustainability

3.5 None.

Equalities

3.6 None.

4.0 Conclusions

4.1 The outcome of the review of the Arrangements is that they would benefit from the minor amendments proposed in paragraph 2.2 above.

REPORT ENDS

Arrangements for dealing with Standards Allegations under the Localism Act 2011

1 Context

- 1.1 Under Sections 28(6) and (7) of the Localism Act 2011, the Council must have “arrangements” under which allegations that a Member, or co-opted Member, has failed to comply with the Council’s Code of Conduct can be investigated, and decisions made on such allegations.
- 1.2 Such arrangements must provide for the Council to appoint at least one Independent Person, whose views must be sought by the Council before it takes a decision on an allegation which it has decided shall be investigated. The Independent Person’s views can also be sought by the Council at any other stage, or by a Member against whom an allegation has been made.

2 The Code of Conduct

- 2.1 The Council has adopted a Code of Conduct for Members. This is available for inspection on the Council’s website (www.woking.gov.uk) and on request from the Council’s Monitoring Officer (see paragraph 3 below for contact details).

3 Making a complaint

- 3.1 If you wish to make a complaint, please write or email to –

The Monitoring Officer,
Woking Borough Council,
Civic Offices,
Gloucester Square,
Woking,
Surrey,
GU21 6YL
legal@woking.gov.uk

- 3.2 The Monitoring Officer is a statutory officer of the Council who has responsibility for maintaining the Register of Members’ Interests, and who is responsible for administering the system in respect of complaints of Member misconduct.
- 3.3 Please provide us with your name and a contact address or email address, so that we can acknowledge receipt of your complaint and keep you informed of its progress. Your name and address will normally be disclosed to the Member against whom you make a complaint. In exceptional circumstances, the Monitoring Officer may agree not to disclose your name and address to the Member concerned. Please advise us if you think this would be justified. The Council does not normally investigate anonymous complaints, unless there is a clear public interest in doing so.
- 3.4 The Monitoring Officer will acknowledge receipt of your complaint within five working days of receiving it, and will keep you informed of the progress of your complaint.

3.5 The Monitoring Officer will, within five working days of receipt, normally advise the Member against whom the complaint is made that a complaint has been received (together with the name and address of the complainant and brief details of the complaint). The Member shall not make any representations to the Monitoring Officer at this stage of the process. The Monitoring Officer will, within the same timescale, normally advise the Leader of the Council and the Member's Group Leader of the receipt of the complaint (together with the name and address of the complainant and brief details of the complaint). The Leader of the Council and the Group Leader shall not make any representations to the Monitoring Officer at any stage of the process. The Monitoring Officer may decide not to advise the Member, Leader of the Council or Group Leader of the receipt of the complaint if this might prejudice a subsequent investigation. The Monitoring Officer shall have the discretion to notify other persons of the receipt of the complaint as he/she considers appropriate.

4 Will your complaint be investigated?

4.1 The Monitoring Officer will review every complaint received and take a decision as to whether it merits formal investigation. The Monitoring Officer may consult the Independent Person before making this decision. This decision will normally be taken within ten working days of receipt of your complaint. Where the Monitoring Officer has taken a decision, he/she will inform you, the Independent Person, the Chairman of the Standards and Audit Committee, all Group Leaders, the Chief Executive and the Member, of his/her decision and the reasons for that decision. The Monitoring Officer shall have the discretion to notify other persons of his/her decision (and the reasons for that decision) as he/she considers appropriate.

4.2 Where the Monitoring Officer requires additional information in order to come to a decision, he/she may come back to you for such information, and may request information from the Member against whom your complaint is directed.

4.3 In appropriate cases, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution may involve the Member accepting that his/her conduct was unacceptable and offering an apology, or other remedial action by the Council. Where the Member, or the Council, makes a reasonable offer of local resolution, but you are not willing to accept that offer, the Monitoring Officer will take account of this in deciding whether the complaint merits formal investigation.

4.4 If your complaint identifies criminal conduct or breach of other regulations by any person, the Monitoring Officer may refer the complaint to the Police and/or other regulatory authorities. The Monitoring Officer should ensure that nothing is done under these arrangements which could prejudice possible action to be taken by the Police and/or other regulatory authorities.

4.5 Vexatious or frivolous complaints will not be formally investigated.

5 How is the investigation conducted?

5.1 If the Monitoring Officer decides that a complaint merits formal investigation, he/she will appoint an Investigating Officer. The Investigating Officer may be an officer of another authority or an external investigator. The Investigating Officer will decide whether he/she needs to meet or speak to you to understand the nature of your complaint, and so that you can explain your understanding of events and suggest

what documents the Investigating Officer needs to see, and who the Investigating Officer needs to interview.

- 5.2 The Investigating Officer will normally write to the Member against whom you have complained and provide him/her with a copy of your complaint, and ask the Member to provide his/her explanation of events, and to identify what documents he needs to see and who he needs to interview. In exceptional cases, where it is appropriate to keep your identity confidential or disclosure of details of the complaint to the Member might prejudice the investigation, the Monitoring Officer can delete your name and address from the papers given to the Member, or delay notifying the Member until the investigation has progressed sufficiently.
- 5.3 At the end of his/her investigation, the Investigating Officer will produce a draft report and will send copies of that draft report to you and to the Member concerned, to give you both an opportunity to identify any matter in the draft report which you disagree with or which you consider requires more consideration. A copy of the draft report will also be sent to the Monitoring Officer.
- 5.4 Having received and taken account of any comments that may be made on the draft report, the Investigating Officer will send his/her final report to the Monitoring Officer.

6 What happens if the Investigating Officer concludes that there is no evidence of a failure to comply with the Code of Conduct?

- 6.1 The Monitoring Officer will review the Investigating Officer's report and, if satisfied (after consulting the Independent Person) that the Investigating Officer's report is sufficient, the Monitoring Officer will write to you and to the Member concerned notifying you that he/she is satisfied that no further action is required. The Monitoring Officer will give you both a copy of the Investigating Officer's final report. If the Monitoring Officer is not satisfied that the investigation has been conducted properly, he/she may ask the Investigating Officer to reconsider his/her report.

7 What happens if the Investigating Officer concludes that there is evidence of a failure to comply with the Code of Conduct?

- 7.1 The Monitoring Officer will review the Investigating Officer's report and will then either send the matter for local hearing before the Standards Hearings Sub-Committee or, after consulting the Independent Person, seek local resolution.

7.2 Local Resolution

The Monitoring Officer may consider that the matter can reasonably be resolved without the need for a hearing. In such a case, he/she will consult with the Independent Person and with you, as complainant, and seek to agree what you consider to be a fair resolution which also helps to ensure higher standards of conduct for the future. Such resolution may include the Member accepting that his/her conduct was unacceptable and offering an apology, and/or other remedial action by the Council. If the Member complies with the suggested resolution, the Monitoring Officer will report the matter to the Standards and Audit Committee for information, but will otherwise take no further action.

7.3 Local Hearing

If the Monitoring Officer considers that local resolution is not appropriate, or you are not satisfied by the proposed resolution, or the Member concerned is not prepared to undertake any proposed remedial action, the Monitoring Officer will report the Investigating Officer's report to the Standards Hearings Sub-Committee which will conduct a local hearing before deciding whether the Member has failed to comply with the Code of Conduct and, if so, whether to take any action in respect of the Member.

The Monitoring Officer will conduct a "pre-hearing process", requiring the Member to give his/her response to the Investigating Officer's report, in order to identify what is likely to be agreed and what is likely to be in contention at the hearing. At the hearing, the Investigating Officer will present his/her report, call such witnesses as he/she considers necessary and make representations to substantiate his/her conclusion that the Member has failed to comply with the Code of Conduct. For this purpose, the Investigating Officer may ask you as the complainant to attend and give evidence to the Standards Hearings Sub-Committee. The Member will then have an opportunity to give his/her evidence, to call witnesses and to make representations to the Standards Hearings Sub-Committee as to why he/she considers that he/she did not fail to comply with the Code of Conduct.

The Standards Hearings Sub-Committee, with the benefit of any advice from the Independent Person, may conclude that the Member did not fail to comply with the Code of Conduct, and so dismiss the complaint. If the Standards Hearings Sub-Committee concludes that the Member did fail to comply with the Code of Conduct, the Chairman will inform the Member of this finding and the Standards Hearings Sub-Committee will then consider what action, if any, it should take as a result of the Member's failure to comply with the Code of Conduct. In doing this, the Standards Hearings Sub-Committee will give the Member an opportunity to make representations to it and will consult the Independent Person, but will then decide what action, if any, to take in respect of the matter.

8 What action can the Standards Hearings Sub-Committee take where a Member has failed to comply with the Code of Conduct?

8.1 The Standards and Audit Committee has delegated to the Standards Hearings Sub-Committee power to take action in respect of individual Members who have breached the Code of Conduct. Accordingly the Standards Hearings Sub-Committee may –

- (a) Publish its findings in respect of the Member's conduct. This might comprise issuing a press release and/or inserting a public notice in the local newspaper(s);
- (b) Report its findings to Council for information;
- (c) Censure or reprimand the Member;
- (d) Recommend to the Member's Group Leader (or in the case of un-grouped Members, recommend to Council or to Committees) that he/she be removed from any or all Committees or Sub-Committees of the Council for such period as the Sub-Committee considers appropriate;
- (e) Recommend to the Leader of the Council that the Member be removed from the Executive, or removed from particular Portfolio responsibilities for such period as the Sub-Committee considers appropriate;

- (f) Instruct the Monitoring Officer to arrange training for the Member;
- (g) Recommend to the Council that the Member be removed from all outside appointments to which he/she has been appointed or nominated by the Council for such period as the Sub-Committee considers appropriate;
- (h) Withdraw facilities provided to the Member by the Council, such as a computer, website and/or email and Internet access for such period as the Sub-Committee considers appropriate; or
- (i) Exclude the Member from the Council's offices or other premises, with the exception of meeting rooms as are necessary for attending Council, Committee and Sub-Committee meetings for such period as the Sub-Committee considers appropriate.

8.2 The Standards Hearings Sub-Committee has no power to suspend or disqualify the Member or to withdraw Members' allowances.

9 What happens at the end of the hearing?

9.1 At the end of the hearing, the Chairman will state the decision of the Standards Hearings Sub-Committee as to whether the Member failed to comply with the Code of Conduct and as to any actions which it resolves to take.

9.2 As soon as reasonably practicable thereafter, the Monitoring Officer shall prepare a formal decision notice in consultation with the Chairman of the Standards Hearings Sub-Committee, and send a copy to the complainant and to the Member. The decision notice shall include reasons for the decision. The Monitoring Officer will also make the decision notice available for public inspection and report the decision to the next convenient meeting of the Standards and Audit Committee.

10 What is the Standards Hearings Sub-Committee?

10.1 The Standards Hearings Sub-Committee is a sub-committee of the Council's Standards and Audit Committee. The Independent Person is invited to attend all meetings of the Standards Hearings Sub-Committee and his/her views are sought and taken into consideration before it takes any decision on whether the Member's conduct constitutes a failure to comply with the Code of Conduct and as to any action to be taken following a finding of failure to comply with the Code of Conduct.

11 Who is the Independent Person?

11.1 The Independent Person is a person who has applied for the post following advertisement of a vacancy for the post, and is appointed by a positive vote from a majority of all the members of Council.

12 Departure from these arrangements

12.1 The Chairman of the Standards Hearings Sub-Committee may depart from these arrangements where he/she considers that it is expedient to do so in order to secure the effective and fair consideration of any matter.

13 Appeals

- 13.1 There is no right of appeal for you as complainant or for the Member against a decision of the Monitoring Officer or the Standards Hearings Sub-Committee.
- 13.2 If you feel that the Council has failed to deal with your complaint properly, you may make a complaint to the Local Government Ombudsman.

14 Annual Report

- 14.1 The Monitoring Officer shall submit an annual report to the Standards and Audit Committee. The report should include appropriate details of all complaints received (including those where no breach was found).

Adopted by Woking Borough Council on 28 June 2012.

Amended by Woking Borough Council on 24 October 2013 and [] 2018.

STANDARDS AND AUDIT COMMITTEE - 8 MARCH 2018

EXTERNAL AUDIT PLAN

Executive Summary

One of the Committee's roles and functions is to consider the Council's External Auditor's Audit Plan. Accordingly, attached as Appendix 1 is the KPMG Audit Plan for 2017-18.

Recommendations

The Committee is requested to:

RESOLVE That the External Audit Plan for 2017-18 be agreed.

The Committee has authority to determine the above recommendations.

Background Papers:

None.

Reporting Person:

Leigh Clarke, Finance Director
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Contact Person:

Leigh Clarke, Finance Director
Ext. 3277, E Mail: Leigh.Clarke@woking.gov.uk

Date Published:

28 February 2018



External Audit Plan 2017/18

Woking Borough Council

February 2018

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting (“the Code”) in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. This is a significant change and needs careful management to ensure the new deadlines are met. We have recognised this as a significant risk. To meet the revised deadlines it is essential that the draft financial statements and all ‘prepared by client’ documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2017.

Authority significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of land and buildings:** The Authority operates a cyclical revaluation approach for all smaller properties and an annual revaluation approach for all significant properties. The Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated; and
- **Pension liabilities:** The valuation of the Authority’s pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.

Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date:

- **Financial resilience:** As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years and pursue income generation strategies. We will consider how the Authority identifies, approves, and monitors savings plans and income generation projects and how budgets are monitored throughout the year.

Other information

Logistics and team

Our team is led by Neil Hewitson, Director, and Ali Azam, Manager.

Our work will be completed in four phases from February to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance.

Fees

Our fee for the 2017/18 audit is £54,702 (£54,702 2016/2017). This is in line with the scale fees published by PSAA.

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

Content

The contacts at KPMG in connection with this report are:

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Appendices

1: Key elements of our financial statements audit approach
2: Independence and objectivity requirements
3: Quality framework

This report is addressed to Woking Borough Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter dated 26/04/17, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit / review and report on your:

— **Financial statements:** Providing an opinion on your accounts. We review the Annual Governance Statement and Narrative Report and report by exception on these; and

— **Use of resources:** Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Audit Committee.

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Financial statements audit

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

Value for Money

Our Value for Money (VFM) arrangements workflow follows a five stage process:

- Risk assessment
- Links with other audit work
- Identification of significant VFM risks
- Review work (by ourselves and other bodies)
- Conclude
- Report

Page 11 provides more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18.

2. Financial statements audit planning

Financial statements audit planning

Our planning work takes place December 2017 to February 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

Management override of controls: Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— **Fraudulent revenue recognition:** We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

2. Financial statements audit planning

Significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Valuation of land and buildings

Risk: The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.

In 2016/17 the Authority reported Property, Plant and Equipment with a total value of £467m, which included other land and building assets totalling £141.4m and council dwellings assets of £293.6m

The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 January, there is a risk that the fair value is different at year end.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

2. Financial statements audit planning

Valuation of investment properties

Risk: The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.

In 2016/17 the Authority reported investment properties with a total value of £174.7m.

As required by the CIPFA Code investment properties are revalued every year. The Authority exercises judgement in determining the fair value of these assets and the methods used to ensure the carrying values recorded each year reflect those fair values. There is also an inherent risk that some investment property assets may not have been revalued each year. Given the materiality in value and the judgement involved in determining the fair value, including the use of external experts, we consider this to be an area of significant risk.

Approach:

We will understand the Authority's approach to investment property valuation. We will assess the qualification, objectivity and independence of the Authority's valuers when carrying out valuations. We will review the methodology used (including testing the underlying data and assumptions). We will confirm that the accounting records have been updated in line with the valuer's reports.

2. Financial statements audit planning

Pension liabilities

Risk: The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Hyman Robertson.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Hyman Robertson. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Consolidation of subsidiary investments

Risk: The Authority fully or partially owns eleven companies through one wholly owned subsidiary, Thamesway Limited. These companies were established to further the Authority's environmental, housing and redevelopment objectives. The Authority has invested significant financial resources in these entities, in the form of long term loans and share capital. In 2016/17, £64.6m was advanced in loans to subsidiary companies, along with £2m share capital. In addition to Thamesway Limited the Authority also owns another subsidiary called Woking Necropolis and Mausoleum Ltd and has a 48% shareholding in Victoria Square Woking Limited, to which the Authority has provided a loan of £29.7m.

During 2017/18 the Authority acquired another company, Duke's Court Owner TS.ar.l, as a means of acquiring the Duke's Court building for £72m. The newly acquired subsidiary is registered in Luxembourg, although the assets held by this company are based in Woking.

There is a risk the accounting amounts that are consolidated for the preparation of group accounts may not be complete and accurate and that some investments maybe consolidated at an incorrect valuation.

Approach:

We will liaise with the Thamesway Limited's auditor and confirm their professional qualification, experience and independence. We will also issue them with group audit instructions to ensure that their audit is conducted to an acceptable level of scope and precision;

- We will review the Authority's impairment review;
- We will compare the accounting transactions between the subsidiaries and the Authority and confirm that any inter-group transactions have been corrected adjusted; and
- We will test the classification and accuracy of the investments in the Authority's accounts and review the presentation of the consolidated group accounts.

2. Financial statements audit planning

Faster close

Risk: In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meet the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

2. Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

The Group materiality for planning purposes has been set at £3M which equates to 1.9% of 2016/17 group expenditure. The threshold above which individual errors are reported to Audit Committee is £150K.

The Authority materiality for planning purposes has been set at £2.8M which equates to 1.9% of 2016/17 Authority expenditure. The threshold above which individual errors are reported to Audit Committee is £140K.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Group we propose that an individual difference could normally be considered to be clearly trivial if it is less than £150K.

In the context of the Authority we propose that an individual difference could normally be considered to be clearly trivial if it is less than £140K.

If Management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to Audit Committee to assist it in fulfilling its governance responsibilities.

Group audit

In addition to the Authority we deem the following subsidiaries to be significant in the context of the group audit: *Thameswey Limited and Dukes Court Owner – T.S.a.r.l*

To support our audit work on the group accounts, we seek to place reliance on the work of Hamlyns who are the auditors for Thameswey Limited and the auditors for Dukes Court Owner – T.S.a.r.l, which are yet to be appointed. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

- Deficiencies in the system of internal control or instances of fraud which the subsidiary auditors identify;
- Limitations on the group audit, for example, where our access to information may have been restricted; and
- Instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

3. Value for money arrangements work

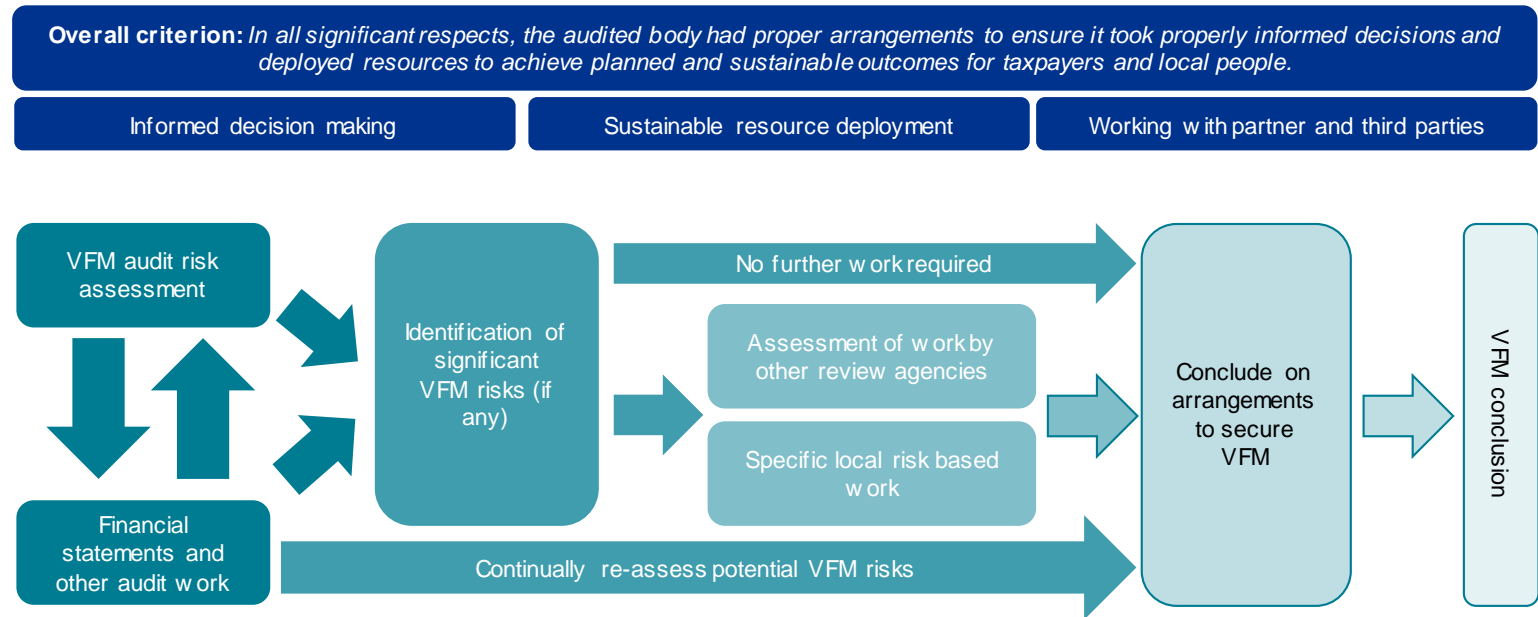
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors of Local Authorities to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to "take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements."

The VFM process is shown in the diagram below:



We have completed our initial VFM risk assessment and have identified one significant risks for the VFM conclusion. We will keep this under review during our audit and notify Audit Committee of any change.

3. Value for money arrangements work

VFM significant risk

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Financial Resilience

Risk: Local Authorities are subject to an increasingly challenged financial regime, with reduced funding from Central Government, whilst having to maintain a statutory and quality level of services to local residents.

The Authority identified the need to make savings of £100,000 in 2017/18 (2016/17 there was no savings target). The current forecast shows that the Authority will deliver an overspend of approximately £97k.

The Authority is continuing to invest in infrastructure projects and long-term borrowings have increased to £693m from £572 as at 31 March 2017. The borrowing is 62.3% of the Authority's authorised debt limit of £1.19b. Though the Authority had net assets of £244m and useable reserves of £84m. The Authority should continue to review that the borrowing level is sustainable.

Approach: We will review overall management arrangements that the Authority has for managing its financial position. This will include the processes to maintain a robust Medium Term Financial Strategy, ongoing monitoring of the annual budget, responsiveness to increasing costs of demand led services and changes in funding allocations. We will also review the governance arrangements in place including reporting to Cabinet.

FM sub-criterion: Sustainable resource deployment

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4. Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are: the right to inspect the accounts; the right to ask the auditor questions about the accounts; and the right to object to the accounts. As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors are not part of the fee. This work will be charged in accordance with PSAA's fee scales.

Our audit team

Our audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

Neil Hewitson: your Director has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Audit Committee, the Chief Executive and Finance Director.

Ali Azam: your Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

Audit fee

Our Audit Fee Letter 2017/2018 presented to you on 26 April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the S151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £54,702 for the Authority (2016/17: £54,702).

Grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

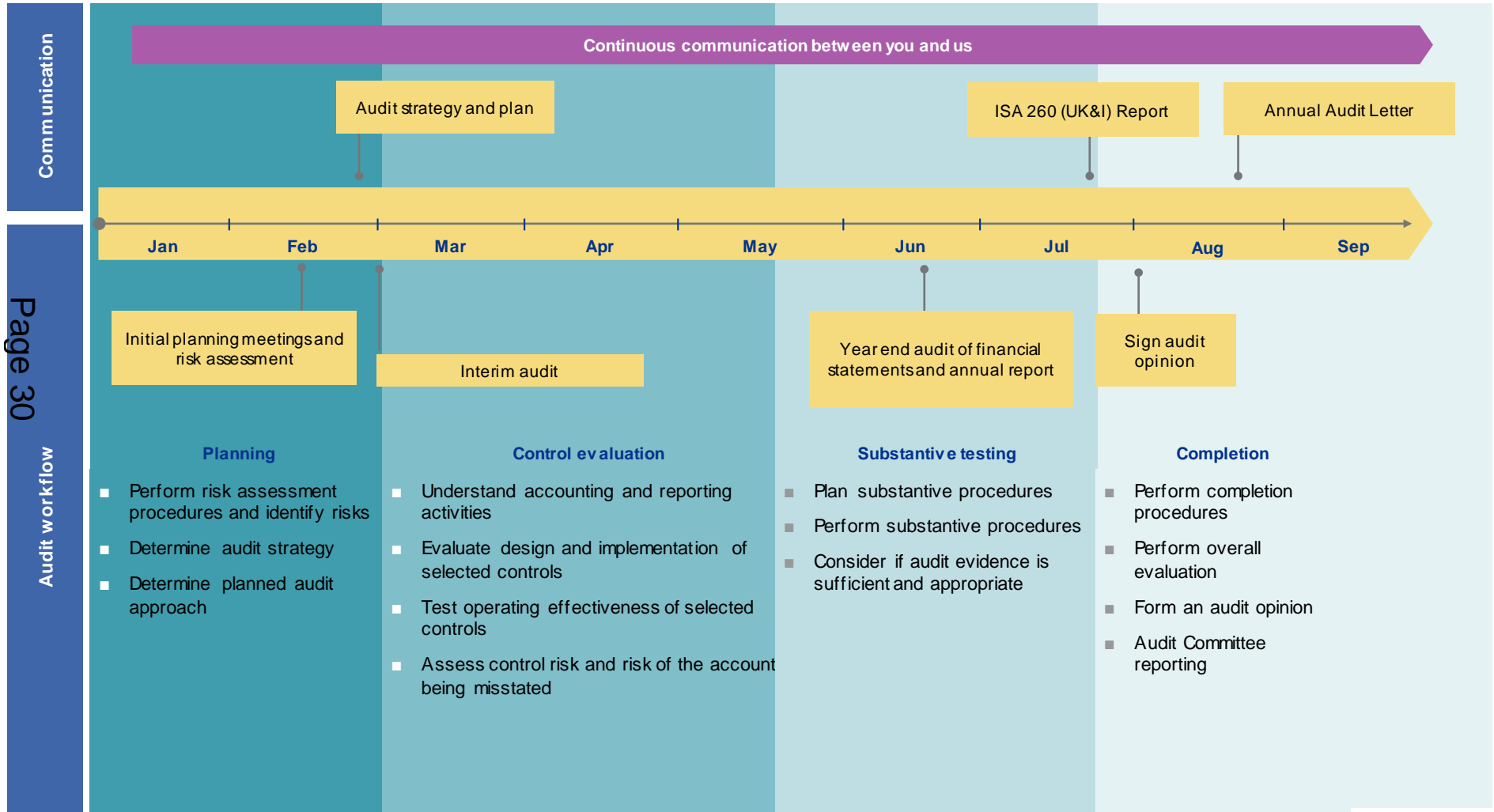
- Housing benefits grant claim: This audit is planned for August 2018. Our fee for this work is £7,208; and
- Pooled housing capital receipts: This audit is planned for October 2018. Our fee for this work is £3,000.

Public interest reporting

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or brought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WOKING BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 2: Independence and objectivity requirements

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

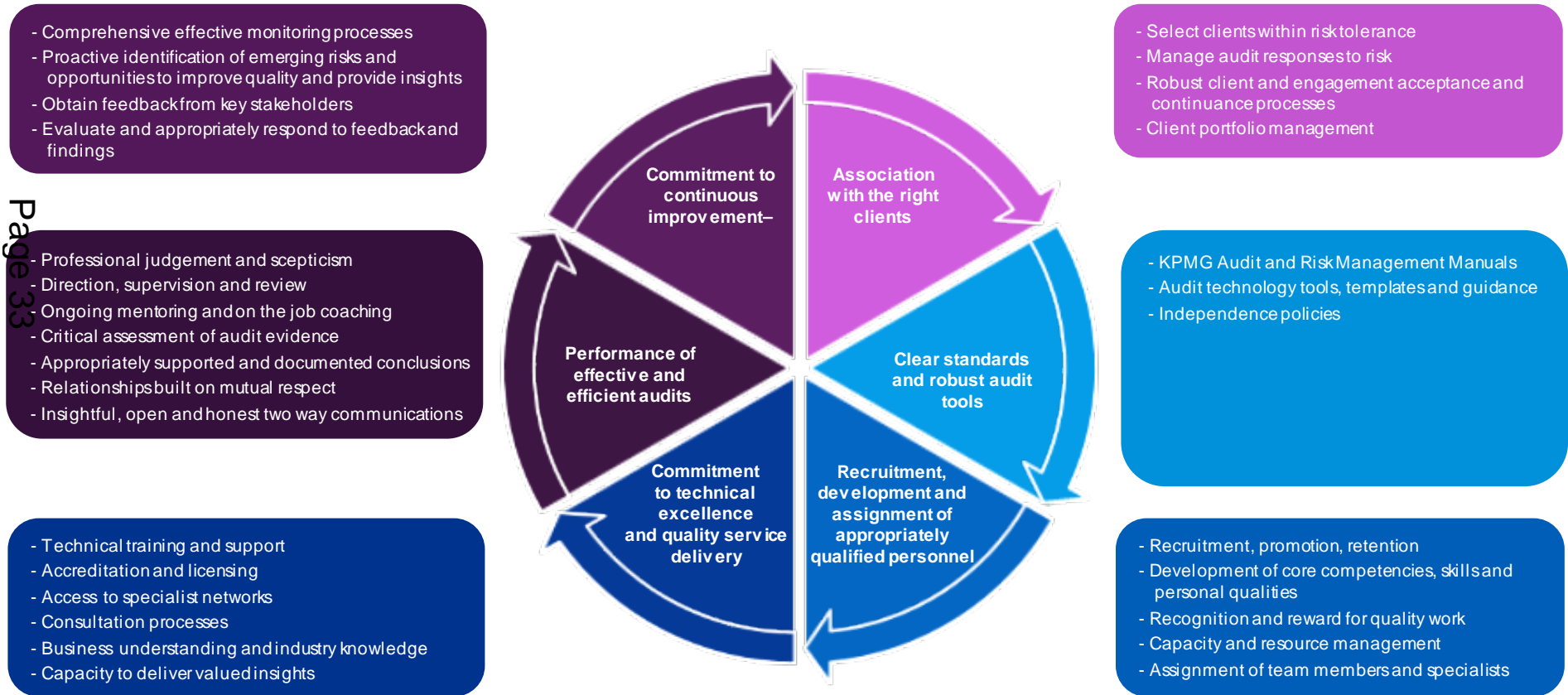
This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

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Appendix 3: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

STANDARDS AND AUDIT COMMITTEE – 8 MARCH 2018

INTERNAL AUDIT PROGRESS REPORT

Executive Summary

Financial Regulation 2.8 requires that the Chief Finance Officer shall report regularly to the Standards and Audit Committee on the work undertaken by Internal Audit. This report is accordingly submitted to the Committee for consideration.

This report covers audit activity and performance from 11 November 2017 to 26 February 2018.

Recommendations

The Committee is requested to:

RESOLVE that the report be received and progress against the 2017-18 Internal Audit Plan and implementation of Internal Audit recommendations be noted.

The Committee has authority to determine the above recommendation.

Background Papers:

None

Reporting Person:

James Graham, Head of Internal Audit
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Contact Person:

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James Graham, Head of Internal Audit
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Date Published:

28 February 2018

1.0 Introduction

- 1.1 Financial Regulation 2.8 requires that the Chief Finance Officer shall report regularly to the Standards and Audit Committee on the work undertaken by Internal Audit. This report covers audit activity and performance from 11 November 2017 to 26 February 2018.
- 1.2 The Standards and Audit Committee approved the 2017/18 Plan on 9 March 2017.
- 1.3 The purpose of this report is to outline the following in respect of Internal Audit Activity during the period 11 November 2017 to 26 February 2018:
 - A description of key audit issues and also of non-audit activity undertaken during the year;
 - details of reports issued during the period;
 - a list of reports in progress as at 26 February 2018.
 - any major (ie. high risk) recommendations made in Internal Audit reports issued between 11 November 2017 and 26 February 2017; and
 - an update on all recommendations that remain outstanding for implementation.

2.0 Internal Audit Activity 10 November 2017 to 26 February 2018

- 2.1 Table 1 below provides a summary of progress in terms of the number of reports at draft or final stage and those in progress, as at 26 February:

Table 1

Audit Status	Number of reviews	Percentage Completion
Finalised	8	38
Draft	4	19
In Progress	9	43
To be undertaken	0	0
Deferred to 18/19	0	0
Total	21	100

- 2.2 Table 1 above illustrates that 57% of the plan has been delivered to at least draft report stage as at 26 February, with the remaining 43% of the plan being in progress. All audits are expected to be completed to at least draft stage by the end of March 2018. No audits will be deferred to 2018/19.
- 2.3 Two audits have been cancelled:
 - Critical Friend Review was included in the audit plan as a placeholder in the event that specialist support was required in the year regarding strategic planning. No support has been required and therefore this has been removed from the plan.
 - Affordable Homes was cancelled as an audit of the Affordable Housing Strategy was undertaken in 2016/17. No further audit coverage of affordable housing was felt necessary so soon.

Internal Audit Service Progress Update

2.4 Table 2 below shows the status of all audits on the 2017/18 plan, including the reviews carried forward from 2016/17:

Table 2

Audit Title	Audit Status	Recommendations by Priority		
		High	Medium	Low
GDPR (Formerly Data Protection Act & Freedom of Information)	In progress (involvement until May 2018)	-	-	-
Gifts, Hospitality & Declarations of Interest	Final report issued	0	2	1
Health & Safety	Final report issued	2	2	0
Project Reviews – Thematic audits	In progress	-	-	-
Savings Plans, including MTFs, monitoring of budgets	In progress	-	-	-
Contract Management	In progress	-	-	-
Key Financial testing, including: <ul style="list-style-type: none"> - Payroll - Accounts Payable - Accounts receivable - Council tax; - NNDR; - General Ledger 	Draft report issued	-	-	-
Safeguarding Adults & Children	Final report issued	0	3	2
S106/CIL	Final report issued	0	1	1
Temporary Accommodation	In progress	-	-	-
Parking Services	Final report issued	0	3	0
Planning Services	Final report issued	0	3	1
Commercial Property Estate	In progress	-	-	-
Taxi Licensing	Draft report issued	-	-	-
Victoria Square development	In progress	-	-	-
ICT risk assessment	In progress	-	-	-
Cloud Computing	Draft report issued	-	-	-

Internal Audit Service Progress Update

Cybersecurity	Final report issued	0	0	0
IT Disaster Recovery High Level Review	Draft Report Issued	-	-	-

Deferred from 2016/17

Health and Wellbeing	In progress	-	-	-
SharePoint Document & Records Management	Final report issued	0	4	0

2.5 Internal Audit categorise recommendations as high, medium or low risk to differentiate between the types of recommendation made. This gives management an indication on the urgency of implementing the suggested control or cost saving measure.

2.6 Recommendation classifications are:

- **High risk** – fundamental absence/failure of key control procedures (e.g. breach of legislation, council policies or procedures), immediate action required.
- **Medium risk** – inadequate management of key risks. Control procedures are in place but are not working effectively. Action is necessary to avoid exposure to risk.
- **Low risk** – actions merit attention to enhance the control environment, i.e. action is considered desirable.

2.7 There were no high risk recommendations made in final reports issued between 11 November 2017 and 26 February 2018 and no negative assurance final reports issued.

3.0 Follow ups

3.1 All recommendations are entered onto an improvement plan in Shikari. The Shikari system automatically reminds managers when recommendation due dates are approaching (note: the target dates are set by managers themselves, not by Internal Audit) and again when the implementation date has been missed. Managers update progress on the system and close down the recommendations on the system once implemented.

3.2 Internal Audit use system generated reports to monitor levels of implementation. This is supplemented by spot checks in the business area concerned to confirm that recommendations are being implemented in practice. A procedure is in place to escalate recommendations that have not been implemented as agreed to CMG and finally to this committee where necessary.

3.3 As at 26 February, there are 15 outstanding recommendations (ie. the recommendations are past their agreed implementation dates), of which two are classified as high risk. The outstanding High Risk recommendations are detailed in Appendix 1.

3.4 New recommendations will be agreed as the draft reports detailed in Table 2 are finalised. It is important that these are implemented within the agreed timescales to ensure that the position reported in 3.3 above is either maintained or improved upon.

3.5 Outstanding recommendations are regularly reported to CMG. In addition, recommendations are routinely followed up as part of our audit work.

4.0 Implications

Financial

- 4.1 There are minimal financial implications around the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control.

Human Resource/Training and Development

- 4.2 Some audit recommendations need resource to put in place.

Community Safety

- 4.3 There are no implications.

Risk Management

- 4.4 Internal Audit identifies weaknesses in the control environment. Implementation of recommendations therefore improves the control environment and hence the management of risk.

Sustainability

- 4.5 There are no implications arising from this report.

Equalities

- 4.6 There are no implications arising from this report.

REPORT ENDS

Outstanding High Risk recommendations as at 26 February 2017
<p>Health and Safety (2017/18)</p> <p>Recommendation: In order to identify non-compliance with the Council's Health & Safety procedures, legislative requirements and training requirements, the Health and Safety function at the Council should utilise a risk based approach to undertake Health and Safety audits across the Council's various service lines.</p> <p>Risk rating: High</p> <p>Agreed implementation date: 31/12/2017</p> <p>Status: A procurement exercise is being undertaken to appoint an external provider to undertake a risk based programme of health and safety audits. The results of these audits will be reported to CMG.</p> <p>Recommendation: All Council teams should have a risk assessment in place to ensure that all potential risks have been identified, and controls put in place to mitigate these risks. The risk assessments should be updated annually and a risk based sample of risk assessments should be checked by the Health and Safety function to confirm that these are being completed sufficiently.</p> <p>Risk rating: High</p> <p>Agreed implementation date: 31/12/2017</p> <p>Status: Risk assessments continue to be required from all teams annually. An officer has been assigned responsibility for monitoring completion of risk assessments and undertaking quality checks. The results of this will be reported to CMG.</p>

STANDARDS AND AUDIT COMMITTEE - 8 MARCH 2018

INTERNAL AUDIT STRATEGY AND PROPOSED 2018/19 PLAN

Executive Summary

This report sets out the Internal Audit Strategy and proposed Annual Plan for 2018/19, which details how the Council will meet its statutory requirements for Internal Audit.

The report explains that the overall level of audit coverage has been developed by applying a risk based approach. The Audit Plan continues to focus upon areas of highest risk and the overall coverage is sufficient to provide Members, management and other external bodies with an independent assurance on the adequacy of the Council's risk management, governance and internal control framework.

Recommendations

The Committee is requested to:

RESOLVE That the Internal Audit Strategy and the indicative Audit Plan for 2018/19 be approved.

The Committee has authority to determine the above recommendations.

Background Papers:

None.

Reporting Person:

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Date Published:

28 February 2018

1.0 Introduction

- 1.1 This report establishes the Internal Audit Strategy and proposed Annual Plan for 2018/19, which details how the Council will meet its statutory requirements for Internal Audit.

2.0 Background

- 2.1 The fundamental role of Internal Audit is to provide senior management and members with an independent assurance on the adequacy, effectiveness and efficiency of the system of internal control and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work in accordance with the Annual Plan as approved by the Chief Finance Officer and the Standards and Audit Committee. As Internal Audit is a major source of assurance that the Council is effectively managing its risks, a key rationale for the development of the Internal Audit Plan was the Council's own Strategic Risk Register and risks detailed within the 2018/19 Service Plans.

- 2.2 The Council's Internal Audit Service is delivered in accordance with a regulatory framework comprising:

- The Local Government Finance Act 1972 which requires councils to 'make arrangements for the proper administration of their financial affairs'.
- The Accounts and Audit Regulations 2015. These require that all local authorities must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- The Public Sector Internal Auditing Standards 2013 (PSIAS). These standards set out what is meant by appropriate internal audit practices. These are mandatory standards and have replaced the former CIPFA Code of Practice for Internal Audit in Local Government 2006.

- 2.3 The Internal Audit Strategy is a high level statement which outlines how the Internal Audit Service will be delivered to meet the requirements as set out above. The PSIAS no longer make specific reference to a strategy document, but they require that the information that it contains be communicated to the Audit Committee, to support discussion about audit planning and resources.

3.0 Internal Audit Strategy

- 3.1 This strategy recognises that it is management's responsibility to establish and maintain a sound system of internal control and ensure that risks are properly managed. The overall aim of internal audit work is to establish areas requiring improvement and recommend solutions that will enable the Council to achieve its objectives.

- 3.2 The audit strategy and planning process reflects that the audit environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the audit plan. Specifically, recognising the unprecedented challenges facing Public Sector finances, the strategy must have in built flexibility to consider:

- Greatest risks to achievement of the Council's objectives
- New areas of activity;
- Issues of local significance and importance;
- Changing issues and priorities;
- Changes to models for service delivery and partnership working; and

Internal Audit Strategy and Proposed 2018-19 Plan

- The impact of changes on existing control structures.
- 3.3 The purpose of the audit strategy is to establish an approach that will enable internal audit to be responsive to change and managed in a way which will facilitate:
- An understanding of assurance needs to enable the provision to Members and management of an overall opinion each year on the Council's risk management, control and governance framework, to support the preparation of the Annual Governance Statement;
 - Audit of the Council's risk management, control and governance systems through an approach which assesses risks to Council objectives and prioritises audits accordingly;
 - The identification of audit resources required to deliver an audit service which meets the PSIAS and achieves the required level of audit coverage to enable an opinion to be given on the Council's control environment;
 - The identification of other sources of assurance from other assurance providers which can be relied upon to inform the focus of internal audit activity;
 - Co-operation and working protocols with the external auditors (currently KPMG and then Moore Stephens from the 2018/19 financial year) and any other relevant review bodies to ensure that assurance functions work effectively together; and,
 - Identification of responsibilities for providing assurance where services are delivered in partnership.
- 3.4 Based on the budget available for internal audit work, the strategy and audit work make provision for:
- Sufficient coverage of all major financial systems to provide the necessary audit assurance;
 - New systems and emerging high risk areas;
 - Cross cutting reviews for a selection of corporate themes which link to the corporate risk register;
 - Support for corporate governance, with particular focus on governance issues identified in the Council's annual governance statement, ensuring that proposed actions are taken;
 - Monitoring the implementation of high risk audit recommendations;
 - An element for contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support.
- 3.5 The internal audit plan is prepared on the basis of a risk assessment combined with an understanding of other sources of assurance which are then compared to the audit resources available. Given the level of audit resources available, it is vital that audit work is planned and focused to ensure an efficient and effective use of resources directed at those areas of greatest risk to the Council.
- 3.6 The Internal Audit function is primarily outsourced to Mazars, with the Head of Internal Audit role being undertaken as a secondment from Mazars. Spelthorne District Council provide some support for Computer audit work.
- 4.0 Development of 2018/19 Audit Plan**
- 4.1 The Audit Plan continues to focus upon areas of highest risk and is sufficient to provide Members and management with an independent assurance on the adequacy of the Council's internal control framework.

Internal Audit Strategy and Proposed 2018-19 Plan

- 4.2 The main factors taken into account in compiling the Audit Plan consist of:
- Materiality and significance based upon budgets and volume of transactions;
 - Historic knowledge and experience accumulated in Internal Audit, based upon the results of previous audits;
 - Changes to the control environment or legislative changes since the previous audit;
 - A review of audit themes against the Council's risk register and corporate objectives;
 - Other sources of assurance available to the Council;
 - Key governance issues identified within the Annual Governance Statement (AGS);
 - Concerns and emerging risks as identified by Chief Officers; and,
 - Horizon scanning of issues for consideration in audit plans in other local authorities.
- 4.3 The total number of audit days allocated for 2018/19 is 303, including 30 days for IT audit and 24 days for the Head of Audit role. This number is broadly comparable to the allocation for 2017/18, with the overall budget for internal audit remaining the same. The resources allocated ensure that sufficient high risk areas are audited to allow the Head of Audit to provide an effective annual opinion on the internal control environment.
- 4.4 The proposed audit plan is presented in Appendix A. Risks referred to in the plan are those on the corporate risk register. The proposed plan has been agreed by the Council's Chief Finance Officer and reviewed by the Corporate Management Group. It has also been circulated to the Council's current external auditor, KPMG, and new external auditor for 2018/19 onwards, Moore Stephens. Where possible, the plan will reflect areas where external audit require audit assurance, if necessary adjustments can be made to the plan through the use of the contingency during the year.

5.0 Implications

Financial

- 5.1 There are minimal financial implications around the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money or strengthen financial controls.

Human Resource/Training and Development

- 5.2 Some audit recommendations need resources to put in place.

Community Safety

- 5.3 There are no implications relating to Internal Audit. However one audit in the 2018/19 plan relates to Community Safety.

Risk Management

- 5.4 Internal Audit identifies weaknesses in the control environment. Implementation of recommendations therefore improves the control environment and hence the management of risk.

Sustainability

- 5.5 There are no implications arising from this report.

Equalities

5.6 There are no implications arising from this report.

REPORT ENDS

Internal Audit Strategy and Proposed 2018-19 Plan

Appendix A – Proposed 2018/19 Internal Audit Plan

	Title	Source	Scope/notes	Indicative days
People				
<u>1</u>	Grants to Voluntary Organisations	Service Plan and discussions with CMG	Application Assessment and Award, Payments, Outcome and Compliance Monitoring	8
<u>2</u>	Community Safety	Service Plan	Strategy and Governance, Partnership Working, Data Sharing, Management of Anti-Social Behaviour	12
<u>3</u>	Homelessness	Service Plan and discussions with CMG	Homelessness Prevention and Advice, Application, Assessment and Review, May also include compliance with Homelessness Reduction Act	10
<u>4</u>	HMO and Selective Housing Licensing	Discussions with CMG	Identification and Assessment, Application Processing, Income Collection, Enforcement	10
<u>5</u>	New Vision Homes Contract Management	Risk Register (18) and discussions with CMG	Contract Formalities and Service Specification, Contract Performance Management, Payments, Financial Management	12
Place				
<u>6</u>	Building Control	Service Plan	Applications, Inspections, Fee Income and Financial Management, Enforcement, Dangerous Structures	10
<u>7</u>	Emergency Planning	Horizon Scanning and Risk Register (6)	Awareness and Training, Liaison with External Parties, Resources, Contracts and Service Level Agreements, Testing and Review, Communication	10
<u>8</u>	Waste Collection	Risk Register (18), Service Plan and discussions with CMG	Contract Formalities; Scheduled Collections; Ad Hoc Collections; Contract Monitoring and Performance Management; Payments.	2
<u>9</u>	Asset Management	Service Plan and discussions with CMG	Possible areas include Management of the Councils Asset Portfolio; Facilities Management; Planned and Reactive	12

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			Maintenance and Repairs; Health and Safety; Utilities Management.	
<u>10</u>	Air Quality Monitoring and Management	Discussions with CMG	Strategy and Policy, Monitoring and Management Information, Feedback into Council Activity and Policy	8
Us				
<u>11</u>	Freedom of Information Requests	Service Plan, Risk Register (16) and Discussions with CMG	Scheme of Publication; Recording and Processing of Requests; Exemptions; Appeals	8
Corporate				
<u>12</u>	Key Financial Control Testing - AP, AR, GL, Payroll, Treasury, Ctax, NNDR	Standing item	Testing of key financial controls in each financial system and continued implementation of continuous auditing	45
<u>13</u>	Sheerwater Regeneration Governance	Discussions with CMG and Risk Register (19)	Governance Structure, Strategy and Planning, Decision Making, Programme and Project Management, Management Information and Reporting	12
<u>14</u>	Group Companies	Risk Register (3) and Discussions with CMG	Operations and key internal controls of the group companies: Delegation of Authority; Income; Purchasing; Expenses; Payroll / employment; Financial Management	14
<u>15</u>	Business Continuity	Horizon Scanning and Risk Register (15)	Plans, Awareness and Training; Business Impact Analysis; Activation and Escalation; Recovery Procedures; Testing.	10
<u>16</u>	Supplier Resilience	Horizon Scanning	Advisory work on the Council's Planning, monitoring and response to supply chain failure	6
<u>17</u>	HR	Service Plan and Risk Register (4)	To include one of: Workforce Planning and Recruitment, PRP, Settlements (e.g. redundancy), Staff Performance Management	10

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IT Audit				
<u>18</u>	IT Strategy	Horizon Scanning and no recent audit coverage.	Strategy formulation;; Organisational design and Target Operating Model; Governance structure; Project portfolio/programme management.	10
<u>19</u>	Other IT audits to be confirmed by needs analysis	-	-	20
Other Work				
<u>20</u>	Follow up reviews	Ongoing	Follow up outstanding recommendations	10
<u>21</u>	Management	Ongoing	Including planning/assurance mapping for 18/19	20
<u>22</u>	Contingency	-	Contingency allowance	20
<u>23</u>	Head of Audit	Ongoing	Head of Audit days	24
TOTAL AUDIT DAYS				303

<<ReportRefNo>>

Agenda Item No. 8

STANDARDS AND AUDIT COMMITTEE - 8 MARCH 2018

APPOINTMENT OF EXTERNAL AUDITORS

Executive Summary

Following the closure of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

In December 2016 the Council agreed the recommendation of this committee to opt in to the sector wide procurement conducted by Public Sector Audit Appointments (PSAA) for the audit of the accounts from 2018/19 onwards.

The procurement has now been completed. The PSAA consulted on provisional appointments in the autumn of 2017, and confirmed these appointments on 19 December following approval by the PSAA board on 14 December.

Moore Stephens have been appointed as external auditors to the Council for the 5 years from 2018/19. There are no independence issues or other reasons that would have prevented this appointment. Moore Stephens will shortly begin working with the Council in preparation for the first audit next year. KPMG will continue in their role as external auditor until the audit of the 2017/18 accounts is complete.

The audit fee for 2018/19 is still subject to consultation, however, initial figures suggest a saving will be achieved. The procurement process has achieved on average a 18% saving in costs over all sectors.

Recommendations

The Committee is requested to:

RESOLVE That the appointment of Moore Stephens as the Council's external auditors from 2018/19 be noted.

The Committee has authority to determine the above recommendations.

Background Papers:

None.

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