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Date: 15 September 2025

Notice of meeting

Audit Committee

Date: Thursday, 25 September 2025

Time: 7.00 pm

Place: Council Chamber, Council Offices, Knowle Green, Staines-upon-Thames TW18

1XB

To the members of the Audit Committee

Councillors:

J. Button (Chair)

K. Howkins (Vice-Chair)

Neall

L. E. Nichols

H.R.D. Williams

P. Briggs

P.N. Woodward

S. Seehra

Substitute Members: Councillors M. Arnold, C. Bateson, J.R. Boughtflower and T. Burrell

Councillors are reminded that the Gifts and Hospitality Declaration book will be available outside the meeting room for you to record any gifts or hospitality offered to you since the last Committee meeting.

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

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Agenda

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1.	Apologies and Substitutes	
	To receive any apologies for absence and notification of substitutions.	
2.	Minutes	5 - 10
	To confirm the minutes of the meeting held on 10 July 2025.	
3.	Disclosures of Interest	
	To receive any disclosures of interest from Councillors in accordance with the Council's Code of Conduct for members.	
4.	Committee Forward Plan	11 - 14
	To consider and approve the work programme for the municipal year	
5.	Public Questions	15 - 16
	The Chair, or their nominee, to answer any questions raised by members of the public in accordance with Standing Order 40.	
	At the time of publication of this agenda 3 questions were received.	
6.	External Audit Quality Assessment	17 - 36
	Committee is asked to note arrangements for the pending external assessment of the Southern internal Audit Partnership against the Global Internal Audit Standards in the UK Public Sector.	
7.	Annual Internal Audit Report and Conclusion 2024-25	37 - 66
	The Committee is asked to consider and note the Annual Internal Audit Conclusion 2024-25.	
8.	Internal Audit Strategy	67 - 80
	The Committee is asked to note the Internal Audit Strategy 2025-28.	
9.	Internal Audit Progress Report	81 - 100
	The Committee is asked to:	
	 Note the Internal Audit Progress Report – August 2025 (appendix A); and 	

2. Approve the adjustments to the internal audit plan 2025-26.

10. Annual Governance Statement

101 - 128

The Committee is asked to review and approve the draft Annual Governance Statement as outlined in Appendix 1.

11. Value for Money Reports - BDO

129 - 186

The Committee is asked to consider the Value for Money report from BDO

12. Value for Money - Grant Thornton

Report to follow

13. Audit Committee Governance Arrangements

Verbal update

14. Corporate Risk Management (Corporate Risk Register)

Verbal Update



Minutes of the Audit Committee 10 July 2025

Present:

Councillor J. Button (Chair) Councillor K. Howkins (Vice-Chair)

Councillors:

Neall D. Saliagopoulos P.N. Woodward

L. E. Nichols H.R.D. Williams P. Briggs

31/25 Apologies and Substitutes

There were none.

32/25 Minutes

The minutes of the meeting held on 8 May 2025 were approved as a correct record.

33/25 Disclosures of Interest

The Committee noted as part of the CIPFA Audit Committee Self-Assessment Good Practice Guidance, chairs of the Council's policy committees were recommended not to be members of the Audit Committee. The Committee acknowledged this was not yet adopted and could be considered for future implementation.

Councillor Williams declared he was Chair of the Council's Business, Infrastructure, and Growth Committee.

34/25 Committee Forward Plan

The Committee considered its Work Programme for the remainder of the municipal year.

A member of the Committee queried items missing from the forward plan.

The Chief Finance Officer confirmed the Draft Statement of Accounts, and Value for Money reports from BDO should be on the agenda for the September meeting and strongly requested that a representative from BDO be asked to attend September's Committee meeting in person. Sinking Fund

Modelling would be added to the Forward Plan when an appropriate date was agreed with Commissioners.

It was agreed that the Chair would liaise with Committee Services to agree an additional date for the Committee to meet if September's agenda proved to be too heavy with items to discuss.

Resolved that the Committee Work Programme for the remainder of the municipal year be approved.

35/25 Internal Audit Charter 2025-26

The Committee considerd the Internal Audit Charter for 2025-2026.

The Deputy Head of the Southern Internal Audit Partnership updated the Committee on the amendments made since it was last presented to the Committee.

The Committee **resolved** to approve the Internal Audit Charter 2025-26.

36/25 Internal Audit Progress Report

The Committee received the Internal Audit Progress report from the South Internal Audit Partnership (SIAP), which outlined activity against the Internal Audit plan 2024/2025. The representative from SIAP advised that due to a delayed start to the year and challenges with officer capacity, the overall internal audit conclusion would be presented to a future committee. The Committee were provided with a summary of reports finalised, reports delivered in draft, and reports in-progress. Overall, it was predicted the anticipated overall conclusion would conclude with limited assurance on governance, risk and control. Summaries of completed audits would be provided to the Committee through the overall internal audit conclusion.

The Committee explored the reasons for delays. The Committee were provided assurance that work on the next year's audit was already being undertaken with a view to provide a final report earlier. The Committee noted the outstanding actions from previous audits and requested that a status update be provided to the next Committee.

The Committee **resolved** to agreed they had been informed and assured of Internal Audit Progress.

37/25 External Audit Plan

The Committee considered the External Audit Plan for year ending 31 March 2025 from Grant Thornton. The representative from Grant Thornton set out the planned scope of the external audit plan and significant identified risks, and highlighted where there had been delays. Part of the delayed work

related to the Draft Statement of Accounts, but work was underway with officers with a view to finish the work by December. Value for Money work had commenced for 24/25, and the team had met with Officers, Commissioners, and some councillors.

Members of the Committee explored risks identified in the plan and how they were being addressed. The Committee also acknowledged key issues raised in previous audits related to MRP and queried how the recommendation would be addressed. The Deputy Chief Executive advised additional expertise had been brought in to assist with producing the draft statement of accounts and addressing MRP to ensure the recommendation was fully addressed and resolved.

A member of the Committee expressed an interest in receiving an earlier progress report or assurance on a number of issues set out in the plan, and requested an interim progress report. Grant Thornton acknowledged they were required to follow-up on recommendations from previous reports to explore what processes had been put in place to address those recommendations.

The Committee **resolved** to agree the External Audit Plan for year ending 31 March 2025.

Meeting adjourned 20:48 Meeting reconvened 21:01

38/25 Corporate Risk Register (Corporate Risk Management)

The Committee received a report on the Corporate Risk Register from the Deputy Chief Executive. The report highlighted the Council's continued efforts to identify, monitor, and manage its most significant strategic risks in relation to the delivery of corporate priorities. There had been no changes to scores or RAG ratings since last presented. Another category regarding Contract Management would be added for presentation to the next Committee. The Committee acknowledged the Council was seeking advice regarding risk management that may impact on future format and presentation of the risk register and its presentation to other Committees.

Some members of the Committee commented on individual risks and their ratings and expressed concern that they should have a higher rating. The Deputy Chief Executive provided reasons behind the rating, but advised if there were any changes it would be re-evaluated. The Committee also acknowledged they had previously been provided with a comprehensive action plan addressing recommendations from various audits and reports, but this had not been provided. The Chair advised the Commissioners were reviewing the action plan, but it would be provided at a future meeting. This also coincided with the work on an Improvement and Recovery Plan.

The Committee **resolved** to consider the significant strategic risks and issues highlighted in this report and present these to the Corporate Policy and

Resources Committee, ensuring continued wider reporting of the Corporate Risk Register and actions across other Committees.

39/25 Update on Building Control

The Committee received an update from the Group Head – Place, Protection and Prosperty on the Council's Building Control Service and challenges. The Committee were provided with an overview of the status of Building Control services nationwide and its local impacts. An internal audit of the Council's service was also undertaken alongside an external audit from the Building Safety Regulator, both which highlighted areas for improvement. In anticipation of a letter of contravention and action plan, a number of actions had already been taken to address areas of concern. A further update would be provided when the external audit was received from the Building Safety Regulator.

The Committee explored the reasons the external audit may be unfavourable, especially in regard to the IT and quality management systems. The Committee requested further information regarding possible differences in the quality management systems in the private and public Building Control sector. The Committee acknowledged that following two audit reports regarding the Building Control service, assurance would need to be provided that a plan would be put in place to address any recommendations. The Group Head – Place, Protection and Prosperty assured the Committee that all threads from the audits would be pulled together alongside an action plan to be presented to the Committee.

The Committee **resolved** to note the update on the Building Control service and challenges.

40/25 Approach to Risk Management Training

It was proposed by Councillor Woodward, seconded by Councillor Howkins and **resolved** to exclude the public and press for the discussion of this agenda item, in accordance with paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended) because it was likely to disclose information relating to the financial of business affairs of any particular person (including the authority holding that information) and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Committee received a presentation regarding a review of the Council's Risk Management arrangements. The Committee were provided with the scope of the review which would focus on the Council's risk management policy and registers, review how risk was reported to committees, and seek to embed risk management across the Council's documents and policies. The review would seek to shift the focus on risk to provide assurance that the

governance arrangements in place should facilitate the Council's success, achievement and delivery.

Some members of the Committee expressed support for the approach. The Committee were assured that the Commissioners had engaged with the presenter, and political group leaders would be involved in providing steer.

In accordance with Standing Order 38.4, the meeting adjourned at 10.30pm.

41/25 CIPFA Audit Committee Self-Assessment

This item was considered after item 7, "External Audit Plan".

It was proposed by Councillor Woodward, seconded by Councillor Howkins and **resolved** to exclude the public and press for the discussion of this agenda item, in accordance with paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended) because it was likely to disclose information relating to the financial of business affairs of any particular person (including the authority holding that information) and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Committee received a presentation on undertaking a CIPFA Audit Committee Self-Assessment. The self-assessment would include a review of the effectiveness of the Audit Committee, how the Committee deals with guidance, and the Council's arrangements for risk management. The review would seek to address the recommendations from the Best Value Inspection and External Audit, consider any areas where the scope of the Committee's work could be strengthened, and identify areas for improvement and develop an improvement plan. This would be presented at a future meeting.

The Committee noted the guidance had been issued in 2022, but had not been incorporated into the Council's Audit Committee arrangements. This was something that could be considered as part of the self-assessment.

Councillor Saliagopoulos left the meeting 21:22.

It was proposed by Councillor Williams, seconded by Councillor Howkins and **resolved** to suspend Standing Orders for the meeting to continue until 10.30pm.

The actions that would be taken as part of the self-assessment, and how any recommendations would be dealt with would be presented to the Committee in the future.

The Committee **resolved** to approve commencing a Self-Assessment review of the Committee and associated arrangements against CIPFA Guidance and checklist and broader best practice for Audit Committees.

42/25 Argus Software Discussion

This item was not discussed and will be considered on the next agenda in accordance with Standing Order 38.4.



Spelthorne Borough Council Services Committees Forward Plan

This Forward Plan sets out the decisions which the Service Committees expect to take over the forthcoming months, and identifies those which are **Key Decisions**.

A **Key Decision** is a decision to be taken by the Service Committee, which is either likely to result in significant expenditure or savings or to have significant effects on those living or working in an area comprising two or more wards in the Borough.

Please direct any enquiries about this Plan to CommitteeServices@spelthorne.gov.uk.

Spelthorne Borough Council

Service Committees Forward Plan and Key Decisions for 1 July 2025 to 25 March 2026

Anticipated earliest (or next) date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 25 09 2025	Argus Software Discussion	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Corporate Policy and Resources Committee 08 09 2025	Corporate Risk Management	Non-Key Decision		Lee O'Neil, Deputy Chief Executive
Audit Committee	Action Plan to address Annual Audit Report	Non-Key Decision		Terry Collier, Deputy Chief Executive, Linda Heron, Group Head - Corporate Governance, Monitoring Officer
Audit Committee	Action Plan to address Audit Findings Report	Non-Key Decision		Terry Collier, Deputy Chief Executive, Linda Heron, Group Head - Corporate Governance, Monitoring Officer
Audit Committee 27 11 2025	Annual Assessment of Effectiveness of Internal Audit	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive, Linda Heron, Group Head - Corporate Governance, Monitoring Officer
Audit Committee 25 09 2025	Annual Governance Statement 2024-25	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 25 09 2025	Annual Internal Audit Conclusion	Non-Key Decision	Public	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Audit Committee	Consolidated Action Plan	Non-Key Decision		Terry Collier, Deputy Chief Executive, Linda Heron, Group Head - Corporate Governance, Monitoring Officer

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 25 09 2025	Corporate Risk Management	orate Risk Management Non-Key Decision		Lee O'Neil, Deputy Chief Executive
Corporate Policy and Resources Committee 13 10 2025				
Audit Committee 25 09 2025	Internal Audit External Quality Assessment To inform and assure members of SIAP's approach for the External Quality Assessment against the Global Internal Audit Standards.	Non-Key Decision	Public	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Audit Committee 25 09 2025	Internal Audit Progress Report	Non-Key Decision	Public	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Audit Committee 25 09 2025	Internal Audit Strategy To approve the Internal Audit Strategy.	Non-Key Decision	Public	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Audit Committee 25 09 2025	Value for Money Reports - BDO	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 21 10 2025	Draft Statement of Accounts	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Audit Committee 27 11 2025	Annual Review of Confidential Reporting Code	Non-Key Decision	Public	Linda Heron, Group Head - Corporate Governance, Monitoring Officer

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 27 11 2025	Corporate Risk Management	Non-Key Decision	Public	Lee O'Neil, Deputy Chief Executive
Audit Committee 27 11 2025	Improvement and Recovery Plan Progress Updates	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 24 02 2026	Audit Findings Report	Non-Key Decision	Public	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Audit Committee 24 02 2026	Corporate Risk Management	Non-Key Decision	Public	Lee O'Neil, Deputy Chief Executive
Audit Committee 24 02 2026	Draft Annual Audit Report	Non-Key Decision	Public	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Audit Committee 24 02 2026	Improvement and Recovery Plan Progress Updates	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 26 03 2026	Counter Fraud, Bribery and Corruption Strategy	Non-Key Decision	Public	Linda Heron, Group Head - Corporate Governance, Monitoring Officer

Audit Committee 25 September 2025

Questions Received from the Public

1. Question from Kath Sanders

As at time of writing (15th September), the draft statement of accounts for 2024/25 has not been published. It was due to be published on 30th June, and at the last Audit Committee meeting in July, the Council said that there was a delay and it would be published by the end of August. If it is not published for this Audit Committee meeting, what is the hold up please, and when will it be published?

2. Question from Kath Sanders

Context:

In the previous Corporate Risk Register report to this committee (dated June 2025), 14 risk areas were identified over 9 risk categories with an average "combined score" in June of just over 10 (out of a possible 16). Only one risk area had the RAG status of GREEN, and that was the Local Plan. The average combined "Future risk scores" showed the average combined score predicted to drop to just over 8, with none actually forecast to increase. This looked optimistic.

However, it is not clear from the detail which risk areas the officers consider to be the most significant to the Council as there were a number of risk areas with combined scores of 12 or 16 in June (and a RAG status of RED). However, the "commercial portfolio" and "reducing debt" risk areas had combined scores of only 9 in each case in June and were therefore seemingly not considered high risk (having a RAG status only of AMBER).

Question:

Does the Chair believe that the corporate risk to the Council is really reducing across the board (as the "Future risk scores" from the last report would indicate) or is the "Future risk score" more of an aspirational target?

3. Question from Kath Sanders

Context:

In addition, the covering report to the Audit Committee in July did not provide any commentary on the new risk category 9 amongst its "key headlines" detailed in para 2.5 - that being the response to external audit/best value inspection recommendations which carried a combined score of 12 - nor any text under "current mitigating actions" in the detailed report. Furthermore, the "Future risk score" in the detailed report for Risk Category 9 "Response to External Audit/Best Value Inspection Recommendations" was only perceived to be 6 in June.

Question:

Does the Chair agree that the "Changes in risk scores and other key updates" in the covering report for September's update properly highlight the main areas of concern?

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Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.

Stage 1
Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to		
briefing		
Commissioner engagement (if report focused on		
issues of concern to Commissioners such as		
Finance, Assets etc)		
Relevant Group Head review		
MAT+ review (to have been circulated at least 5		
working days before Stage 2)		
This item is on the Forward Plan for the relevant	Yes	23/03/25
committee		
	Reviewed	
	by	
Finance comments	TC	27/08/25
Risk comments		
Legal comments	LH	29/08/25
HR comments (if applicable)		

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2
Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	29/08/25
S151 Officer commentary – at least 5 working days before MAT	T Collier	27/08/25
Confirm final report cleared by MAT		

Audit Committee

25 September 2025

Title	External Quality Assessment
Purpose of the report	To inform
Report Author	Iona Bond, Deputy Head of Southern Internal Audit Partnership
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community
	Addressing Housing Need
	Resilience
	Environment
	Services
Recommendations	To note arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Global Internal Audit Standards in the UK Public Sector.
Reason for Recommendation	In accordance with the Global Internal Audit Standards in the UK Public Sector the Chief Internal Auditor is required to develop a plan for an external quality assessment.

1. Executive summary of the report

What is the situation	Why we want to do something
In accordance with the Global Internal Audit Standards in UK Public Sector the Chief Internal Auditor is required to develop a plan for an external quality assessment.	In accordance with the Global Internal Audit Standards in UK Public Sector the Chief Internal Auditor is required to develop a plan for an external quality assessment.
This is what we want to do about it	These are the next steps
Note arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Global Internal Audit Standards in the UK Public Sector.	To inform Management Team and Group Heads of the pending external assessment of the Southern Internal Audit Partnership against the Global

- Internal Audit Standards in the UK Public Sector.
- To inform Audit Committee of the pending external assessment of the Southern Internal Audit Partnership against the Global Internal Audit Standards in the UK Public Sector at the meeting of 25 September 2025.
- 1.1 This report provides an overview of arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Global Internal Audit Standards in the UK Public Sector.

2. Key issues

Contextual information

- 2.1 The mandate for internal audit in local government is specified within the Accounts and Audit [England] Regulations 2015, which states:
 - 'A relevant authority 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.'
- 2.2 From 1 April 2025, the 'standards or guidance' in relation to internal audit are those laid down in the Global Internal Audit Standards (GIAS), Application Note: Global Internal Audit Standards in the UK Public Sector (Application Note) and the Code of Practice for the Governance of Internal Audit in UK Local Government. The collective requirements are referred to as the Global Internal Audit Standards in the UK Public Sector (the Standards).
- 2.3 The Standards (8.3) require 'the Chief Internal Auditor to develop, implement and maintain a quality assurance and improvement programme that covers all aspects of the internal audit function. The programme includes two types of assessments:
 - External assessments
 - Internal assessments'.
- 2.4 The Southern Internal Audit Partnership's Quality Assurance and Improvement Programme is provided at Appendix A.
- 2.5 The Standards (8.4) require that 'the Chief Internal Auditor must develop a plan for an external quality assessment and discuss the plan with the Audit

Committee. The external audit assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external assessment may also be met through a self-assessment with independent validation.

Form of External Quality Assessment

- 2.6 There are two approaches to meeting the requirement of an External Quality Assessments.
 - A Full-scope External Quality Assessment (EQA) involves an independent and qualified Assessment Team. This is a more expensive option, as there is less work required by the Southern Internal Audit Partnership. The EQA is conducted in accordance with the Quality Assessment Manual with most of the work conducted by the Independent Assessment Team.
 - A Self-assessment with Independent Validation (SAIV) is where the Southern Internal Audit Partnership performs the "self-assessment" portion and an external, independent qualified validators review the selfassessment portion and provides their "independent validation." The SAIV is conducted in accordance with the requirements of the Quality Assessment Manual and the self-assessment team is responsible to execute all aspects of the requirements as defined therein. This is a more economical approach because the Southern Internal Audit Partnership compiles most of the work.
- 2.7 Both approaches include workpaper reviews, surveys, stakeholder interviews, and issuance of a report that provides a rating as identified by the Quality Assessment Manual, i.e., Full Achievement, General Achievement, Partial Achievement and Non-Achievement.

External Assessor

- 2.8 GIAS 8.4 sets out a requirement that when selecting the independent assessor or assessment team, the chief internal auditor must ensure at least one person holds an active Certified Internal Auditor designation.
- 2.9 The Relevant Internal Audit Standard Setters (RIASS) in their Application Note have determined that the qualification requirement in GIAS 8.4 (External Quality Assessment) should be replaced by a more comprehensive qualification requirement within the public sector.
- 2.10 The enhanced expectation within the public sector is that at least one person has the characteristics outlined for qualification as a chief internal auditor. The RIASS consider that such a person would normally have an understanding of the GIAS commensurate with the Certified Internal Auditor designation, including internal audit relevant continuing professional development and an understanding of how the GIAS are applied in the UK public sector. These matters must be considered as part of the selection process.

Independence

- 2.11 It is essential that there are no impairments to the independence of the external assessor or assessment team driven by past, present, or anticipated future relationships with the organisation, its personnel, or the Southern Internal Audit Partnership.
- 2.12 Appropriate due diligence has been carried out on the assessors and their assessments teams with which we have engaged to quote for the pending external quality assessment.

Scope & Frequency

- 2.13 There is a requirement that all internal audit providers undergo an external quality assessment performed by an independent and qualified assessor or assessment team at least once every five years to ensure conformance with the Standards.
- 2.14 It is permissible that more frequent external quality assessments are undertaken should this be considered necessary.
- 2.15 Given the requirement to supplement the external quality assessment with an annual self-assessment the outcomes of which will be fully and transparently reported to the Audit Committee, it is considered that an external quality assessment every five years remains a proportionate approach.
- 2.16 Should there be significant change to arrangements within the Southern Internal Audit Partnership including changes in leadership, operating model, methodologies or excessive staff turnover, the Head of the Southern Internal Audit Partnership will further engage with Senior Management and the Audit Committee to discuss whether an additional external assessment (within the 5-year timeframe) would be appropriate.
- 2.17 The scope of the external quality assessment will include a comprehensive review of the Southern Internal Audit Partnership's:
 - Conformance with the Global Internal Audit Standards in the UK Public Sector.
 - Mandate, charter, strategy, methodologies, processes, risk assessment and internal audit planning.
 - Performance measures and outcomes.
 - Qualifications and competencies including those of the Chief Internal Auditor.
 - Integration into the organisation's governance processes.
 - Contribution towards the organisation governance, risk management, and control processes.

- Contribution to the organisations operations and ability to attain its objectives.
- Ability to meet the expectations of stakeholders.

External Quality Assessment Providers

- 2.18 There are several organisations capable of providing external quality assessments, however, the requirement of public sector expertise does significantly limit the field. Consequently, the Head of Southern Internal Audit Partnership has engaged with the following providers to acquire details of approach and cost:
 - Chartered Institute of Public Finance and Accountancy (CIPFA)
 - JC Audit Training Ltd
 - BHBi (in partnership with Littlejohn and Haley).

External Quality Assessment Providers Discounted

- 2.19 A further credible source of assessment provider would be the Institute of Internal Auditors (IIA), however, due to the IIA having undertaken the Southern Internal Audit Partnership's external quality assessments in 2015 and 2020 this was not explored for our 2025 assessment as it is considered a fresh perspective on conformance and operating practices would be beneficial and mitigates any perceived impairment to independence.
- 2.20 The Global Internal Audit Standards do enable provision for reciprocal peer assessments rotated among three or more organisations within the same industry sector.
- 2.21 Due to their nature there would be no financial outlay in adopting this approach, however, there would be the opportunity costs of the Head of the Southern Internal Audit Partnerships time in reciprocating any peer review requested of the SIAP.
- 2.22 The independent status of the external assessment is paramount and there may be a perception that this is diminished as part of the peer review approach. As such the collaborative approach has not been explored further as part of this paper.

Implications for Multi Service Providers

- 2.23 The benefits of an EQA go beyond conformance with the GIAS. An EQA provides independent and objective assurance to internal audit stakeholders that the governance, management, and services of internal audit are meeting best practice and the needs of the organisation.
- 2.24 However, the introduction of new requirements in GIAS, such as the essential conditions placed on the audit committee and senior management, introduce

- practical challenges for multi-client providers (MCPs) such as the Southern Internal Audit Partnership which need to be considered.
- 2.25 The involvement of the audit committee and senior management can now present challenge for MCPs who have historically arranged one EQA to cover all clients. MCPs now need to consult with every audit committee they provide services to and provide individual reports, increasing the workload and costs which have not been previously factored.
- 2.26 There remains ongoing consultation, and we await further clarification in the spring/ summer, however, engagement with each of the potential assessor has made clear our operating model, position as a multi-client provider and need to ensure a robust process to demonstrate conformance on which all of our partner organisations can place reliance.

Recommended Approach

- 2.27 It is proposed that the Southern Internal Audit Partnership conduct their external assessment as a Self-Assessment with Independent Validation (SAIV) as outlined in paragraph 2.6.
- 2.28 The key drivers for the SAIV approach include:
 - It is a recognised approach within the Standards, meeting the requirements of an external quality assessment.
 - The approach requires external validation from an independent, qualified external assessor.
 - Provides a more economical approach as a majority of information gathering is completed by the Southern Internal Audit Partnership. This is particularly pertinent due to our multi-client provider status.
 - Minimises capacity implications for our Partners.

Next Steps

- 2.29 Following receipt of quotations from the providers (detailed in paragraph 2.18) a full assessment of proposals will be undertaken with appointment based on:
 - Cost.
 - Experience (profession and industry).
 - Qualification.
 - Independence.
 - Approach.
- 2.30 The successful provider will be commissioned to undertake the SAIV with a requirement for completion by December 2025.

- 2.31 The Southern Internal Audit Partnership have already compiled a full self-assessment against the Global Internal Audit Standards in the UK Public Sector during July / August 2025 in preparedness for the external assessor.
- 2.32 A copy of the external assessor report will be presented to the first meeting of the Audit Committee in 2026. Additionally, an action plan for review and approval will be presented by the Chief Internal Auditor to address any identified deficiencies or opportunities for improvement, if applicable.

Conclusion

2.33 To accord with the Global Internal Audit Standards in the UK Public Sector the Head of the Southern Internal Audit Partnership has put in place arrangements for a SAIV to be conducted during November / December 2025.

3. Options appraisal and proposal

3.1 To inform the Audit Committee of arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Global Internal Audit Standards in the UK Public Sector.

4. Risk implications

4.1 The absence of conducting an external audit assessment within the specified timelines will conflict with the expectation of the Global Internal Audit Standards of completing an EQA every 5 years.

5. Financial implications

5.1 There is no additional budget impact to the Council.

6. Legal comments

- 6.1 The Council is required to make proper provision for internal audit in accordance with the 1972 Local Government Act and the Accounts and Audit Regulations 2015.
- 6.2 The Council's internal audit function is required to comply with the Global Internal Audit Standards (GIAS), which standards are designed to ensure high quality and effective internal audit functions.
- 6.3 By completing the external review of the effectiveness of internal audit the Council will ensure compliance with the GIAS. In addition, this external review will provide assurance in respect of the quality and the effectiveness of the Council's internal audit function.

Corporate implications

7. S151 Officer comments

7.1 As S151 Officer, it is important to receive independent reassurance as to the effectiveness of the Council's internal audit support which plays a key role in supporting the S151 to undertake their responsibilities. The S151 Officer is supportive of the approach set out and does not have any issues with the proposed provider to undertake the SAIV.

8. Monitoring Officer comments

8.1 The Monitoring Officer confirms that the relevant legal implications have been taken into account.

9. Procurement comments

9.1 There are no procurement implications immediately arising from this report.

10. Equality and Diversity

10.1 Equality and diversity are key considerations that feature in the assessment of risk and audit needs.

11. Sustainability/Climate Change Implications

11.1 Sustainability is a key consideration and features in the assessment of risk and audit needs.

12. Other considerations

12.1 None.

13. Timetable for implementation

13.1 The SAIV will be completed by December 2025. The EQA will be applicable for the period 1 April 2026 – 31 March 2031.

14. Contact

14.1 Iona Bond, Deputy Head of Southern Internal Audit Partnership iona.bond@hants.gov.uk

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: There are none.

Appendices: Appendix A - Quality Assurance and Improvement Programme



Assurance through excellence and innovation

SOUTHERN INTERNAL AUDIT PARTNERSHIP

Quality Assurance & Improvement Programme

Prepared By: Neil Pitman, Head of Southern Internal Audit Partnership

June 2025

1. Introduction

The quality assurance and improvement programme [the QAIP] has been produced to evaluate the Southern Internal Audit Partnership [SIAP] conformance with the Global Internal Audit Standards in the UK Public Sector¹, achieve established performance measures, and pursues continuous improvement.

The programme includes the requirement for both internal and external assessments.

2. Relevant Standards

Standard 8.3 Quality - requires the Head of SIAP to develop, implement, and maintain a quality assurance and improvement programme that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments.
- Internal assessments.

At least annually, the Head of SIAP must communicate the results of the internal quality assessment to the Audit Committee (or equivalent) and senior management.

The results of the external quality assessments must be reported when completed. In both cases, such communications should include:

- The internal audit function's conformance with the Standards and achievement of performance objectives / measures.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.

The GIAS in the UK Public Sector includes 'Essential Conditions' that Audit Committees (or equivalent) and Senior Management should be aware of.

¹ The global Internal Audit Standards in the UK Public Sector conforms of the Global Internal Audit Standards, the Application Note: Global Internal Audit Standards in the UK Public Sector and the CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government (the Code)

Regarding the QAIP the essential conditions are as follows:

Audit Committee (or equivalent)

- Discuss with the chief internal auditor the quality assurance and improvement program.
- Approve the SIAPs performance measures at least annually.
- Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes:
 - Reviewing SIAPs performance objectives / measures, including its conformance with the Standards, laws and regulations; ability to meet the internal audit mandate; and progress towards completion of the internal audit plan.
 - Considering the results of SIAPs quality assurance and improvement program.
 - Determining the extent to which SIAPs performance objectives / measures are being met.

Senior Management

- o Provide input on SIAPs performance objectives / measures.
- Participate with the Audit Committee (or equivalent) in an annual assessment of the chief internal auditor and internal audit function.

3. External Quality Assessment [Standard 8.4]

The Head of SIAP must develop a plan for an external quality assessment and discuss the plan with the senior management and the Audit Committee (or equivalent).

The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

The Relevant Internal Audit Standard Setters (RIASS) in their Application Note have determined that the qualification requirement in GIAS 8.4 should be replaced by a more comprehensive qualification requirement within the public sector.

The enhanced expectation within the public sector is that at least one person has the characteristics outlined for qualification as a chief internal auditor.

The RIASS consider that such a person would normally understand the GIAS commensurate with the Certified Internal Auditor designation, including internal audit relevant continuing professional development and an understanding of how the GIAS are applied in the UK public sector. These matters must be considered as part of the selection process.

The essential conditions for the external quality assessment are as follows:

Audit Committee (or equivalent)

- Discuss with the chief internal auditor the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.
- Collaborate with senior management and the chief internal auditor to determine the scope and frequency of the external quality assessment.
 Consider the responsibilities and regulatory requirements of the internal audit function and the chief internal auditor, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the chief internal auditor's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
 - The scope and frequency of assessments.
 - The competencies and independence of the external assessor or assessment team.
 - The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.
- Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor.
- Review and approve the chief internal auditor's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the chief internal auditor's progress.

Senior Management

- Collaborate with the Audit Committee (or equivalent) and the chief internal auditor to determine the scope and frequency of the external quality assessment.
- Review the results of the external quality assessment, collaborate with the chief internal auditor and Audit Committee (or equivalent) to agree on action plans that address identified deficiencies and opportunities for improvement, if applicable, and agree on a timeline for completion of the action plans.

4. Internal Quality Assessment [Standard 12.1]

The Head of SIAP must develop and conduct internal assessments of the internal audit function's conformance with the Global Internal Audit Standards in the UK Public Sector and progress toward performance objectives / measures.

The Head of SIAP must establish a methodology for internal assessments that includes:

- Ongoing monitoring of SIAPs conformance with the Standards and progress toward performance objectives / measures.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- Communication with the Audit Committee (or equivalent) and senior management about the results of internal assessments.

Based on the results of periodic self-assessments, the Head of SIAP must develop action plans to address instances of nonconformance with the Standards and opportunities for improvement, including a proposed timeline for actions.

Internal assessments must be documented and included in the evaluation conducted by an independent third party as part of the external quality assessment.

If nonconformance with the Standards affects the overall scope or operation of the internal audit function, the Head of SIAP must disclose to the Audit Committee (or equivalent) and senior management the nonconformance and its impact

5. On-going Monitoring

Whilst periodic internal self-assessments and external quality assessments are a key expectation of the GIAS in the UK Public Sector, the SIAP aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This is achieved through a range of initiatives including:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success
- On-going development of a constructive working relationship with other assurance providers to maintain a cooperative assurance approach.
- A tailored audit approach using a defined methodology and assignment documentation.

- Review and quality control of all internal audit work through key review gateways within the audit process by professional qualified senior staff members.
- Regular one to one meetings between staff and line management to monitor performance
- On-going performance management (through the Valuing Performance Framework)
- Quarterly reporting to the Audit Committee (or equivalent) and senior management which includes progress against the internal audit plan, summaries of key issues, monitoring of the implementation of management actions and updates on internal audit performance measures.

6. Communication of QAIP Progress and Outcomes

In accordance with the GIAS in the UK Public Sector the chief internal audit will communicate the outcomes of the quality assurance and improvement programme to the Audit Committee (or equivalent) and senior management and will include as a minimum:

- The outcome of internal quality assessments
- The outcome of external quality assessments
- Any non-conformance with the GIAS in the UK Public Sector
- Actions to address any potential areas of non-compliance with the GIAS in the UK Public Sector
- Quarterly updates (through the Internal Audit Progress Report) of the SIAPs performance measures

7. QAIP Action Plan

The Quality Assurance & Improvement Programme - Action Plan at Appendix A presents SIAPs plans to address areas of non-compliance with the GIAS in the UK Public Sector and opportunities for improvement.

Updates on progress against the implementation and outcomes of actions will be presented periodically to the Audit Committee (or equivalent) and Senior Management.

Quality Assurance & Improvement Programme – Action Plan

Ref.	Action	Action Owner	Target Date	Detail
Non	-Conformance with the GIAS in the UK Public S	Sector		
N/A	N/A	N/A	N/A	N/A
Орр	ortunities for Improvement			
1	Work with partners organisations to facilitate completion of action plans to implement the expectations of the Code of Practice for the Governance of Internal Audit in Local Government	SMT	Dec 25	CIPFA has developed the Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit. The Code is designed to work alongside new internal audit standards and is aimed at those responsible for ensuring effective governance arrangements for internal audit: The body or individual charged with governance – this includes the police and crime commissioner and chief constable (corporations sole) in policing or full body of the authority. The audit committee, the primary committee that may hold some delegated responsibilities towards internal audit. Senior management of the authority, including the statutory officers, head of paid service, monitoring officer and section 151/section 95 officer that hold responsibilities for governance. SIAP have developed an action plan to work with each of our Partners to both raise awareness of the CoP and to facilitate the implementation of key actions to enhance compliance at an organisational level

Ref.	Action	Action Owner	Target Date	Detail
2	Further explore the 'should' and 'may' aspects of the GIAS to optimise good practice. Extend to review 'Topical Requirements' which are not considered mandatory within the public sector	Neil Pitman, Head of SIAP / SMT	Aug 26	The Standards use the words 'should' and 'may' to specify common and preferred practice (non-mandatory). Initial focus has been placed in ensuring SIAP have in place the mandatory requirements. Work to be undertaken to optimise the full potential of the GIAS to enhance the SIAP offer.
3	Continue to develop K10 to optimise SIAP efficiencies and effectiveness.	Peny Knowles, Deputy Head of SIAP / Keith Phillips, Assistant Head of SIAP	Apr 26	A new internal audit software solution was implemented in April 2024. Significant progress has been made to configure the system to optimise efficiencies and user experience. Work continues to enhance the software to complement the requirements of GIAS in the UK Public Sector and to streamline processes. O Touch button report (assignment, progress, action tracking, monitoring etc.) O Automated action tracking (HCC as pilot) O Performance measure reporting O Al functionality
4	Review and update the Partnership website	Neil Pitman, Head of SIAP	Apr 26	Coordinate a Task & Finish Group to review and update the SIAP website and organisational intranet sites to ensure they are reflective of existing practices and operate as an appropriate shop window for stakeholders (existing and potential).
5	Explore the opportunities presented from the use of AI in the audit process	Neil Pitman, Head of SIAP	Aug 26	The evolution of AI presents a range of opportunities to enhance and breed efficiencies into internal audit processes. In particular: O Report writing O Risk identification O Foresight O Identification of themes / trends

Appendix B

Southern Internal Audit Partnership – Performance Measures

	Performance Measure	Regularity	Target
1.	Percentage of the agreed audit plan completed (issue of draft / final report)	Ongoing	90%
2.	Audits delivered within agreed timescales (% year to date)		1
	o To issue of draft report	Ongoing	80%
	 To issue of final report 	Ongoing	80%
3.	Conformance with the Global Internal Audit Standards in the UK Public Sector	Annual	Conforms
4.	Audits conducted optimising the effective use of data analytics (% year to date)	Ongoing	60%
5.	Stakeholder satisfaction (annual survey)		1
	o Audit Committee		90%
	Senior Management	Annual	90%
	o Key Contacts		90%
6.	Internal audit effectively communicates with key stakeholders		
	o Audit Committee		90%
	o Senior Management	Annual	90%
	o Key Contacts		90%
7.	Sufficiency of input to and discussion of the internal audit plan		
	o Audit Committee	Annual	90%
	o Senior Management	Aililuai	90%
8.	Appropriate focus on key risks		
	o Audit Committee		90%
	o Senior Management	Annual	90%
	o Key Contacts		90%

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1`Audit Committee

25 September 2025



Title	Annual Internal Audit Conclusion 2024-25
Purpose of the report	To consider and note the Annual Internal Audit Conclusion 2024-25.
Report Author	Natalie Jerams, Deputy Head of Southern Internal Audit Partnership
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	To consider and note the Annual Internal Audit Conclusion 2024-25.
Reason for Recommendation	In accordance with the Internal Audit Charter, the Audit Committee is required to consider the Annual Internal Audit Conclusion of the Chief Internal Auditor.

1. Summary of the report

What is the situation	Why we want to do something
In accordance with the Public Sector Internal Audit Standards (as relevant to 2024/25) the Chief Internal Auditor is required to provide an Annual Conclusion including an opinion on the framework of governance, risk management and control.	The Annual Internal Audit Conclusion can be used by the Council to inform their Annual Governance Statement for 2024-25. The annual audit conclusion culminates in an overall opinion on the adequacy and effectiveness of the organisations' framework of governance, risk management and control.
This is what we want to do about it	These are the next steps
Consider and note the Annual Internal Audit Conclusion 2024-25.	For Management Team and Group Heads to review and note the Chief

- Internal Auditor's Annual Conclusion for 2024-25.

 For Audit Committee to consider and note the Annual Internal Audit Conclusion for 2024-25.

 For the organisation to consider the report to help inform their Annual Governance Statement 2024-25.
- 1.1 The purpose of this paper is to present the Annual Internal Audit Conclusion for 2024-25 (Appendix A) in accordance with the requirements of the Public Sector Internal Audit Standards.

2. Key issues

- 2.1 Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:
 - ensuring that its financial management is adequate and effective and that
 it has a sound system of internal control which facilitates the effective
 exercise of functions and includes arrangements for the management of
 risk, and
 - undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.
- 2.2 The Annual Internal Audit Conclusion for 2024-25 provides the Chief Internal Auditor's opinion on the effectiveness of the framework of governance, risk and control and summarises audit work from which that opinion is derived for the year 2024-25.
- 2.3 The Audit Committee's attention is drawn to the following points:
 - Internal audit was compliant with the Public Sector Internal Audit Standards during 2024-25;
 - The revised internal audit plan for 2024-25 has been substantially delivered to draft report; however not all have been finalised; and
 - The Council's framework of governance, risk management and management control are considered to be 'Limited'.

3. Options analysis and proposal

3.1 To consider and note the Annual Internal Audit Conclusion 2024-2025.

4. Financial management comments

4.1 To be populated

5. Risk management comments

In delivery the programme of audit work for 2024-25 the Chief Internal Auditor has ensured that a risk-based approach has been applied in line with audit standards and focussed on areas of higher priority that align with corporate priorities and objectives. Consideration has been given to current and emerging risks (and opportunities) facing the Council during 2024-25.

6. Procurement comments

6.1 None

7. Legal comments

7.1 To be updated.

8. Other considerations

8.1 None

9. Equality and Diversity

Equality and diversity are key considerations that feature in the assessment of risk and audit needs.

10. Sustainability/Climate Change Implications

10.1 Sustainability is a key consideration and features in the assessment of risk and audit needs.

11. Timetable for implementation

11.1 Applicable for the period 1 April 2024 – 31 March 2025

12. Contact

12.1 Natalie Jerams, Deputy Head of Southern Internal Audit Partnership natalie.jerams@hants.gov.uk

Background papers: None

Appendices:

Appendix A - Annual Internal Audit Conclusion 2024-25



Southern Internal Audit Partnership

Assurance through excellence and innovation

SPELTHORNE BOROUGH COUNCIL

Annual Internal Audit Conclusion 2024-2025

Prepared by: Natalie Jerams, Deputy Head of Partnership

August 2025

1. Internal Audit Standards

With effect from 1 April 2025, the 'Standards' against which internal audit within the public sector must conform are those laid down in the Global Internal Audit Standards, Application Note: Global Internal Audit Standards in the UK Public Sector and the Code of Practice for the Governance of Internal Audit in UK Local Government. The collective requirements are referred to as the Global Internal Audit Standards in the UK Public Sector.

The Southern Internal Audit Partnership have made all necessary adaptions to its processes, procedures and practices to ensure it is best placed to conform with these requirements with effect from 1 April 2025.

Prior to 1 April 2025 conformance was required with the Public Sector Internal Audit Standards (PSIAS). Consequently, in fulfilling the audit mandate and delivery of internal audit service for the purposes of the 2024-25 annual conclusion the PSIAS remain the relevant Standards.

2. Internal Audit Mandate

The mandate for internal audit in local government is specified within the Accounts and Audit [England] Regulations 2015, which states:

- '5. (1) A relevant authority 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.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—
 - (a) make available such documents and records; and
 - (b) supply such information and explanations

as are considered necessary by those conducting the internal audit.'

The role of internal audit is best summarised through its definition within the Standards as:

'An independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.'

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

3. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and advisory activities. Assurance work involves objective assessment of how well systems and processes are designed and working, with advisory activities available to help to improve those systems and processes where necessary whilst not assuming any management responsibilities.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- o Significance of the objectives under review to the organisation's success.
- o Risks inherent in the achievement of objectives.
- o Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

A full range of internal audit services is available in forming the annual audit conclusion:



The Southern Internal Audit Partnership maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our partners, with the necessity to provide comprehensive, compliant and value adding assurance.

We have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork, however, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

4. Internal Audit Coverage

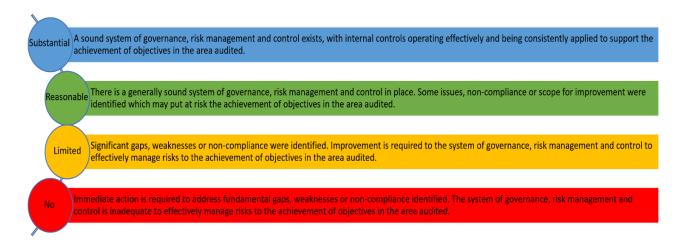
The internal audit plan is prepared taking account of the characteristics and relative risks and objectives of the Council and to support the preparation of the Annual Governance Statement. Work has been planned and performed to establish if sufficient evidence is available to provide reasonable assurance that the framework of governance, risk management and internal control is operating effectively.

The 2024-25 internal audit plan was considered by the Audit Committee in July 2024. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to organisational objectives / priorities and the key risks facing the organisation.

Any changes to the plan throughout the year have been reported to the Audit Committee through our regular internal audit progress reports.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of governance, risk management, and control designed to support the risks to the achievement of management objectives of the service area under review.

The assurance opinions are categorised as follows:



5. Resources

The Southern Internal Audit Partnership has a strategy in place to optimise internal audit resource. Ongoing sufficiency of resources (financial, human and technological) are transparently communicated to senior management and the Audit Committee through regular reporting as part of the approval of the internal audit plan and further throughout the year as part of the progress reports and ultimately within the annual conclusion.

Due to the Best Value Inspection, the internal audit plan was more heavily weighted to Q3 and Q4 in acknowledgement of officer capacity and the avoidance of potential areas of duplication during this period. Correspondence received by the Council on 22 August 2024 from the Ministry of Housing Communities & Local Government (MHCLG) indicated the anticipated completion date of the Best Value Inspection to be 29 November 2024. However, the Council were advised that the Inspection would continue until the end of January 2025 where the inspectors would then feedback to the MHCLG and a report will follow. The absence of a fully resourced inspection team not being in place until 17 October 2024 was understood to be the primary driver for the delayed completion date.

The Best Value Inspection has now concluded with the Council receiving a letter from the Minister on 17 March 2025 outlining the next steps for the authority and the appointment of commissioners in May 2025.

We have continued to work with management to maintain a level of flexibility in our approach to deliver the internal audit plan over the remainder of the year. In doing so, five reviews required deferral.

We have experienced delays in completing the 2024-25 internal audit plan due to Council officer's capacity to engage with the internal audit process and respond promptly to internal audit reports. Whilst I am able to provide an overall annual conclusion for 2024-25, many of the audit reports are at draft or draft final stage and one audit remains work in progress (Contract Management).

One further review of Data Backup and Disaster Recovery has been delayed due to the availability of IT audit specialism within the Southern Internal Audit Partnership. Both reviews will be incorporated within the 2025-26 annual conclusion.

6. Independence

As your chief internal auditor, I retain no roles or responsibilities that have the potential to impair my independence, either in fact or appearance. Internal auditors engaged in the delivery of the 2024-25 internal audit plan have had no direct operational responsibility or authority over any of the activities reviewed.

Provision was made in respect of the Risk Management review to engage a wholly independent Audit Manager from within the Southern Internal Audit Partnership who had no prior involvement with the Council's risk management process.

I can confirm there has been no interference encountered by the Southern Internal Audit Partnership related to the scope, performance, or communication of internal audit work during the year in the delivery of the internal audit plan or the fulfilment of the internal audit mandate.

7. Impairments

There have been no impairments to internal audit activity during the year. As chief internal auditor I have ensured that the internal audit function has remained free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication.

The internal audit team have maintained an unbiased mental attitude allowing them to perform engagements objectively enabling them to believe in their work product, with no compromise to quality, and no subordination to their judgment on audit matters, either in fact or appearance.

8. Limitations of Scope

As referenced in section five of this report, five audits (Corporate Plan, Council Tax, Health & Safety, Affordable Housing/Homelessness and Best Value – Post Inspection) were removed from the 2024-25 internal audit plan due to insufficient officer capacity within the Council. Therefore, there have been some limitations to the breadth of internal audit work during the course of the year.

9. Internal Audit Conclusion

As chief internal auditor, I am responsible for the delivery of an audit conclusion that can be used by the Council to inform their Annual Governance Statement. The annual audit conclusion culminates in an overall opinion on the adequacy and effectiveness of the organisations' framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- o written reports on all internal audit work completed during the course of the year (assurance & advisory).
- o results of any follow up exercises undertaken in respect of previous years' internal audit work.
- o the results of work of other review bodies where appropriate.
- o the extent of resources available to deliver the internal audit work.
- o the quality and performance of the internal audit service and the extent of compliance with the Standards.
- o the proportion of the Council's audit need that has been covered within the period.

Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by the Audit Committee and senior management to ensure that ongoing organisational improvements can be achieved.

Annual Internal Audit Conclusion 2024-25

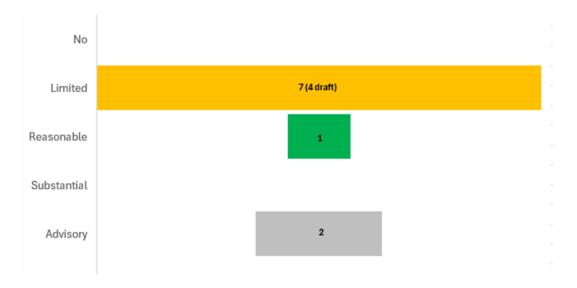
I am satisfied that sufficient assurance and advisory work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment. In my opinion the framework of governance, risk management and control are **'limited'**.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

10. Governance, Risk Management & Control – Overview, Key Observations & Themes

Audit work completed in 2024-25

The work undertaken throughout the year is summarised in the chart below, with the risk-based assurance work categorised by assurance opinion. Significant findings from our reviews have been reported to senior management and the Audit Committee.



^{*}A draft report of risk management was issued on 4 June 2025, a meeting to discuss findings and agree factual accuracy has been convened for 5 September 2025

Governance

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes overview of:

- o the governance structure in place, including respective roles, responsibilities, and reporting arrangements.
- o relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved, and appropriately publicised and accessible to officers and staff.

In addition, we also completed an advisory review on the CIPFA Financial Management Code and Best Value Indicators for Use of Resources which highlighted some areas for consideration for future self-assessments.

During 2024-25 we also undertook a review of Savings Realisation which concluded with a limited assurance opinion. The scope of this audit focussed on the governance mechanisms in place for delivery and reporting of the 2024/25 £2.1m redundant budget savings stream, the £355k cashable savings stream, and, also, to review progress against realising the Business Improvement/Digital Transformation savings stream. We also reviewed progress made to identify additional savings streams which would contribute towards closing budget funding gaps in the MTFP.

Positively we found that throughout 2024-25 that Service Accountants met regularly with budget-holders to review actuals against budget and record the reasons for material variances.

However, we found that records are not kept in a format which confirms how reported savings activity was achieved or its impact on reducing MTFP budget funding gaps.

2024-25 savings of £2.1m reported to the Corporate Policy & Resources Committee (CPRC) as achieved mainly through the removal of redundant budget lines in February 2024 were a mixture of cost reduction and income generation activity which required adjusted budgets to be met for savings to be realised. No record was kept to evidence that budget-holders had agreed these targets or confirm how they could be substantiated or that budget codes had been amended, or to confirm whether cumulative related savings had been applied to the MTFP. While audit analysis suggests 28% of these savings were not achieved, there was no targeted analysis or reporting carried out to advise CPRC of progress.

A similar approach has been taken in relation to additional cost reduction and income generation activity of £1.246m applied to the 2025-26 base budget. However, unlike in 2024-25, cumulative related MTFP savings of £4.9m were reported to CPRC, but it is unclear how they have been applied to the MTFP.

Additional cashable savings of £355k in 2024-25 and £3.1m across the MTFP were identified to CPRC in February 2024. While Finance maintained a tracker spreadsheet confirming how realised savings had been achieved, it did not fully identify how savings were initially agreed, fully substantiate how achieved savings had been realised, or where they were posted in the general ledger, with no methodology followed to align achieved savings with savings budgets. Reports to CPRC only referenced shortfalls rather than the reasons and impact of shortalls, and no reference to the MTFP target of £3.3m was made after quarter 1. Additional cashable savings totalling £656k in 2025-26 identified to CPRC in February 2025 did not reference cumulative savings across the MTFP, clarify how the £656k savings had been applied to the 2025-26 budget, or substantiate how the non-vacancy element of £156k had been arrived at. The 2025-26 Finance tracker spreadsheet does not fully identify how savings were initially agreed or who with, fully substantiate how achieved savings have been realised, and no methodology is in place to align realised savings with the savings budgets within the general ledger.

Since November 2023, minimal savings relating to the £1.15m Business Improvement/Digital Transformation savings stream reported to CPRC in November 2023 have been realised, and there is no process in place to ensure business improvement savings recorded as cashable savings through 2024-25 are not also reflected in this figure. While a Reorganisation and Transformation Board has been established, it does not assign responsibility for the digital transformation savings stream at an individual level.

The Corporate Risk Register presented to CPRC in May 2025 did not contain the failure to deliver savings plans or the failure to report upon progress against realising savings plans as specific risks.

Strategic responsibility for co-ordinating savings plans has not been assigned and there is no savings strategy or process documentation in place to confirm the expected approach to savings realisation.

The Deputy Chief Executive and S151 Officer has created a tracker spreadsheet listing revenue savings plans not already reflected in the MTFP, potential revenue savings from the disposal of capital assets, and identifying the adjusted cumulative MTFP budget-funding gap. While the creation of the tracker is a positive step, there is not yet assurance it reflects all potential savings streams still to be reflected in the MTFP.

Risk management

A review of the risk management arrangements for the Council was carried out during 2024-25.

At the time of writing the annual conclusion the audit remains at draft report stage. An initial management response has been provided by the Deputy Chief Executive on 18 August 2025 which advises that the Council have engaged with an industry expert to review the Council's Risk Management Framework and Policy, including all processes and systems in relation to risk management, to adapt them to a governance assurance approach to risk management. The full outcomes of this audit will be shared within a future internal audit progress report once factual accuracy has been agreed, and the report finalised.

Control

Internal audit work found some areas where a sound control environment is in place and were working effectively to support the delivery of corporate objectives. However, there are a significant number of areas of challenge to the Council's control environment from the internal audit coverage during the year, these are outlined below:

Procurement – Limited Assurance (Draft - factual accuracy agreed)

The purpose of the audit was to seek assurance that procurement across the Council was being carried out in compliance with the Council's Contract Standing Orders and procurement legislation that was in place at the time of the audit.

Positively, for a sample of procurements over £40,000 where the procurement team were made aware, we found that they were advertised appropriately, had a specification and tenders were evaluated in line with Contract Standing Orders (CSOs).

As part of the preparation for the implementation of the Procurement Act 2023, with effect from 24 February 2025, the Council's Contract Standing Orders required review and updating to ensure compliance with the requirements of the Act. We found that although the table of "Contract Standing Orders Procedural Rules" has been updated to comply with the Procurement Act 2023, the rest of the document has not.

Whilst the Council has a comprehensive suite of procurement procedures that are published on the Council's website, our review of the documents identified that they had all been drawn up in 2021 or 2022, and there was no evidence that they had been reviewed since, and in particular in preparation for the Procurement Act 2023. At the time of the audit, the Corporate Procurement Manager was in the process of reviewing the procedures, however these had not been formally approved for publication.

Actions required to be completed in preparation for the implementation of the Procurement Act 2023 (which came into effect in February 2025) have not been defined and consolidated to ensure that all required actions can be monitored through to completion.

Although we were provided with evidence that training sessions were held with members and officers in preparation for the implementation of the Procurement Act 2023, we were not provided with a list of attendees at these sessions, therefore we cannot confirm that all relevant officers have been trained on new procurement requirements.

Testing of a sample of spend found several instances of non-compliance with CSOs. Further to this, there is no analysis of spend carried out by the Procurement Team to identify instances of non-compliance with CSOs. We also found that the number of exemptions has risen over the years, and over £2m of goods and services have been obtained through the exemption route between 2020 and 2023.

Although there is a contract register in place that is published on the Council's website, at the time of the audit this was found to be dated August 2024 so was not up to date. Additionally, a number of contracts had not been included in the contract register, and errors in dates for review were found in three contracts recorded.

A procurement project plan is in place to record details of procurement projects underway, completed or paused, however significant amounts of information are missing from the spreadsheet, which limits its usefulness. We also found that three of the five tenders selected for testing had not been included in the plan.

The Council's CSOs require an annual schedule of contract management audits to be proposed by the Procurement Manager and carried out by the Procurement Team. We were unable to confirm that this was being carried out.

Tree Maintenance – Limited Assurance

The purpose of the audit was to seek assurance that Council owned trees are managed and maintained to ensure public safety and support environmental obligations.

The Group Head Neighbourhood Services is suitably experienced to enable strategic and operational oversight in the niche area of horticulture. In addition, the Council have a wider pool of trained staff and specialist contractor support to undertake and manage tree maintenance activities, so they are multi disciplined to allow for coverage if someone is absent for an extended period. We requested training records of those who assist with tree related activities and found some training certificates have expired and therefore their training has become out of date.

The Council enhance biodiversity in parks and open spaces by planting new trees where possible and by planting wildflowers. This is outlined within the Council's Corporate Plan 2024-2028, including specific actions to promote biodiversity. Whilst the Council has a tree policy in place which is available on the Council's website, they do not have an overall tree strategy which highlights the techniques used to prolong the lifespan of trees, or the length of time to resolve remedial tasks identified and how this should be prioritised.

Since 2017 an employed officer has been managing trees seeking professional guidance from contractors and the Council's own Tree Officer. At this point a tree inspection programme commenced, including initiation and commissioning of tree surveys. There is currently no central database detailing all trees within the borough's public spaces, however a record of sites across the borough is held which includes the name of each site, the last survey date and when it is next due. Our review of the site record found that there are a number of sites that are overdue a survey and a number of sites that do not include any details against them and therefore it is not possible to provide assurance that the Council maintain a clear awareness of the trees stock and its condition for which it is responsible. It is also not possible to determine how overdue these inspections are. We were advised that as sites are surveyed they are added to the record and therefore we are also unable to provide assurance that this is a complete list of all sites across the borough.

The Council do not have a documented process regarding the approach to tree maintenance including frequency of inspections, how sites are prioritised, remedial actions etc. In the absence of a documented process, we were advised that the Council follow the recommendation made by the National Tree Safety Group which recommends inspections are completed every three to five years and therefore sites are completed on a five yearly inspection. We found that there is no risk assessment carried out across the sites to determine if some sites require a more frequent inspection due to higher footfall in the area etc. From our review of the central site record maintained compared to a sample of individual site inspection records we also found that the frequency for next inspections differed on the individual site records to that on the overall site record with many showing a shorter timeframe between reinspection. Therefore, the records maintained are inconsistent.

There was no documented process, or procedure notes available to detail expectations or instruction for the role(s).

SDS Commercial Waste – Limited Assurance (Draft, factual accuracy agreed)

The purpose of the audit was to review the Council's governance and reporting arrangements in relation to Spelthorne Direct Services (SDS), the governance structures around SDS Board of directors and to ensure that reporting is completed through to the relevant Council committee. In addition, the SDS subsidiary company risks were reviewed to confirm how these are managed to support continued service delivery.

The Council's constitution does not clearly articulate the process of how the Shareholder Representative is required to report on their delegated powers.

There has been no finalised and signed Shareholder Agreement in place since the incorporation of Spelthorne Direct Services in June 2020. It is acknowledged that the Shareholder Agreement was being reviewed in January 2024, however, as at the date of the audit there was no final version available.

None of the key contacts for the review could clarify who the 'Proper Officer' was as referenced in the draft Shareholder Agreement. This is a pivotal role as it is defined as 'the individual authorised on behalf of the shareholder with regard to matters requiring shareholder approval'.

In the absence of clarity regarding who the Proper Officer is as referenced in the Shareholder Agreement, assurance cannot be provided that conflicts do not exist. Further to this, discussion to identify how potential conflicts of interest around dual roles are captured confirmed that there was no conflict of interest register for the company in which to capture potential conflicts.

The Board of Spelthorne Direct Services meet regularly in accordance with the draft Shareholder Agreement. Testing confirmed through review of agendas and minutes the meetings convened for July, August, September, and October 2024. Whilst positive steps have been taken to appoint a Councillor to sit on the Board, it is noted that the appointed Councillor also sits on the Audit Committee. Holding a role that involves potential oversight and scrutiny of the entity could be viewed as a conflict.

The Articles of Association reviewed did not include the entity's constitution and addressing purpose or conduct of meetings.

There is no explicit reference within the Shareholder Agreement or the Articles of Association of an expectation that directors' behaviours are aligned with the requirements of the Companies Act 2006, the Nolan Principles, or the Cabinet Office's Code of Conduct for Board Members of Public Bodies.

There were no terms of reference for the Board made available, consequently we have been unable to provide assurance over their relevance or conformance.

No up-to-date business plan was evident and therefore we cannot provide assurance that it is reflective of the current circumstances and environment in which the entity operates or how objectives are to be resourced and achieved.

Risk management documentation was in its infancy and did not cover inherent/ residual risk, or risk appetite. Risk management is not scheduled for regular review of content.

Not all Council charges that support Spelthorne Direct Services are fully captured within the cross-charges spreadsheet.

Accounts Receivable & Debt Management – Limited Assurance (Draft, factual accuracy agreed)

The purpose of the audit was to review the internal framework of control for the accounts receivable and debt management process, from the receipt of invoice request through to collection of the debt or write off. The focus of the audit was to review the sundry debt process only, with other forms of debt such as council tax and business rates excluded from the scope of this audit.

Currently, the same authorisation process for raising credit notes is that for the initial raising of the invoice. Therefore, there is no segregation of duties between the raising of invoices and credit notes.

Corporate debt meetings are held bimonthly with Group Head representation to discuss the financial position and debt levels for each area including write offs. Whilst we found evidence of aged debt reports being created and issued to Group Heads in advance of the corporate debt meetings our review of the reports showed limited analyses is undertaken of the debt to support future actions.

There is currently no practice in place to check if reminder letters have been issued at the appropriate time. Our testing found inconsistencies regarding the timeframes of issuing reminder letters. Further to this, whilst the Council has the capability to input holds

(suppressions) on accounts to stop reminder letters being generated when required, we were advised that other than personal diary reminders there is no set process or report regularly run to review cases on hold. Whilst the number of invoices held were minimal (27 totalling £14,508.86), approximately half of these invoices have been on hold between 12 to 21 months at the time of the audit.

Sundry debt invoices raised by the sales ledger team within Customer Services, are supported by the request received from the relevant service area, either with a 'Sundry debt request form' or a spreadsheet for batch invoices. As the sales ledger team receive an email including an invoice request form, they manually transfer this into the Civica work trays to initiate the raising of an invoice. There is no current practice that would identify if an invoice were lost during this process and whilst budget monitoring carried out by the service areas could identify income due that has not been raised or collected, smaller invoices could easily go unidentified.

We reviewed the debt recovery policy of April 2025, approved by the Deputy Chief Executive in May 2025, as well as financial regulations, and whilst we found evidence to show that roles and responsibilities in terms of write offs are specified, there is no evidence of any rules or principles being set to give guidelines for agreeing payment plans or to define the process and approval required for invoice cancellations (credit notes).

We were provided with a spreadsheet highlighting all write offs processed within the 2024-25 financial year and directly compared this against all write offs that been processed within the financial system to the central write off code. We were able to confirm that all write offs had been recorded in a reference spreadsheet and processed for the correct amount. Additionally, a sample of 15 write offs were selected and reviewed, we found that all 15 had evidence of the recommendation for write off, however we found inconsistencies in the way write offs were approved on the proforma including no evidence of approval sign off in one case.

Building Control – Limited Assurance

The purpose of this audit was to review the preparedness and compliance with the new building control regulations. The review focussed on the arrangements in place to ensure that the deliverables of the KPI's were clearly embedded, with monitoring and reporting available in compliance with the regulations.

From April 2025, in line with the new legislation, there is a requirement to report to the Building Safety Regulator (BSR) on the new reportable elements of the KPIs. This audit has identified that there are a number of KPIs that the Council is currently unable to report on due to insufficient reporting options from the case management system or the data is not currently available. The Council is therefore unable to fully demonstrate compliance of the regulations to the BSR.

Equality, Diversity & Inclusivity – Limited Assurance

The purpose of the audit was to review the Council's compliance with the minimum statutory duties set out in the Equality Act 2010 and Public Sector Equality Duty (PSED).

Public Sector Equality Duty is addressed within the corporate policies such as the corporate plan, annual plan and EDI Policy. However, whilst there is evidence that the Council promotes EDI awareness, there is no approved EDI strategy in place. The Corporate Plan states that an EDI strategy will be in place by the end of 2025, however we were not provided with any evidence to indicate that this action was being developed at the time of the audit.

The duties within the PSED state that three specific categories of information should be collected and published (general duty compliance with regard to people affected by your policies and practices every year, general duty compliance with regard to your employees every year and publish gender pay gap data by 31 March every year). However, whilst we found that the Council publishes information annually with regard to people affected by the policies and practices, and that Gender Pay Gap data was published before the 31 March deadline for the 2023-24 financial year, the "general duty compliance with regard to your employees every year" has not been collected and published.

We found that the Council's decision making is clearly shown when reviewing the three aims of the Public Sector Equality Duty within their Equality Impact Assessments for new projects/schemes. Whilst we found that a template has been set up for Equality Impact Assessments to assist with decision making, the actions are not centrally logged and reviewed.

There is a requirement for staff to complete annual online training on Equality, Diversity and Inclusion. At the time of audit, the training completion rate was 77.5%, therefore nearly a quarter of the workforce have not completed the mandatory training requirement.

Other Sources of Assurance

During the year internal audit have remained cognisant of other sources of assurance from which the Council benefit. Due to legal and regularity nature of some public sector assurance providers internal audit do not routinely have the opportunity to engage with or attain insight into the scope and timing of their work.

However, where appropriate internal audit does coordinate with and place reliance on the outcomes of other assurance providers to minimise duplication and highlight potential gaps in assurance needs. Additionally, as chief internal auditor I liaise with the external auditors on matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work.

Best Value Inspection

In May 2024, the Council received a Best Value Inspection letter from government to inform the authority that an independent inspection would be undertaken to review the Council to seek assurance that it is complying with its Best Value Duty. This followed concerns raised by the Department for Levelling Up, Housing and Communities around the Council's levels of debt and borrowing.

In March 2025 the report providing the outcomes of the inspection was published and concluded with "Spelthorne Borough Council is failing to meet best value standards in several critical areas, including Use of Resources; Governance; Leadership; Culture; and Continuous Improvement."

ICT Assurance Mapping

As part of the 2024-25 audit plan, we carried out an exercise to identify areas of activity within the IT function and mapped these against the Information Technical Infrastructure Library. (ITIL).

We also looked at what other independent sources of assurance could be factored into the assessment of risk and the IT internal audit plan going forward.

- PSN connection compliance assessment. The current certification expired 19th October 2024 with the annual assessment being worked on during the time of this assurance mapping work, submission to be made in week ending 6th December with issues designated as resolved or mitigated. Penetration testing and IT Health Check activities form part of the assessment to achieve compliance annually.
- We were informed that the Cyber Essentials Plus certification is being worked on.
- We were also informed that Grant Thornton as part of external audit activities had met with members of the ICT service to audit general IT controls. However, a report has not been shared with ICT on the outcomes of this activity.

We do not seek to duplicate the work already taking place in these areas but will review the outcomes and consider future areas for inclusion in the internal audit plan.

Management actions

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

Progress is periodically reported during the year to the Audit Committee through our quarterly internal audit progress reports.

Acceptance of Risk

From the work carried out by the Southern Internal Audit Partnership during the year, I am not aware of any instances where management have accepted a level of risk that we feel exceeds the organisation's risk appetite or risk tolerance. However, a number of reviews are not yet finalised and therefore any acceptance of risk identified through our review of management responses will be reported within future internal audit progress reports.

Themes

The findings and conclusions of multiple engagements, when viewed holistically, can reveal patterns or trends, such as root causes. Analysis of assurance and advisory work undertaken across the organisation's framework of governance, risk management and control processes has highlighted the following:

- Areas across the Council where operational processes have not been documented, or policies and procedures are out of date. In an
 uncertain climate where staff retention is increasingly challenging, this poses an increased risk of losing operational knowledge and
 organisational resilience.
- As relayed within the Best Value Inspection report, common themes were reported in relation to Use of Resources; Governance;
 Leadership; Culture; and Continuous Improvement.

11. Anti-Fraud and anti-corruption

In accordance with the internal audit charter and the audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

Whilst not responsible for the detection of fraud within the Council, Southern Internal Audit Partnerships work during 2024-25 has not identified, and we have not been made aware of, any significant control deficiencies that may pose a significant fraud risk.

12. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against industry Standards for conformance.

The QAIP must include provision for both internal and external assessments: internal self-assessments are required annually, and an external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the relevant Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. In considering all sources of evidence the external assessment team concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

Despite the change in the Standards any external quality assessment undertaken under the Public Sector Internal Audit Standards remains valid for the duration of the successive five years (from the date it was undertaken). The Southern Internal Audit Partnership will be commissioning an external quality assessment against the Global Internal Audit Standards in the UK Public Sector during 2025.

13. Disclosure of Non-Conformance

There are no disclosures of Non-Conformance to report. In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

'the Southern Internal Audit Partnership conforms to the Definition of Internal Auditing; the Code of Ethics; and the Standards'.

14. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2024-25 through the following internal processes:

- o On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- On-going development of a constructive working relationship with other assurance providers to maintain a cooperative assurance approach.
- o A tailored audit approach using a defined methodology and assignment control documentation.
- o Review and quality control of all internal audit work by professional qualified senior staff members.
- o An internal quality assessment against the industry Standards.

15. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Measure	Target	Actual (2024-25)
Percentage of revised internal audit plan delivered (to draft report)	95%	85%*
Positive customer survey response:		
SIAP – all Partners	90%	98%
Spelthorne Borough Council	90%	99%
Conformance with the Public Sector Internal Audit Standards	Conforms	Conforms

Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date April 2025).

^{*}This relates to 11 out of 13 reviews completed to a minimum of draft report stage.

16. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year.

Natalie Jerams

Deputy Head of Southern Internal Audit Partnership

Annex A

Summary of Assurance Reviews Completed 2024-25

Reasonable There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

 Reinforced Autoclaved Aerated Concrete

Limited

Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

- Building Control
- Procurement (Draft)

- Tree Maintenance
- Accounts Receivable & Debt Management (Draft)
- Equality, Diversity & Inclusivity
- Commercial Waste SDS (Draft)
- Savings Realisation (Draft final)
- *A draft report of risk management was issued on 4 June 2025, a meeting to discuss findings and agree factual accuracy has been convened for 5 September 2025
- ** Assurance was further supported by two advisory reviews (CIPFA Financial Management Code and Best Value Indicators for Use of Resources and ITIL Assurance Mapping).

Two reviews (Contract Management and Data Backup & Disaster Recovery) remain work in progress. Both will be reported as part of the next progress report to the Audit Committee. The status of these reviews has not inhibited my ability to provide an overall opinion on the Council's framework of governance, risk and control.

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Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.

Stage 1
Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to		
briefing		
Commissioner engagement (if report focused on		
issues of concern to Commissioners such as		
Finance, Assets etc)		
Relevant Group Head review		
MAT+ review (to have been circulated at least 5		
working days before Stage 2)		
This item is on the Forward Plan for the relevant	Yes	27/03/25
committee		
	Reviewed	
	by	
Finance comments	TC	29/08/25
Risk comments		
Legal comments	LH	29/08/25
HR comments (if applicable)		

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2
Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	29/08/25
S151 Officer commentary – at least 5 working days before MAT	T Collier	29/08/25
Confirm final report cleared by MAT		

Audit Committee

25 September 2025

Title	Internal Audit Strategy 2025-28
Purpose of the report	To inform
Report Author	Iona Bond, Deputy Head of Southern Internal Audit Partnership
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	To note the Internal Audit Strategy 2025-28.
Reason for Recommendation	In accordance with the Global Internal Audit Standards in the UK Public Sector the Chief Internal Auditor is required to create and develop an audit strategy.

1. Executive summary of the report

What is the situation	Why we want to do something		
In accordance with the Global Internal Audit Standards in UK Public Sector the Chief Internal Auditor is required to create and develop an internal audit strategy.	In accordance with the Global Internal Audit Standards in UK Public Sector the Chief Internal Auditor is required to create and develop an internal audit strategy.		
This is what we want to do about it	These are the next steps		
Note the Internal Audit Strategy 2025- 28.	 Management Team and Group Heads to note the Internal Audit Strategy 2025-26. Audit Committee to note the Internal Audit Strategy 2025-28 at the meeting of 25 September 2025. 		

1.1 This report provides the Audit Committee with the Internal Audit Strategy 2025-28.

2. Key issues

Contextual information

2.1 The mandate for internal audit in local government is specified within the Accounts and Audit [England] Regulations 2015, which states:

'A relevant authority 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.'

- 2.2 From 1 April 2025, the 'standards or guidance' in relation to internal audit are those laid down in the Global Internal Audit Standards (GIAS), Application Note: Global Internal Audit Standards in the UK Public Sector (Application Note) and the Code of Practice for the Governance of Internal Audit in UK Local Government. The collective requirements are referred to as the Global Internal Audit Standards in the UK Public Sector (the Standards).
- 2.3 The Standards (9.2) require all internal audit providers to develop and maintain an 'Internal Audit Strategy'. The internal audit strategy is defined as 'a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function towards the fulfilment of the internal audit mandate'.

Developing the Internal Audit Strategy

- 2.4 Engagement with the Audit Committee and senior management has been imperative in developing the internal audit strategy, to ensure the Southern Internal Audit Partnership's strategic objectives align with stakeholder expectations.
- 2.5 It is not practical for the Southern Internal Audit Partnership to maintain more than 30 separate and potentially competing internal audit strategies specific to each of our partners. Consequently, in considering potential objectives, the Southern Internal Audit Partnership undertook a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis to focus on potential areas for development to further enhance our internal audit offering and to remain sustainable, innovative and future focused. The outcome of our analysis assisted in forming seven potential objectives for inclusion in the internal audit strategy.

- 2.6 A survey was then issued to all Audit Committee members (or equivalent) and senior officers across the wider Partnership to seek their views and prioritisation of the seven objectives to optimise internal audit provision over the medium term (3 to 5 years).
- 2.7 Feedback from the survey (Appendix B) was analysed with the top three objectives forming the basis of the internal audit strategy.

Internal Audit Strategy 2025-28

2.8 The internal audit strategy is presented to the Audit Committee for review and noting. The strategy will be periodically reviewed with ongoing updates to the Audit Committee on the achievement and delivery of objectives as part of our regular progress reports.

3. Options appraisal and proposal

To inform the Audit Committee of the Internal Audit Strategy 2025-28.

4. Risk implications

4.1 The absence of an internal audit strategy will conflict with the expectation of the Global Internal Audit Standards.

5. Financial implications

5.1 The internal audit service is budgeted for in the Council's annual budgets.

6. Legal comments

- 6.1 The Global Internal Audit Standards in UK Public Sector are mandatory further to the Accounts and Audit (England) Regulations 2015. GIAS requires the Chief Internal create and develop an audit strategy.
- 6.2 This report assists the Council to demonstrate compliance with the statutory requirements.

Corporate implications

7. S151 Officer comments

7.1 As S151 Officer, it is important to that there is an appropriate audit strategy in place which plays a key role in supporting the S151 to undertake their responsibilities and to support the Council. The S151 Officer supports compliance with the Global Internal Audit Standards in UK Public Sector. As stated above there are no additional budget implications.

8. Monitoring Officer comments

8.1 The Monitoring Officer confirms that the relevant legal implications have been taken into account.

9. Procurement comments

9.1 There are no procurement implications arising from this report.

10. Equality and Diversity

10.1 Equality and diversity are key considerations that feature in the assessment of risk and audit needs.

11. Sustainability/Climate Change Implications

11.1 Sustainability is a key consideration and features in the assessment of risk and audit needs.

12. Other considerations

12.1 None.

13. Timetable for implementation

13.1 Applicable for the period 1 April 2025 – 31 March 2028

14. Contact

14.1 Iona Bond, Deputy Head of Southern Internal Audit Partnership iona.bond@hants.gov.uk

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: There are none.

Appendices:

Appendix A – Internal Audit Strategy 2025-28

Appendix B – Feedback & Prioritisation of Objectives





Assurance through excellence and innovation

SOUTHERN INTERNAL AUDIT PARTNERSHIP

Internal Audit Strategy 2025 - 28

Prepared By: Neil Pitman, Head of Southern Internal Audit Partnership

April 2025

1. Introduction

The Global Internal Audit Standards in the UK Public Sector [Standard 9.2] requires the internal audit function to develop and maintain an internal audit strategy. This is contextualised within the Standards as:

'a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfilment of the internal audit mandate.'

The Strategy aims to support the achievement of the organisations corporate priorities and align with the expectations of its key stakeholders.

2. Internal Audit Purpose and Role

Internal audit strengthens the organisation's ability to create, protect, and sustain value by providing independent, risk-based, and objective assurance, advice, insight, and foresight.

The role of internal audit is best summarised through its definition within the Global Internal Audit Standards in the UK Public Sector, as:

'an independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.'

3. Vision

Our vision reflects the Southern Internal Audit Partnership's aspiration to deliver a quality internal audit service to our stakeholders and inspire our auditors and the service(s) we deliver to continuously improve.

'A collaborative Partnership delivering an innovative, customer focused, and value adding audit and advisory service aligned to organisational objectives and improved outcomes.'

4. Strategic objectives and supporting initiatives

Our vision will be realised through delivery of key objectives that will help shape service provision and future proof the Southern Internal Audit Partnership through continued learning & development.

Following a process of engagement with the Partnership's key stakeholders, three objectives have been prioritised to help attain our vision over the medium-term (2025 - 2028).

These objectives are underpinned by a suite of supporting initiatives outlining the key steps to drive delivery.

The supporting initiatives provide opportunity for our auditors to develop their competencies, enhance the optimisation of technology, and provide continuous improvement to the Southern Internal Audit Partnerships internal audit offering.

They are premised on **engaging** with all appropriate stakeholders, **equipping** them to facilitate delivery, **empowering** them to deliver required outcomes, and **embedding** good practice into the fabric of the Partnership and the wider organisation.

Strategic Objective 1 – Agile Auditing: Innovate to explore a more agile approach to the audit process, building efficiencies and producing more timely feedback to the organisation.

Supporting Initiatives:

- **Engage** with internal audit staff and the organisation to understand expectations and importance of timely audit feedback & reporting.
- **Equip** internal auditors to deliver high quality internal audit services through a lean, efficient and effective operating model.
- **Empower** internal auditors to operate in an agile manner.
- **Embed** behaviours that support an agile methodology.

Strategic Objective 2 – Optimisation of Standards: Embrace and prioritise conformance and embedding of the Global Internal Audit Standards in the UK Public Sector and maximising their potential to benefit the organisation and the internal audit function.

Supporting Initiatives:

- **Engage** internal audit staff and key stakeholders to ensure a full knowledge and understanding of the GIAS in the UK Public Sector.
- Equip internal audit staff and key stakeholders with the tools and information to discharge their respective responsibilities within the GIAS in the UK Public Sector.
- **Empower** internal audit staff and key stakeholders to act on their respective responsibilities and accountabilities within the GIAS in the UK Public Sector.
- **Embed** the mandatory requirement of the GIAS in the UK Public Sector into all relevant policy, process and procedure.

Strategic Objective 3 – Data Analytics by Default: Further engage with the organisation to enhance and optimise the full potential of data analytics in the internal audit process.

Supporting Initiatives:

- **Engage** with internal audit staff and the organisation's management to relay the benefits offered through use of data analytics.
- Equip auditors to undertake data analytics with the appropriate technology and support.
- **Empower** internal auditors to use data analytics through dedicated training and support.
- **Embed** data analytics into the fabric of the Partnership, championed from the top and provide a clear articulation of intent.

5. Review

The internal audit strategy will be periodically reviewed and as a minimum in response to significant organisational change, including but not limited to corporate objectives, key stakeholders, Chief Internal Auditor, or resultant of the outcomes of internal or external quality assessments.

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	Strategic Objective	Supporting Initiative	Action(s)	Priority	Implementation Date
1	. Innovate to explore a more agile approach to the audit process,	Engage with internal audit staff and the organisation to understand expectations and importance of timely audit feedback & reporting.	 Confirm expectations of Partners regarding desired reporting timelines and methodology. 	HIGH	December 2025
	building efficiencies and producing more timely	Equip internal auditors to deliver high quality internal audit services through a lean, efficient and effective operating model.	 Complete a detailed analysis of bottle necks in SIAP and external to the internal audit function. 	HIGH	April 2026
	feedback to the organisation.	Empower internal auditors to operate in an agile manner. Embed behaviours that support an agile methodology.	 Benchmark with peer audit services and explore opportunities to make the process 'leaner' through auditor working group. 	MEDIUM	December 2026
D			 Optimise the use of technology (including audit management software) to deliver efficiencies. 	HIGH	December 2027
l [∞] age 7	. Embrace and prioritise conformance and embedding of the Global	Engage internal audit staff and key stakeholders in a full knowledge and understanding of the GIAS in UK PS. Equip internal audit staff and key stakeholders with the tools to discharge their	 Stakeholder, staff training & awareness and alignment of policies, procedures, practice and software to the GIAS in UK PS. 	нівн	July 2025
7	Internal Audit Standards in UK Local Government	respective responsibilities within the GIAS in UK PS. Empower internal audit staff and key stakeholders to act on their respective	Undertake a self-assessment of compliance with the GIAS in the UK PS	нібн	July 2025
	and maximising their potential to benefit the organisation and the	responsibilities and accountabilities within the GIAS in UK PS. Embed the mandatory requirement of the GIAS in UK PS into all relevant policy,	 Commission an early External Quality Assessment to assess compliance with the GIAS in UK PS. 	HIGH	December 2025
	internal audit function.	process and procedure.	Explore supplemental elements of the GIAS in UK PS Standards to fully assess value add.	MEDIUM	April 2026
3	organisation to enhance	Engage with internal audit staff and the organisation to relay the benefits offered through the use of data analytics	 Implement a programme of training and awareness. Additional support through Data Analytic Champions 	HIGH	July 2025
	and optimise the full potential of data	tial of data support tics in the internal auditors to undertake data analytics with the right tools and support	 Acquire software to support the effective use of data analytics. 	HIGH	September 2025
	analytics in the internal audit process		 Refresh the existing data analytics strategy and promote a culture of data by default. 	HIGH	April 2026
		and provide a clear articulation of intent.	Be assessed as 'data analytics enabled'.	MEDIUM	April 2028

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		Prioritisation	Respondents' choice						
Rank	Objective	First choice • • • • • Last choice	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th
1	Embrace and prioritise conformance and embedding of the Global Internal Audit Standards in the UK Local Government and maximising their potential to benefit the organisation and the internal audit function.		30	8	8	8	7	9	6
2	Innovate to explore a more agile approach to the audit process, building efficiencies and producing more timely feedback to the organisation.		14	19	14	11	14	3	1
3	Further engage with the organisation to enhance and optimise the full potential of data analytics in the internal audit process.		5	16	21	16	13	5	-
4	To bridge the nationally recognised talent gap in the internal audit profession through effective recruitment, retention and development of a workforce strategy.		11	13	6	7	12	12	15
5	Increase communication and awareness of internal audit within the organisation and the services it offers including the enhancement of a web presence on both internet and intranet platforms.		9	10	9	12	9	13	14
6	Optimise the use of internal audit software to further automate the internal audit process creating efficiencies and the real time management information available to stakeholders.		6	5	14	13	8	21	9
7	Optimise the potential of Artificial Intelligence in the delivery of the internal audit service to maximise efficiency, capacity and capability.		1	5	4	9	13	13	31

Our survey received 76 responses from a total of 343 recipients (22% response rate)

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Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.

Stage 1
Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to		
briefing		
Commissioner engagement (if report focused on		
issues of concern to Commissioners such as		
Finance, Assets etc)		
Relevant Group Head review		
MAT+ review (to have been circulated at least 5		
working days before Stage 2)		
This item is on the Forward Plan for the relevant	Yes	08/04/25
committee		
	Reviewed	
	by	
Finance comments	TC	29/08/25
Risk comments		
Legal comments	LH	29/08/25
HR comments (if applicable)		

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2
Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	29/08/25
S151 Officer commentary – at least 5 working days before MAT	T Collier	29/08/25
Confirm final report cleared by MAT		

Audit Committee

25 September 2025

Title	Internal Audit Progress Report August 2025				
Purpose of the report	To inform, assure and approve				
Report Author	Iona Bond, Deputy Head of Southern Internal Audit Partnership				
Ward(s) Affected	All Wards				
Exempt	No				
Exemption Reason	N/A				
Corporate Priority	Community Addressing Housing Need Resilience Environment Services				
Recommendations	To note the Internal Audit Progress Report – August 2025 (Appendix A). To approve the adjustments to the internal audit plan 2025-26				
Reason for Recommendation	In accordance with the Global Internal Audit Standards in UK Public Sector the Chief Internal Auditor is required to provide a written status report to the Audit Committee.				

1. Executive summary of the report

What is the situation	Why we want to do something
In accordance with the Global Internal Audit Standards in UK Public Sector the Chief Internal Auditor is required to provide a written status report to present internal audit activity and key findings from work concluded in delivery of the internal audit plan.	The internal audit progress report provides a mechanism through which internal audit performance, issues impacting the Chief Internal Auditors annual opinion, and progress against the audit plan can be monitored.
This is what we want to do about it	These are the next steps

- Consider the internal audit progress report for awareness of issues raised and to monitor the implementation of management actions raised to mitigate identified risks.
- To inform and assure Management Team and Group Heads of internal audit progress against the planned assurance assignments and key issues raised for 2025/26 and confirm it is agreeable and to note changes to the 2025-26 annual audit plan.
- To inform and assure the Audit Committee of the Internal Audit Progress at the meeting of 25 September 2025.
- For the Audit Committee to approve changes to the 2025-26 annual audit plan.
- 1.1 This report provides an overview of internal audit activity against assurance work completed in accordance with the approved audit plan for 2025-26 and to provide an overview of the outstanding management actions.

2. Key issues

- 2.1 The mandate for internal audit in local government is specified within the Accounts and Audit [England] Regulations 2015, which states:
 - 'A relevant authority 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.'
- 2.2 From 1 April 2025, the 'standards or guidance' in relation to internal audit are those laid down in the Global Internal Audit Standards (GIAS), Application Note: Global Internal Audit Standards in the UK Public Sector (Application Note) and the Code of Practice for the Governance of Internal Audit in UK Local Government. The collective requirements shall be referred to as the Global Internal Audit Standards in the UK Public Sector (the Standards).
- 2.3 The Southern Internal Audit Partnership have made all necessary adaptions to its processes, procedures and practices to ensure it is best placed to conform with these requirements with effect from 1 April 2025.
- 2.4 In accordance with proper internal audit practices (Global Internal Audit Standards in the UK Public Sector), the Chief Internal Auditor is required to provide a written status report to the Corporate Governance, Audit & Standards Committee, summarising:
 - ongoing confirmation or otherwise regarding independence, and impairments [Standard 7.1]

- a summary of significant issues and escalation of matters of importance [Standard 8.1]
- overview and sufficiency of resourcing [Standards 8.2, 10.1, 10.2, and 10.3]
- communication of unresolved issues that fall outside of the Council's risk tolerance [Standard 11.5]
- update on progress and any changes to the annual audit plan [Standard 9.4]
- internal audit performance measures [Standard 12.2]
- status of 'live' internal audit reports and status on the implementation of management actions [Standard 15.2]
- 2.5 Members are requested to note the Internal Audit Progress Report August 2025 (Appendix A) and approve adjustments to the internal audit plan 2025-26.

3. Options appraisal and proposal

3.1 To inform and assure the Audit Committee of Internal Audit progress as detailed within Appendix A.

4. Risk implications

4.1 In producing the programme of audit work for 2025/26 the Chief Internal Auditor has ensured that a risk-based approach has been applied in line with audit standards and focussed on areas of higher priority that align with corporate priorities and objectives. Consideration has been given to current and emerging risks (and opportunities) facing the Council during 2025/26.

5. Financial implications

5.1 The Internal Audit Progress Report includes reviews of functions and systems that are financially material and therefore represent greater risk to the authority. Issues presenting adverse financial consequences or threats to the Council's financial position apply to a range of workstreams on the plan.

6. Legal comments

- 6.1 The Global Internal Audit Standards in UK Public Sector are mandatory further to the Accounts and Audit (England) Regulations 2015 within which there is a requirement to provide a written status report to the Audit Committee.
- 6.2 This report assists the Council to demonstrate compliance with the statutory requirements.

Corporate implications

7. S151 Officer comments

7.1 As S151 Officer, it is important to receive timely and comprehensive assurance, that the audit plan is on track and to have feedback on risks and emerging issues, and equally feedback on progress being made on addressing risks identified in recent external reviews. The S151 Officer fully supports SIAP and the Audit Committee in seeking to ensure that officers and SIAP are working effectively to ensure that the audits in the plan are delivered. As stated above there are no additional budget implications.

8. Monitoring Officer comments

8.1 The Monitoring Officer confirms that the relevant legal implications have been taken into account.

9. Procurement comments

9.1 There are no procurement implications arising from this report.

10. Equality and Diversity

10.1 Equality and diversity are key considerations that feature in the assessment of risk and audit needs.

11. Sustainability/Climate Change Implications

11.1 Sustainability is a key consideration and features in the assessment of risk and audit needs.

12. Other considerations

12.1 None.

13. Timetable for implementation

13.1 Applicable for the period 1 April 2025 – 31 March 2026

14. Contact

14.1 Iona Bond, Deputy Head of Southern Internal Audit Partnership iona.bond@hants.gov.uk

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: Internal Audit Plan 2025-26.

Appendices: Appendix A – Internal Audit Progress Report August 2025

Southern Internal Audit Partnership

Assurance through excellence and innovation

Internal Audit Progress Report Spelthorne Borough Council – August 2025

Prepared by: Iona Bond, Deputy Head of Partnership

1. Internal Audit Mandate

The mandate for internal audit in local government is specified within the Accounts and Audit [England] Regulations 2015, which states:

- '5. (1) A relevant authority 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.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—
 - (a) make available such documents and records; and
 - (b) supply such information and explanations

as are considered necessary by those conducting the internal audit.'

The role of internal audit is best summarised through its definition within the Standards, as an:

'An independent, objective assurance and advisory service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.'

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

2. Internal Audit Standards

With effect from 1 April 2025, the 'Standards' against which internal audit within the public sector must conform are those laid down in the Global Internal Audit Standards, Application Note: Global Internal Audit Standards in the UK Public Sector and the Code of Practice for the Governance of Internal Audit in UK Local Government. The collective requirements are referred to as the Global Internal Audit Standards in the UK Public Sector.

3. Purpose of Report

In accordance with proper internal audit practices (Global Internal Audit Standards in the UK Public Sector), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to Senior Management and the Audit Committee, summarising:

- o The monitoring of 'live' internal audit reports
- o an update on progress against the annual audit plan and any subsequent revisions
- o acknowledgement of any actual or perceived impairments to internal audit independence
- o internal audit performance, planning and resourcing issues
- results of audit assignments and insights.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of controls in place focusing on those designed to mitigate risks to the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

4. Resourcing

As Chief Internal Auditor I maintain responsibility for ensuring that there is a sufficient level of resource available, supported by an appropriate range of knowledge, skills, qualifications and experience to deliver the internal audit plan (2025-26) and in the fulfilment of the audit mandate and delivery of the internal audit strategy.

- Human Resource the Southern Internal Audit Partnership has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the internal audit strategy and risk-based audit plan.
- Financial Resource the Head of Southern Internal Audit Partnership will manage the internal audit budget to enable the successful
 implementation of the internal audit mandate and achievement of the plan. The budget includes the resources necessary for the
 function's operation, including training and relevant technologies and tools.
- Technological Resource the internal audit function has the technology to support the internal audit process and regularly evaluates technological resources in pursuit of opportunities to improve effectiveness and efficiency.

The Southern Internal Audit Partnership are currently experiencing a higher than average level of attrition resulting in vacancies at auditor, senior auditor and audit manager level. With the time lapse between an individual leaving the organisation and the recruitment and onboarding of new staff there will be an inevitable impact on capacity over the short-term.

The Southern internal Audit Partnership have contingency arrangements in place to mitigate such eventualities with opportunity to attain additional support through peer Partnerships or established frameworks. Whilst there will be no financial impact to the Council, there may be some minor slippage in delivery of the quarter 2 / 3 plan whilst contingency arrangements are put in place.

Recruitment across existing vacancies is well progressed and I remain confident as your chief internal auditor that the 2025/26 internal audit plan will be sufficiently delivered enabling me to provide a timely Annual Conclusion.

5. Independence

As your chief internal auditor, I retain no roles or responsibilities that have the potential to impair my independence, either in fact or appearance. Internal auditors engaged in the delivery of the 2025-26 internal audit plan have had no direct operational responsibility or authority over any of the activities reviewed. I can confirm there has been no interference encountered relating to the scope, performance,

or communication of internal audit work during the year to date in the delivery of the internal audit plan or the fulfilment of the internal audit mandate.

6. Impairments

There have been no impairments to internal audit activity during the year. The internal audit function has remained free from all conditions that threaten our ability to carry out responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. The internal audit team have maintained an unbiased mental attitude allowing them to perform engagements objectively enabling them to believe in their work product, with no compromise to quality, and no subordination to their judgment on audit matters, either in fact or appearance.

7. Rolling Work Programme

The internal audit plan for 2025-26 was originally presented to Senior Management and approved by the Audit Committee in May 2025. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed below.

Progress against the plan for the year to date has been slower than anticipated due to conflicting priorities of officers at the Council and the ongoing need to fulfil the 2024-25 audit plan. There has also been a stretch on resourcing within the partnership (as referenced in section 4).

At the time of writing, all scheduled quarter 1 and 2 audits are underway and early discussions have been held with the Deputy Chief Executive & Section 151 Officer regarding those audits scheduled through quarters 3 & 4 to ensure that they remain the most appropriate in terms of priority and in line with any requirements emerging from the work with the Best Value Commissioners. Any changes made to the plan will be brought to members for approval via subsequent progress reports.

It is imperative that through the remainder of the year audit work is progressed timely and therefore any delays we experience will be escalated promptly to relevant management.

Audit Review	Sponsor	Scoping Held	ToR Issued	Fieldwork Start	Draft Report	Final Report	Assurance Opinion	Comment
2024-25								
Contract Management	Deputy Chief Executive and S151 Officer	06.02.25	25.02.25	04.06.25				Close of audit held 28.08.25
Data Backup & Disaster Recovery	Deputy Chief Executive	13.02.25	14.07.25	21.07.25				
Risk Management	Deputy Chief Executive	05.02.25	04.03.25	10.03.25	04.06.25			Referenced within the 2024/25 annual conclusion
2025-26								
Decision Making and Accountability	Deputy Chief Executive and S151 Officer	21.05.25	17.07.25	17.07.25				
Governance of Companies – Knowle Green Estates (KGE)	Deputy Chief Executive and S151 Officer	10.06.25	25.07.25	27.08.25				
Contract Management – Leisure Centres	Deputy Chief Executive and S151 Officer	01.08.25						Draft ToR issued 22.08.25
Main Accounting	Deputy Chief Executive and S151 Officer	25.07.25	07.08.25	11.08.25				
National Non Domestic Rates	Deputy Chief Executive and S151 Officer	23.07.25	01.08.25	15.09.25				
Annual Governance Statement	Deputy Chief Executive and S151 Officer	28.08.25						Added to the plan in lieu of savings proposals and realisation.
Corporate Plan	Deputy Chief Executive							Q3

Audit Review	Sponsor	Scoping Held	ToR Issued	Fieldwork Start	Draft Report	Final Report	Assurance Opinion	Comment
	Deputy Chief							
Treasury Management	Executive and							Q3
	S151 Officer							
Cultura Consultant tradicione and	Deputy Chief							
Cyber Security training and	Executive and							Q3
Awareness	S151 Officer							
	Deputy Chief							
Budget Monitoring	Executive and							Q3
	S151 Officer							
	Deputy Chief							
Homelessness	Executive and							Q4
	S151 Officer							
	Deputy Chief							
Asset Management	Executive and							Q4
	S151 Officer							
Continuous Improvement	MAT							Q4

8. Adjustment to the Internal Audit Plan 2025-26

Internal Audit focus continues to be proportionate and appropriately aligned. The plan remains fluid and subject to on-going review and amendment, in consultation with the relevant audit sponsors, Senior Management, and Audit Committee, to ensure internal audit are able to react to new and emerging risks and the changing needs of the Council.

Such amendments to the 2025-26 internal audit plan are detailed below with explanations for the proposed amendments.

	Audit Review	Reason for inclusion in the plan
Additions	Annual Governance Statement	Replacement for Savings Proposals and Realisation. Taken from contingency list.

	Audit Review	Reason for removal from the plan
	Savings Proposals and Realisation	The 24-25 audit review has only recently been finalised with the majority of management actions due for implementation during Q3. Therefore no added value re-auditing at this time.
Withdrawals	Knowle Green Estates	Following the commissioning of independent assurance work by the Board around health and safety statutory compliance no additional internal audit work is considered necessary at this time.

9. Acceptance of Risk

Internal audit reporting protocols are in place to ensure that the scope of work and findings for all assignments are reported appropriately and that agreed management actions are approved by senior management.

Every effort will be made to resolve disagreements that may arise during the audit process. However, if, unresolved issues are considered by internal audit to fall outside of the Council's risk tolerance, these will be escalated to Senior Management and Audit Committee as deemed necessary.

There are no such instances to report from our delivery of the 2025–26 internal audit plan to date.

10. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There have been no reports published concluding with a 'limited' or 'no' assurance opinion for inclusion within this progress report.

11. Analysis of 'Live Audit Reviews'

Audit Davieus	Report	Audit	Assurance					Man	ageme	ent Ac	tions				
Audit Review	Date	Sponsor	Opinion	Į.	Agreed	t	P	endin	g	Co	omple	te	C	verdu	ie
				L	M	Н	L	M	Н	L	M	Н	L	M	Н
2023/24															
Disaster Recovery	April 2024	DCE	Limited	4	3	0	0	0	0	4	2	0	0	1	0
Commercial Assets	July 2024	DCE/S151	Reasonable	0	3	0	0	0	0	0	2	0	0	1	0
2024/25															
Building Control	January 2025	DCE	Limited	0	5	6	0	0	0	0	5	5	0	0	1
Equality, Diversity and Inclusivity	June 2025	DCE	Limited	2	2	4	2	0	1	0	2	1	0	0	2
Tree Maintenance	July 2025	DCE	Limited	4	9	0	3	4	0	1	2	0	0	3	0
Total				10	22	10	5	4	1	5	13	6	0	5	3

Annex 1

Overdue 'High Priority' Management Action

Building Control - Limited

Observation:

Quarterly and annual reportable data to the Building Safety Regulator (BSR) is not currently in place due to a combination of both the IDOX Uniform system and the BSR not having yet released the portal for local authorities to upload their data for submission.

The IDOX Uniform System at the time of the audit is not set up for the Building Control Team to be able to run the reports that are required in order to be able to report on the data and information that the BSR will require from April 2025. This consequently impacts compliance across a range of the KPI's that were reviewed as part of the audit testing.

For KPI 5, the Council is unable to provide the required elements of having a Quality Management Scheme in place, although this is currently with the LABC to confirm next steps in supporting this compliance area.

Risk:

Non-compliant with the BSR requirements in April 2025 leading to potential penalties and regulatory action from the BSR.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
2.1 Obtain confirmation from Local Authority Building Control (LABC) that we are signed up to their QMS (made request in November 2024)	28.02.25	30.09.25 30.11.25	1.9.25 - This is still outstanding as the service have reported they are entirely dependent on a third party (LABC) to come back to them with a date to review documentation. They have not done so to date, so the revised date will need to move back to 30.11.25 to have a realistic prospect of being completed.

Equality, Diversity and Inclusivity - Limited

Observation:

The audit sought to confirm that published information on general duty compliance with regard to employees was evident every year as per the PSED. The three specific categories to be collected and published are:

- general duty compliance with regard to people affected by your policies and practices every year.
- general duty compliance with regard to your employees every year; and
- gender pay gap data to be published by 31 March every year.

It was found through testing that the "general duty compliance with regard to your employees every year" was not being met.

A staff survey undertaken in 2022 (and we have also been advised of a second in 2024) was intended to support collecting data regarding workforce demographic composition, however, staff had raised that there is still some sensitivity of identification and therefore employees were not confident that the data they were providing would remain anonymous. Consequently, this has not been progressed further and neither have there been any further measures pursued to publish employee data for the purpose of meeting this specific duty under PSED.

Risk:

Non-compliance of the Public Sector Equality Duty.

Management Action	Original	Revised	Latest Service Update
ivianagement Action	Due Date	Due Date	Latest Service Opuate
1.1 Publish equality information on workforce	02.07.25	19.9.25	1.9.25 - The information has been drafted for publishing, subject to
			review and sign off by the corporate management team (MAT).
1.2 Publish information evidencing the Council's general duty	02.09.25	19.9.25	1.9.25 - The information has been drafted for publishing, subject to
compliance with regard to employees.			review and sign off by the corporate management team (MAT).

Overdue 'Low & Medium Priority' Management Actions

Annex 2

Audit Review	Report Date	Opinion	Priority		Due Date	Revised Due Date	
			Low	Medium			
Disaster Recovery (Legacy audit)	April 2024	Limited		1	31.07.24	31.03.25 30.04.25 TBC	
Commercial Assets (Legacy audit)	July 2024	Reasonable		1	31.05.25	TBC – Report with Commissioners for sign off prior to advancing to Committee	
Tree Maintenance				1	31.08.25	31.10.25	
Thee ividifice	July 2025	July 2025	Limited		1	31.08.25	31.10.25
				1	31.07.25	31.10.25	
Total	I	I		5			

Annex 3

Southern Internal Audit Partnership - Performance Measures

Performance Measure	Regularity	Target	Actual 25/26	Status	Direction of Travel
1. Percentage of the agreed audit plan completed (issue of draft / final report)	Ongoing	90%	0%		n/a
2. Audits delivered within agreed timescales (% year to date)					
o To issue of draft report	Ongoing	80%	0%		n/a
o To issue of final report	Ongoing	80%	0%		n/a
3. Conformance with the Global Internal Audit Standards in the UK Public Sector	Annual	Conforms	Conforms*		\Leftrightarrow
4. Audits conducted optimising the effect use of data analytics (% year to date)	Ongoing	60%	60%		
5. Stakeholder satisfaction (annual survey)	-	1	1	1	·
o Audit Committee		90%	97%		n/a
 Senior Management 	Annual	90%	100%		n/a
o Key Contacts		90%	100%		n/a
6. Internal audit effectively communicates with key stakeholders					_
o Audit Committee		90%	100%		n/a
Senior Management	Annual	90%	100%		n/a
o Key Contacts		90%	100%		n/a
7. Sufficiency of input to and discussion of the internal audit plan	•	•		1	•
o Audit Committee	A	90%	100%		n/a
Senior Management	Annual	90%	100%		n/a
8. Appropriate focus on key risks					
o Audit Committee		90%	75%		n/a
Senior Management	Annual	90%	100%		n/a
o Key Contacts		90%	100%		n/a

* Any external quality assessment undertaken under the Public Sector Internal Audit Standards remains valid for the duration of the successive five years (from the date it was undertaken). The Southern Internal Audit Partnership will be commissioning an external quality assessment against the Global Internal Audit Standards in the UK Public Sector during 2025.

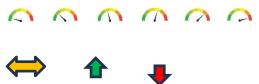


















Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.

Stage 1
Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to		
briefing		
Commissioner engagement (if report focused on		
issues of concern to Commissioners such as		
Finance, Assets etc)		
Relevant Group Head review	N/A	
MAT+ review (to have been circulated at least 5		
working days before Stage 2)		
This item is on the Forward Plan for the relevant	Υ	
committee		
	Reviewed	
	by	
Finance comments		
Risk comments	LH	07/09/25
Legal comments	LH	07/09/25
HR comments (if applicable)		

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2
Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	07/09/25
S151 Officer commentary – at least 5 working days before MAT	T.Collier	14/9/25
Confirm final report cleared by MAT		

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- 3		

Audit Committee

25 September 2025

Title	Annual Governance Statement 2024-25
Purpose of the report	To make a decision
Report Author	Terry Collier, Deputy Chief Executive and Linda Heron, Monitoring Officer
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	This item is not in the current list of Corporate Priorities but still requires a Committee decision
Recommendations	Committee is asked to: Review and approve the draft Annual Governance Statement at Appendix 1
Reason for Recommendation	The Council's Constitution (Part 3 section (b)) requires the Audit Committee to be satisfied that the Council's Annual Governance Statement properly reflects the risk environment and to take actions required to improve it.

1. Executive summary of the report

What is the situation	Why we want to do something
Councils have a statutory duty to prepare and publish an Annual Governance Statement (AGS) reviewing risks and the appropriateness of controls and mitigations	To comply with statutory requirements
This is what we want to do about it	These are the next steps
Present draft AGS for the Committee's constructive review, challenge and refinement as appropriate	Incorporate any amendments to the AGS in readiness for the preparation of

the final statement and publication
alongside the annual accounts

2. Key issues

- 2.1 The Council has adopted a local code of corporate governance which reflects guidance contained in the Chartered Institute of Public Finance and Accountability (CIPFA) and Society of Local Authority Chief Executives (SOLACE) governance framework 'Delivering Good Governance in Local Government'.
- 2.2 Annual Governance Statement (AGS) provides an overview of how the Council's governance arrangements for the financial year 2024-25 operate, provides an assessment of their effectiveness, identifies areas of weaknesses and outlines the actions the Council will take over the next year to strengthen its governance arrangements.
- 2.3 AGS describes how the Council complied with seven core principles contained within its code of corporate governance.
- 2.4 AGS forms a key piece of evidence for external auditor's work and subsequent opinion on the control and governance arrangement of the Council.
- 2.5 From May to December 2024 the Council has been the subject of the Best Value Inspection commissioned by the Department for Levelling up Housing and Community.
- 2.6 The Best Value Inspection report was published in March 2025 containing 13 recommendations as follows:
 - 1. Commissioner-led intervention
 - 2. Comprehensive commercial strategy
 - 3. Review and strengthen assets function
 - 4. Review of MRP provision (Minimum Revenue Provision) and accounts treatment for suspended capital projects
 - 5. Revised Medium-Term Financial Strategy (MTFS)
 - 6. Debt reduction strategy
 - 7. Transformation strategy development
 - 8. Review and strengthen finance function
 - 9. Improvement and recovery plan
 - 10. Revised Corporate Plan
 - 11. Audit Committee structure
 - 12. Culture reset and relationship building
 - 13. Housing delivery

2.7 The recommendations in the Best Value Inspection report are reflected in the AGS as actions for improvement for 2025-26 and will be reported to this Committee.

3. Options appraisal and proposal

3.1 Option 1 (recommended) – it is proposed that the Audit Committee approve the AGS as drafted for inclusion within the Statement of Accounts for 2024-25.

The draft has undergone rigorous internal review process and input from a wide range of stakeholders including senior management, chair of the Audit Committee and the Commissioners.

3.2 Option 2 (not recommended) – the Audit Committee propose amendments to the AGS and approve inclusion of the revised AGS within the Statement of Accounts for 2024-25.

Please see comments in para 3.1 above.

3.3 Option 3 – the Audit Committee does not approve the AGS.

Failure to publish an AGS breaches statutory regulations, may result in a negative external audit opinion and will demonstrate lack of transparency and accountability.

4. Risk implications

- 4.1 The system of internal control forms a significant part of the Council's governance framework and is designed to manage and prioritise risks associated with the delivery of the Council's aims and objectives.
- 4.2 By preparing the AGS, the Council provides an assessment and assurance to the Audit Committee and to the Council as to the arrangements for governance and risk management in place for the financial year 2024-25, as well as actions for improvement for financial year 2025-26 aimed at focusing attention at significant risks and thus working towards reducing the Council's exposure to identified risks.

5. Financial implications

5.1 None arising directly from this report, however, actions for improvement as identified in the AGS will require resource and budgetary allocation.

6. Legal comments

- 6.1 The Accounts and Audit Regulations 2015 ("the Regulations") require the Council to undertake an annual review of its governance arrangements and to prepare an annual governance statement in accordance with proper practices.
- 6.2 The Regulations also require that the AGS is included in the Council's Statements of Accounts.

Corporate implications

7. S151 Officer comments

7.1 The Annual Governance Statement (AGS) is a key component of the Annual Statement of Accounts. The AGS for 2024-25 directly addresses the recommendations made by both the External Auditors and by the Best Value Inspection Report and aligns with the emerging draft Improvement and Recovery Plan. As such the S151 Officer is supportive of the draft AGS.

7.2

8. Monitoring Officer comments

8.1 The Monitoring Officer confirms that the relevant legal implications have been taken into account.ee

9. Procurement comments

9.1 None arising directly from this report, however, actions for improvement as identified in the AGS will require resource and possibly budgetary allocation.

10. Equality and Diversity

10.1 None arising directly from this report.

11. Sustainability/Climate Change Implications

11.1 None arising directly from this report.

12. Other considerations

12.1 None.

13. Timetable for implementation

13.1 Any amendments proposed by the Committee (if any) will be incorporated into the AGS in the draft Statement of Accounts for 2024-25 prior to the review by the external auditors as part their annual review.

14. Contact

14.1 Terry Collier <u>t.collier@spelthorne.gov.uk</u> and Linda Heron <u>l.heron@spelthorne.gov.uk</u>.

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: None

Appendices:

Appendix A - Draft Annual Governance Statement for 2024-25



Annual Governance Statement 2024-25

Executive Summary: Annual Governance Statement 2024–25

Spelthorne Borough Council's Annual Governance Statement (AGS) for 2024–25 outlines the Council's governance framework, key challenges, and the actions taken in response to significant external scrutiny. The AGS reflects findings from external auditors and the Government's Best Value Inspection (BVI).

Key Drivers for Governance Reform

- External Audit and BVI Reports: The Council received critical feedback from Grant Thornton and the BVI, which identified 13 key recommendations covering governance, finance, commercial strategy, and organisational culture.
- **Commissioner Intervention**: Commissioners were appointed in May 2025 to oversee the Council's recovery, with a focus on implementing a comprehensive Improvement and Recovery Plan (IRP).
- **Local Government Reorganisation**: Anticipated transition to a unitary authority by April 2027 necessitates robust governance and financial controls.

Improvement and Recovery Plan (IRP)

- The IRP consolidates recommendations from the BVI, CIPFA, KPMG, LGA, and external auditors.
- It is structured around five themes: Housing & Regeneration, Local Government Reorganisation, Finance, Commercial, and Governance.
- Progress will be monitored by the Improvement and Recovery Board and reported quarterly to the Corporate Policy and Resources Committee and MHCLG.

Governance Enhancements

- Audit Committee: Expanded to six meetings annually, with the addition of a second independent member to strengthen oversight.
- **Internal Audit**: Transitioned to the Southern Internal Audit Partnership (SIAP), with a 'limited assurance' opinion anticipated for 2024–25.
- **Risk Management**: A refreshed Corporate Risk Register and updated strategy is being put in place, with training and structural improvements underway.

Financial Management

- The Council is addressing underfunded Minimum Revenue Provision (MRP), updating its Medium-Term Financial Strategy (MTFS), and developing a debt reduction strategy.
- Sinking fund reserves were refreshed, with balances at £34.3m, supporting financial resilience amid tenant churn and lease renewals. Further modelling and assessment of the sinking funds approach is to be undertaken
- A balanced budget was achieved for 2025–26, but an initial projected £4m gap for 2026–27, was identified when 2025-26 Budget was set in February 2025-26, this will have increased by the time the revised MFTP is firmed up in autumn 2025 and is planned to be addressed through transformation and asset disposals.

Subsidiary Companies

• Knowle Green Estates (KGE): Governance strengthened with independent leadership of Board put in place and clean external audit opinion for 2023–24, opinion for 2024-25 accounts expected shortly..

• **Spelthorne Direct Services (SDS)**: Continued clean external audits and expanded governance with councillor representation.

Commercial Property Portfolio

Investment properties contribute 38% of Council income. Governance and risk management
have been enhanced, with a focus on strategic disposals and performance monitoring. A review
of Commercial assets is a key focus of the Improvement and Recovery Plan.

Transparency and Engagement

- The Council has improved public access to information, enhanced stakeholder engagement, and achieved high satisfaction in resident and staff surveys.
- A new engagement strategy and digital tools have expanded reach and inclusivity.

Significant Governance Issues to be Addressed

- Actions taken in 2024–25 include:
 - Initial steps taken at end of 2024-25 to be followed through with the Improvement and Recovery Plan to strengthen financial and risk management.
 - Enhancing housing delivery and sustainability- good progress made in advancing Local Plan.
 - Improving procurement practices and audit trails.

Conclusion

The Council is committed to rebuilding trust and ensuring effective governance as it prepares for structural reorganisation. The AGS reflects a proactive response to external scrutiny and a clear roadmap for recovery and improvement.

Annual Governance Statement 2024-2025

Introduction

As Leader and Chief Executive, we are acutely aware that everything the Council does relies upon a foundation of solid governance. During 2024-25 we have received critical and challenging feedback on our governance and financial arrangements from firstly our external auditors and secondly from the publication of the Best Value Inspection Reported on the Council. The Council is focused on making improvements in the coming financial year which address the recommendations of the external reviews. We now have a set of Commissioners, with whom the Council is actively working with to progress and deliver an Improvement and Recovery Plan. Each of the five themes in the emerging Improvement and Recovery Plan (Local Government Reorganisation; Finance; Commercial; Regeneration & Housing; and Governance & Assurance) will have a lead officer, lead commissioner and lead councillor, and update reports will be presented at the Improvement and Recovery Board and Corporate Policy and Resources Committee to ensure transparency and accountability. The Improvement and Recovery Plan will be a key document moving forwards in addressing all 13 recommendations in the Best Value Inspection Report. The Audit Committee (in parallel with the Corporate Policy and Resources Committee, and the Improvement and Recovery Board) will be monitoring progress against the recommendations, primarily through the progress reports on the Improvement and Recovery Plan.

As a result of Local Government Reorganisation, Spelthorne, as well as all Surrey councils, will be replaced by either two or three unitary authorities in April 2027. This reinforces the need for us to demonstrate high standards of controls and governance as we move towards passing on our assets and liabilities to a new authority.

This statement provides a review of how the Council's controls and governance arrangements operate, and an assessment against the seven principles of the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" (2016); it also outlines progress against issues identified in the last year's Annual Governance Statement and set out key areas of focus for 2025/26.

The Purpose of the Annual Governance Statement

The Annual Governance Statement considers the effectiveness of our governance arrangements throughout 2024/25. It is an objective and honest appraisal of the effectiveness of our governance framework. It highlights where we have identified any governance weaknesses, particularly having regard to recent external reviews and external audit reports, but also where we want to further develop and improve them to ensure that we have as effective governance arrangements.

Reviewing our Effectiveness and the Governance Framework

The governance framework comprises the systems and processes, culture, and values by which the Council is enabled, directed, and controlled and through which it accounts to, engages with, and leads the community. Part of that framework involves the management of risk. No risk management process can eliminate all risks and can therefore only provide reasonable and not absolute assurance of effectiveness. The Council's risk management approach in response to feedback from the Best Value Inspection and external audit reports is being significantly refreshed in 2025-26. The Corporate Risk Register is subject to regular review by the corporate Management Team (MAT), at Audit Committee, Corporate Policy and Resources Committee, and the Officer Corporate Risk Management Group throughout the year. The Audit Committee review all strategic risks at every meeting of the Committee.

To support the development of the AGS, the following sections reflect the activity undertaken to review the effectiveness of governance across the Council:

• An annual self-assessment assurance process by Group Heads and MAT members to prompt consideration of the existence and adequacy of governance arrangements during 2024/25.

- Corporate Risk Register which monitors the management of threats, concerns, and issues across the Council.
- The Joint Annual Report on effectiveness of Internal Audit from the Monitoring Officer, and the Chief Finance Officer which provides an opinion on the adequacy and effectiveness of the Council's risk management, control, and governance processes.
- The work of the designated Data Protection Officer (DPO).
- The work of the Audit Committee which includes responsibility for monitoring the development and operation of corporate governance in the Council.
- The Council's internal management processes, such as performance monitoring and reporting; the staff continuous performance management framework; employee awareness of corporate policies; monitoring of policies such as the corporate complaints and health and safety policies and budget management systems, which is regularly refreshed at staff meetings
- The report of the Council's External Auditor
- The consideration of any significant matters arising in the year, which are discussed and monitored by various Committees.
- Recommendations from external review agencies and inspectorates, such as Best Value Inspectors. Specific governance assurance statements are provided from the following statutory officers.

a) Head of Paid Service

As Chief Executive and the Head of Paid Service, I am responsible for the overall corporate and operational management of the council.

As I look back on 2024/25, I am delighted that the Council has continued to serve its residents well; our Residents Survey attracted over 1,700 responses in which Spelthorne scored particularly well corporately in relation to service delivery, value for money, trust, keeping residents informed and acting on residents' views (as benchmarked against Local Government Association national figures).

Moreover, Spelthorne achieved the best score ever recorded by any council on how satisfied staff feel with their 'employment deal' - the balance between corporate support and employee empowerment to deliver their responsibilities - since the LGA / Kinetiq started the survey in 2012. I would like to thank colleagues here at the Council whose hard work, professionalism and drive to deliver excellent services for residents for that is what is behind our positive results.

Despite the challenging time for local government, especially in Surrey as we work towards implementing Local Government reorganisation by April 2027, we continue to be bold, brave and innovative. During 2024-25 we opened the world's largest Passivhaus Leisure Centre and have already secured national recognition for its design and commitment to reducing our carbon footprint alongside our corporate Carbon Literacy bronze accreditation.

However, despite the achievements set out above, I and the senior management team of the Council, recognise that the Council needs to take on board and own addressing the improvement recommendations set out in External Audit and Best Value Inspection Reports delivered during 2024-25. This AGS sets out in full the Best Value Recommendations and references the external audit recommendations. These recommendations were uncomfortable reading, and we are focused on addressing them before we hand on responsibility to the successor unitary. Moving forwards, the Council is working collaboratively with the Commissioners to deliver an Improvement and Recovery Plan due to be presented to Council in October 2025. The plan will be owned by senior councillors and officers and will be monitored on a regular basis by the Improvement and Recovery Board chaired by the Lead Commissioner, Corporate Policy and Resources Committee and Audit Committee.

Like most councils, we face a challenging medium-term future and the uncertainties of local government funding reform. The Council is looking to drive transformation and savings across many

areas of the Council to assist in closing the budget gap we face for 2026-27. The government's Local Government Reorganisation White Paper and Surrey's accelerated devolution timeline will necessitate significant ramping up of the transformation processes.

Along with our Corporate Risk Register, which assists the Council in maintaining efficient and effective corporate governance, the Council recognises the imperative to manage risk and provide MHCLG assurance that we are actively supporting the areas for improvement presented in this Annual Governance Statement and look forward to another year putting our residents at the very heart of everything we do.

b) Section 151 Officer

As the Council's designated S151 Officer, I am responsible for the Council's financial governance, risk and control frameworks which ensure that the Council's financial decision-making is both lawful and prudent. I am also responsible, in accordance with the statutory requirements set out in the Local Government Act 1972, for the proper administration of the Council's financial affairs.

I am satisfied that the Council's arrangements are robust and more than meet the minimum thresholds set out under statute. However, I recognise the need to address the recommendations of both the external auditors' Annual Audit and Audit Findings reports and the Best Value Inspection report with respect to financial governance and processes. Before the end of 2024-25, the Council took steps to begin to refresh and strengthen the Finance team including appointing a new Interim Deputy Chief Finance Officer, and Council approving budget growth of £160k for 2025-26. During 2024-25, we commenced a new internal audit partnership arrangement working with the Southern Internal Audit Partnership. As to be expected in the first year of operation of the partnership, there have been some challenges in the pace of delivery of audit reports and the Council's senior management is working with SIAP to ensure improvement in 2025-26.

To address the Best Value Inspection and external audit financial related recommendations, within the Improvement and Recovery Plan, due to be presented to Council in October 2025, there is a Finance theme for which I am the Senior Responsible Officer for ensuring delivery of the improvement deliverables. Progress on this theme, as with the other Best Value themes, will be monitored by the Improvement and Recovery Board, Corporate Policy and Resources Committee and Audit Committee, with regular reports to the Ministry of Housing Communities and Local Government (MHCLG). In this theme, I work alongside the Finance Commissioner and the lead Councillor for the theme, Councillor Nichols.

The Council, along with the rest of the sector, continues to experience financial challenges, having identified in February a significant Budget gap for 2026-27. This was factoring in the potential adverse impact of the Local Government Funding reform changes starting to take effect in 2026-27 and also the need to take a more cautious view with respect to the amount of funds required to be set aside over time to ensure that, over the longer term, the Council has sufficiently robust reserves to mitigate income stream risks associated with its investment assets. The Council during 2024-25 received the Best Value Inspection report and Directions which include a requirement to reduce the level of external debt the Council holds. This is a key focus of the Improvement and Recovery Plan and, amongst other things, will be linked to a medium term assets disposal programme. During 2024-25, the Government placed Surrey councils on an accelerated path towards Local Government Reorganisation which meant work began during 2024-25 to start to model unitary permutations with joint working across the Surrey Councils. In the context of Local Government Reorganisation and addressing the BVI Directions, the Council is focused on putting its 2026-27 Budget on a sustainable financial budget.

c) Monitoring Officer

As the Group Head for Corporate Governance and the Monitoring Officer, I am responsible for ensuring both elected Members and Officers uphold high standards of behaviour and conduct in adherence of the law, good governance and high standards in public life. The need to maintain absolute transparency and confidence in our governance arrangements was and remains critical to maintaining public support and confidence.

The areas of improvement set out in this Annual Governance Statement are noted and councillors, Commissioners and officers of the Council are working together to secure the required improvements. We will build on the work undertaken to date with a view to ensuring that good governance is embedded in day-to-day operational practice.

Best Value Inspection

In May 2024, following on from the Chartered Institute of Public Finance and Accountancy (CIPFA) review in the previous year, the Minister announced a Best Value Inspection (BVI) to review the extent to which the Council was delivering against the Best Value standards. The Review concluded at the end of January 2025, and the Government published the BVI report in March 2025. The BVI Report sets out 13 Recommendations as follows:

- 1. **Commissioner-led intervention:** The Secretary of State should consider appointing Commissioners with expertise in finance, commercial investments, property, and transformation to oversee the Council's recovery process and ensure effective governance.
- 2. Comprehensive commercial strategy: The Council should, with Commissioners' support, develop a comprehensive commercial strategy, with clear approaches to its investment and regeneration portfolios, including exit strategies for the commercial investments and realistic and deliverable strategies for the regeneration sites. Progress should be reported regularly to Committees, alongside an annual report to full Council. The sinking fund should be updated with more accurate income and expenditure forecasts, with adequate provisions made for future costs.
- 3. **Review and strengthen assets function:** The Council should, with Commissioners' support, review its assets function, ensuring that it has the necessary skills and experience to manage the high risks associated with its investment and regeneration portfolios. Consultants should be used more effectively.
- 4. Review of MRP provision and accounts treatment for suspended capital projects: The Council should urgently review its current MRP provision with its external auditors, Grant Thornton, as it is underfunded. Additionally, revenue costs associated with suspended capital projects should be charged to the 2024/25 accounts.
- 5. **Revised Medium-Term Financial Strategy (MTFS):** The Council, with Commissioners' support, should update its MTFS to reflect the costs and risks identified in this report and by their external auditors. The MTFS should align with the new commercial strategy, and include proactive measures to reduce costs and improve financial viability.
- 6. **Debt reduction strategy:** The Council should, with Commissioners' support, develop a comprehensive debt reduction strategy to achieve a prudent level of debt within a realistic timeframe to ensure long-term financial stability.
- 7. **Transformation strategy development**: The Council should, with Commissioners' support, secure additional expertise to develop a comprehensive transformation strategy to deliver the savings outlined in its MTFS.
- 8. **Review and strengthen finance function:** The Council should, with Commissioners' support, review its finance function, identifying gaps in skills and ensuring the recruitment of individuals with the necessary skills and experience to address the high financial risks.

- 9. Improvement and recovery plan: The Council should develop a comprehensive improvement and recovery plan, integrating recommendations from KPMG, CIPFA, the LGA, and the external auditor as per their January 2025 reports, with quarterly progress reports to both the Audit Committee and the Corporate Policy and Resources Committee, alongside an annual report to full Council.
- 10. **Revised Corporate Plan:** The Council should revise its Corporate Plan to ensure it is achievable and supported by a performance framework, establishing a golden thread between the Corporate Plan, the budget, service plans, and individual appraisals. Quarterly progress updates should be made to Committees, alongside an annual report to full Council.
- 11. **Audit Committee structure:** The Council should review the structure and reporting processes of its Audit Committee. This could include recruiting a second independent member who acts as chair, in line with CIPFA guidance, and ensuring annual reports to Council.
- 12. **Culture reset and relationship building:** The Council should, with Commissioners' support, reset its culture and rebuild relationships between members and senior officers.

Housing delivery: The Council should, with Commissioners' support, develop a realistic plan to deliver housing numbers outlined in its Local Plan and assess the viability of Knowle Green Estates, developing a business case and future options for the company and the housing it currently manages. The Council is pro-actively engaging and working with the Commissioners to implement an Improvement and Recovery Plan (IRP) to deliver all the recommendations in the BVI report. Progress will be reported quarterly to the Improvement and Recovery Board and to MHCLG. The IRP is now being refined and will go to Council in October 2025 for approval. The Council is putting in place, in collaboration with the Commissioners, a Programme Coordinator to ensure that the Improvement and Recovery Plan is effectively monitored and implemented.

Governance arrangements

How we run the Council and its subsidiary companies

The Council is governed by democratically elected councillors and managed by professional staff. There is a clear demarcation of roles and numerous systems and processes in place to make sure that things get done properly:

Constitution. This <u>document</u> remains modern and effective. It has been reviewed during the course of the year as amendments have been made to the committee system, recent events and changes in legislation. The most recent update to the Constitution was agreed by Council on 17 July 2025.

Policy Framework. We have a number of important policies which are approved by a majority of all councillors. These are reviewed regularly. One of our key policies is the Local Plan which has completed Public Examination and is now at Main Modifications stage (and waiting a final decision from the Inspector).

Governance Framework. We adhere to standards jointly published by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA). We ensure that these are kept under review. Corporate Governance refers to the arrangements and processes by which an organisation is directed, controlled, led and held to account. In the public sector it is important to achieve agreed outcomes whilst meeting the public interest. Our Corporate Governance Code is set out in the Constitution.

Scrutiny of decisions. During the period to which this Annual Governance Statement covers, the majority of decisions were made by the Committees or delegated to officers. There are structures and processes in place to hold these to account. We have an Audit Committee which have cross party representation to review our risk management arrangements, performance, influence certain areas of

policy decisions. Moving forwards the Audit Committee is going to increase its frequency of meetings to six per annum. This will assist the Committee in monitoring progress of the Action Plans designed to address the Annual Audit Report and Audit Findings Report for 2023-24. In addition, the Council is actively attempting to appoint another lay member to the Audit Committee to further enhance the Audit Committee's oversight of the Council's reporting and processes.

The structure of the Committee system was reviewed in 2024; the number of the committees and their terms of reference have been revised, and the updated structure has been in place since May 2024. Internal audit of the Council's decision making and accountability is currently in train, and this will test the effectiveness of the revised Committee system.

In the course of the revisions to the Committee System, the sub-committee of the Corporate Policy and Resources Committee was replaced with a new sub-committee to provide leadership, decision making and accountability for the management of the Council's investment properties and commercial assets. The Council's strategic property investments (that the authority made up to 2018) which generate a commercial revenue stream that supports many community focused services, continue to be a focus on how decisions around the management of these assets are made and how risks are mitigated and managed. The new sub-committee allows for timely decision making and where appropriate recommendations to the Corporate Policy and Resources Committee which ensures appropriate democratic oversight of matters relating to the Council's strategic property portfolio.

The Improvement and Recovery Plan will address the risks relating to our investment assets such as refreshing our Sinking Fund Reserves modelling and a considered assets disposal programme of the sites held for housing and regeneration purposes. Ahead of this, two sites, a housing site (Ashford Victory Place) and a regeneration site (The Summit Centre), were approved by Council on 18th March 2025 to be sold, generating receipts which will enable the early repayment of some debt held by the Council.

Knowle Green Estates Ltd (KGE). We have ensured that KGE has independent auditors and that such audits feed into the Council's overall Statement of Accounts. Since December 2020, two experienced Non-Executive Directors have been in post to provide independent challenge and scrutiny. The 2023-24 annual report can be read here. KGE accounts are independently audited, as well as being reviewed by the Council's external auditors when they audit the Council's consolidated Group Accounts. The independently audited accounts for 2023-24 received a clean audit opinion and show on the Total Comprehensive Income and Expenditure statement a £1.2m total comprehensive income for the year, and net equity in the company of £5.6m. The acquisition of TA units during 2024-25 significantly improved the financial resilience of the company.

Both the Annual Audit Report and the Best Value Inspection report, following on from the CIPFA Assurance report highlighted the potential conflict of interest of having the Council's Chief Finance Officer (S151 officer) as a member of the KGE Board and the Council's Monitoring Officer as KGE Company Secretary. This has been addressed with the S151 Officer stepping off the Board in January 2025. The Board is also now chaired by an independent Non-Executive Director. During January to March 2025, the Members Task and Finish Group focused on KGE began reviewing Governance arrangements for the company together with the Business Plan, which is being fully updated.

Spelthorne Direct Services Ltd (SDS): During 2020-21, the Council set up SDS to provide new local commercial waste services to businesses in the Borough and to help them more effectively recycle and minimise waste. SDS accounts are independently audited, and the auditors have issued a clean audit opinion for the 2023-24 Accounts. Work has now started on preparing for the audit of the 2024-25 Accounts. The 2023–2024 annual report can be read here <u>SDS 2024 Financial Statements.pdf</u> The Council has now appointed a councillor representative to sit on the SDS Board.

Commercial Property Investments

Thirty eight percent of the money we need to run the Council and provide services for residents now comes from our investment properties. It is essential that these investments work for us and deliver

best value for the Council. We have a range of measures in hand to ensure that this happens. We have already strengthened our staff resources and implemented changes to our governance systems to ensure that we are proactively and professionally managing this multi million pounds portfolio. We will continue to do this. The Council's portfolio performed well with more than 98.8% of the commercial rent invoiced for 2024-25 collected (2023-24- 99.1%).

The Council has continued its strategy of mitigating future risk by setting aside a proportion of rental income into sinking funds to ensure that, if required, the Council has funds to offset short-term dips in rental income. At the end of 2024-25 the Sinking Funds Reserves balances stood at £34.3m. The Council had however been anticipating the need to make some use of the sinking funds reserves to offset the impact of some churn of tenants across the portfolio in-year (occupancy rate at the year-end 90%). During 2024-25, we did a major refresh of our sinking fund modelling which in turn informed our medium term financial projections which identified the need over time to put more funds into the reserves to ensure that in future years that we have a sufficient safety cushion when leases for key tenants come up for renewal.

Systems of internal control

Apart from the specific overview of the Council's investments and housing schemes, we have established systems and control processes in place to effectively manage risks, ensuring the day-to-day running of the business and the sound management of cash-flow. Managers are responsible and accountable for operating adequate systems of internal control to effectively manage risks within their Services, giving due consideration to fraud, bribery and corruption risks. We have a Chief Finance Officer (CFO), also known as the S151 Officer, who oversees these systems, and they are regularly audited proportionate to the level of risk. Internal Audit findings are raised with management, and recommendations reported to the Audit Committee. There is regular budget monitoring by the Corporate Policy and Resources Committee and these papers are published on our website for you to read. We have a Medium-Term Financial Plan, and we review our finances against this. The CFO is a member of the Council's senior Management Team.

Budget Process

The process has been reviewed to consider opportunities for improvement, including continuing to encourage collective ownership on financial management. Whilst a balanced budget was achieved for 2025-26, in 2026-27 when it is expected that all the Surrey councils will see a drop in government funding, there is a projected Budget gap of just under £4m. The Improvement and Recovery Plan will be focused on addressing this through a number of elements including a Transformation programme overseen by the Reorganisation and Transformation Board, and an assets disposals programme designed to enable debt reduction delivering financing savings reducing the Budget gap to achieve a balanced budget. This work will be agreed with the Commissioners.

External Audit

In addition to the Best Value Inspection report, the External Auditors Annual Audit Report 2024-25 made challenging reading for the Council with a number of themes overlapping with the Best Value Inspection Report – (Public Pack)Extraordinary Audit Committee, 25 February 2025 - Supplementary Agenda, Item 4 Agenda Supplement for Audit Committee, 25/02/2025 19:00 and the Audit Findings report can be found here Audit Findings Report LG 2021-22.

In line with the national backstop arrangements designed to clear a backlog which at one point totalled more than 900 overdue external audit opinions across the country, the Council and its outgoing auditors BDO cleared Statements of Accounts for period 2017-18 to 2022-23 at the end of November 2024. This involved the Audit Committee accepting disclaimed audit opinions on the Accounts, in order to enable the incoming auditor Grant Thornton to conclude auditing 2023-24 Statement of Accounts, although they have yet to issue their Value for Money reports for the period 2018-19 to 2022-23. However, because Grant Thornton were unable to rely on open balances, they were obliged to issue a disclaimed opinion for 2023-24. Grant Thornton did undertake a significant amount of work on 2023-

24 and issued an Annual Audit Report with seven key recommendations covering a range of financial, governance, assets, procurement and risk management issues.

Grant Thornton also issued an Audit Findings report focused on the processes, underlying assumptions and disclosures supporting the 2023-24 Statement of Accounts. After a gap of 5 years, there was a significant learning curve for financial officers as to the requirements of auditors.

The table below summarises which audit firm is responsible for auditing different years of accounts. The firms are not appointed by the Council but by Public Sector Auditor Appointments.

Accounts years responsible for auditing	Audit Firm
2018-19 to 2022-23	BDO
2023-24 to 2028-29	Grant Thornton

The Audit Committee agreed action plans to address both Audit reports' recommendations, and progress against these actions will be reported to every meeting of the Audit Committee, although that has subsequently been superseded by the Improvement and Recovery Plan being put in place in partnership with the Commissioners. In order to closely monitor progress, the number of Audit Committee meetings has been increased from three to six for the year 2025-26.

In addition, a corporate risk model/matrix was launched in 2021 as part of the revised Risk Management Policy and risk management training delivered to managers. Given this history of openness to engaging with external reviews, the Council, as stated above, looks to positively engage with the Best Value Inspection process. Given that the Council is not acquiring any more investment assets, and indeed under the latest regulations it would not be allowed to do so, it is difficult to further diversify the portfolio through new acquisitions. It should be noted that whilst the investment assets portfolio is concentrated within the Borough and the surrounding Heathrow local economic functional area, as the Council's response to the PIR highlighted, we do have diversification across tenants in a broad range of sectors. However, when opportunities arise, such as investment premises becoming empty, we will undertake analyses to look at options, including disposal or utilisation in alternative use. A review is being undertaken as part of the Improvement and Recovery Plan to consider whether for each investment asset they should be disposed or retained and, if the former, within what timeframe.

The Council already produces and reports on KPIs relating to its assets in its Asset Management Plan and an Annual Report on Investment and Regeneration Assets. It will review these assets' KPIs to ensure they continue to be appropriate and, if necessary, we will expand and refine those KPIs – for example, we have reviewed the current KPIs against the KPIs suggested in paragraph 6.7 of the PIR. The Council in its detailed Revenue Budget has improved the transparency of the breakdown of the budgets for investment assets.

Internal audit

Following a selection process, Council at its February 2024 meeting voted to join the Southern Internal Audit Partnership (SIAP) with effect from 1st April 2024. The in-house Internal Audit Manager transferred across to SIAP. The new service provided by SIAP commenced in April, and there was an initial period of SIAP working the Council to agree an Audit Plan for the year which was presented to the Audit Committee. Due to the new arrangement starting on 1st April the agreement of the Audit Plan was later than normally would be the case. This has meant audits have been backloaded towards the later part of the year. This was also compounded by an attempt to minimise duplication with the Best Value Inspection process. The Council receives assurance on the effectiveness of the delivery of internal audit through the reporting SIAP provides to the Audit Committee demonstrating compliance with Global Internal Audit Standards (GIAS) and other Internal Audit national guidance, through its Internal Audit Charter approved each year by the Committee and from the annual stakeholder survey SIAP undertake each year.

Every year, the Internal Audit function (SIAP) issues an independent opinion in an annual report concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. This comments on the risks facing the Council and the adequacy of the Council's arrangements to manage those risks. It represents one of the key assurance statements the Council receives.

Positive progress continues in the delivery of the internal audit annual plan 2024/25, however, following a delayed start to the year and challenges to officer capacity, the annual internal audit conclusion will now be presented to the September 2025 meeting of the Audit Committee.

From the work carried out to date, it is anticipated that internal audits overall conclusion on the framework of governance, risk management and control will conclude in a 'limited assurance' opinion. This position will continue to be assessed throughout the completion of the 2024/25 internal audit plan and through the continued assessment of other relevant sources of assurance.

A final internal audit opinion on the framework of governance, risk management and control for 2024/25 will be concluded for contribution to and incorporation within the final version of the Annual Governance Statement (2024/25) in September 2025 and will be reported to the Audit Committee.

Review of the Governance Framework

The Council's governance arrangements are designed to secure compliance with the principles set out in the CIPFA/SOLACE Framework for "Delivering Good Governance in Local Government" (2016). Spelthorne is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

The Council meets the standards of the framework in the following ways:

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

The Council's Constitution defines the roles/responsibilities of the Council, service and regulatory committees, and statutory officers and sets out how these roles are discharged, and the delegations extended to officers and Councillors. Codes of Conduct are in place for councillors and officers and are set out in the Council's Constitution. The member/officer protocol sets out relationship expectations. All new councillors and officers receive training on the expected behaviours.

We have numerous policies and procedures in the Constitution to back up a strong ethical approach to local government, including Gifts, Hospitality and Sponsorship, Whistleblowing, Counter Fraud, Bribery and Corruption.

The Council's Standards Committee is responsible for upholding high standards of behaviour from the elected members. This Committee is guided by an Independent Chairman and Vice-Chairman.

In the year 1 April 2024 to 31 March 2025, there were 22 complaints against Members. This is an increase from 9 during the previous year. A number have been rejected by the Monitoring Officer as being politically motivated or insufficient evidence to support the complaint. The Standards Committee received update reports on the number and types of complaints.

The Council's Chief Finance Officer and Monitoring Officer have specific statutory responsibilities to ensure that decisions taken by the Council are lawful and in line with constitutional requirements. The

Council's statutory officers meet with the Chief Executive monthly to discuss any emerging issues or matters of concern.

B - Ensuring openness and comprehensive stakeholder engagement

All Council and Committee meetings are held in public save for instances where confidential or exempt information is being presented when the public is excluded. The Council is striving to keep such instances to a minimum, and advice is sought from the Monitoring Officer whether an exemption from public disclosure is appropriate to ensure that the decision making takes place in the public domain.

All Committee reports are published on the Council's website in advance of the relevant meeting. The Best Value Inspection Report commented on the timeliness of some of the Council's reports. The Council has reviewed internal processes to ensure that all reports are published within the required timescales to afford sufficient time for the elected members and the public to read those reports for full transparency. As a result of this review, a new report template had been devised with the view to improving transparency and decision making. The effectiveness of the new measures will be reviewed periodically and corrective action will be taken as appropriate.

The Council consults regularly with stakeholders, taxpayers, and service users. As an authority, we all need to make sure we are listening to all sections of our communities right across the borough and that there is trust and confidence in the way we make decisions. We know that the services we provide are better when we listen to the people who use them and when we work together with local communities.

During 2024-25, the Council undertook a Residents' Survey and when comparing with the Local Government Association benchmark for how well residents feel informed by the Council, 65% were satisfied, well above the average of 54%.

Our internal stakeholders are equally important to shaping our priorities and there are several opportunities for employees to have their say. We encourage them to have their say on consultations as well as informing and involving colleagues at monthly all-staff briefings, listening to issues and concerns via staff surveys and an open-door management style, which all help to deliver team collaboration and innovation. In 2024, we worked in partnership with Kinetiq UK and Local Government Association in delivering a staff survey. The results showed the highest levels of staff satisfaction and engagement out of 70 Local Authorities surveyed since 2012 and overall responses were in the top quarter for the sector.

The Council proactively engages with residents, businesses, and partners to maintain the Council's reputation, gain understanding and support for the organisation's vision and objectives and keep users informed about priorities, services and campaigns and consultations via digital, in person and social media channels. The Council's website provides a key means of communication between the Council and the public in an open and transparent form. The Council provides considerable transparency information on the website. The Council is a proactive user of social media and other online tools to ensure engagement. Responsiveness to freedom of information requests is monitored by the Data Protection Officer and the Council's Management Team.

The Council has several ways it engages and communicates with residents and businesses in the Borough. We are always reviewing the most appropriate ways to communicate, from formal statutory consultations through to the Council's use of social media, website, the Customer Portal, Borough noticeboards and direct mail.

Growing our social media audience remains a priority, and since March 2020, our followers reach has increased by 84% and is an integral engagement tool to interact with our residents. A new monitoring and scheduling tool has been purchased, and we have added Next-door as a platform to communicate digitally. Our e-news platform has also grown with the addition of a dedicated Leisure Newsletter and an Environment Newsletter for residents to subscribe. With the use of an accessibility tool on the website, all pages can change language, size or colour dependant on the user's need and personal requirements.

The Council adapted its communications over the past four years to best serve our residents. Our <u>engagement strategy</u> outlines this:

Consult: We hold frequent consultations about various issues and topics, including housing developments, health and wellbeing, arts and culture, budget setting and community safety. Consultations take on various forms, both online and in person to ensure maximum accessibility. Consultation results are then reported back to residents with an outline of next steps and decisions. During 2024-25 we undertook our residents survey which provided very positive feedback, full responses can be read here: Residents' survey - Spelthorne Borough Council

Listen: We will work with and listen to our communities and partners on various topics in order to improve Council services and find better ways of working. Various workshops and marketplace events are held, either in person or online with stakeholders having the opportunity to share ideas and highlight best practice. Extensive resident engagement took place in 2024 via our new Citizen Panel and Common Place (online) on the Spelthorne Design Code, which will see residents help shape the future of our towns across the Borough.

Collaborate: In 2024, the Spelthorne Partnership Assembly was launched which has seen residents, councillors and representatives from organisations in the Borough meet four times in a year to discuss concerns with the Leader of the Council and Council Officers. We continue to develop strong partnerships in all sectors of our community, businesses, other authorities and health, so that knowledge, skills and expertise can be shared to help shape priorities and effectively deliver on them.

Empower: We promote community empowerment and democracy. Council meetings are streamed live on You Tube and residents are invited to watch in person in the council chamber, and we also welcome petitions as an important way in which people can let us know their concerns.

Our engagement strategy adopts a comprehensive approach to ensure that we engage with as many residents as possible, especially from communities that are more difficult to reach. We are committed to continually driving forward community engagement and look for new ways, tools and platforms so that all residents can be heard, not just those who are the easiest to reach, or the most vocal.

C – Defining outcomes in terms of sustainable economic, social and environmental benefits Defining outcomes

The Council has an approved Corporate Plan for the period 2024028. Supported by 136 actions which are tracked on a regular basis.

D – Determining the interventions necessary to optimise the achievement of the intended outcomes

Interventions

In response to the recommendations in Grant Thornton external audit report for the period 2023-24, the Council has complied an Action Plan to address areas of improvement identified in the report. The Action Plan was presented to, and approved by, the Audit Committee. Progress updates will be presented at each Audit Committee meeting, moving forwards this will be superseded by the Improvement and Recovery Plan.

The Council has a variety of strategies, policies and procedures which underpin the delivery of the corporate strategy. Officers are in the process of implementing a more consistent approach to

reviewing and updating these documents. This includes setting up a central database of strategies, which sets out who the document owner is, when the document needs to be reviewed, and who has responsibility for sign-off.

The emerging Improvement and Recovery Plan will detail how the Council will deliver the Secretary of State's <u>Directions</u> as part of the Government Best Value intervention process. The hight level Improvement and Recovery Plan will be presented to the Corporate Policy and Recourses Committee in September 2025 for adoption by the Council.

Optimise the achievement of the intended outcomes

The Council has a robust performance management framework in place which underpins the Corporate Plan and individual service plans. The performance management framework contains key performance indicators to measure the performance of the services. There is also an organisational development framework in place including continuous performance management (CPMS) reviews, one-to-ones, and clear job descriptions. The Policy and Resources Committee is responsible for ensuring that actions approved as part of the Budget and Policy Framework are delivered in each service area. Individual Service committees undertake scrutiny relating to their service areas.

E – Developing the Council's capacity, including the capability of its leadership and the individuals within it

The Council in response to the Best Value Inspection process has built in additional budget for the Finance team and with the Commissioners is reviewing the Finance team structuring. The Council working with the Commissioners is reviewing the resources in its Assets team. There is a robust learning and development programme for officers including mandatory e-learning on a wide variety of subjects and management training. Councillors also have a training and development programme in place, which consists of a comprehensive induction programme, specific committee training such as planning, licensing, financial and governance issues such as the code of conduct.

F – Managing risks and performance through robust internal control and strong public financial management

A Corporate Risk Register is in place which outlines the key strategic risks faced by the Council. This is regularly reviewed by officers and Councillors, with reports provided on, at minimum, a quarterly basis at both Audit Committee and Corporate Policy and Resources Committee. The Corporate Risk Register is reviewed on an ongoing basis and is being refined to align with the recommendations made by the external auditors and the key risks highlighted by the Commissioners and links to the Council's key priorities and strategic objectives.

In order to improve and embed the Council's approach to risk management, the Council will be implementing a governance assurance based Risk Management Framework and Policy, refocusing the Corporate Risk Management Group and, commencing in September 2025, undertaking a training programme for officers and councillors provided by a sector expert in risk management. Financial Procedure Rules together with the Contract Standing Orders, set the framework of internal controls. Internal audit has a programme of work designed to assess how this framework operates in practice and reports to the Audit Committee. Partnership working is governed by agreements, memoranda of understanding or protocols relevant to the type of work or relationship involved. The Council's legal services ensure all are fit for purpose and the Council's interests are protected. The Council has strong IT security requirements which reflect hybrid and virtual ways of working. The Council's Emergency Planning and Resilience arrangements are supported by Applied Resilience and the Council undertakes regular desktop exercises and monitors the Council's range of business continuity plans.

G – Implementing good practices in transparency, reporting and audit, and deliver effective accountability

All Council meetings are held in public, and minutes and webcasts are available on the Council's website. There is an Audit Committee with a terms of reference. In 2025-26 in response to a recommendation from the External Auditor the Council with an independent sector expert will undertake a self-assessment of the Audit Committee against CIPFA guidance for Audit Committees. The external Annual Audit Report is submitted to the Audit committee. Annual financial statements include a narrative summary of the Council's performance during the year as well as reporting the financial position. The Council's governance arrangements for budgeting, the accounts, financial decision making and compliance with codes of practice and legislation are in accordance with the financial management standards set out in the Financial Management code. As is highlighted elsewhere in this statement significant issues have been raised by internal and external audit and the Commissioners and are being addressed.

How we will deal with significant governance issues

1. Action taken in the year to address governance issues raised in the Annual Governance Statement relating to 2023-24

Issue Identified in 2023-24	Action Taken
Wider externalities	Corporate Risk Register has continued to highlight a range of ongoing external factors impacting on the Council's financial sustainability and identify mitigating actions Following the transfer of internal audit arrangements at the start of 2024-25 to SIAP, the Council has refreshed its approach to Corporate Risk Management. The Deputy Chief Executive (Lee O'Neil) has become the Corporate Risk Management Champion and has reshaped and focused the Corporate Risk Register. The Corporate Risk Register has been refreshed to reflect the key risks highlighted in the Annual Audit Report 2023-24. Moving forwards to place greater emphasis on risk, the Committee report template is being updated to ensure that report authors address risk upfront. The Deputy Chief Executive commissioned SIAP to undertake during 2024-25 an internal audit of risk management. This audit report is at draft stage.
Financial Risk	Best Value Inspection and Grant Thornton have highlighted a number of financial risks which will be addressed through Action Plans and through the Finance theme of the improvement and Recovery Plan. The Finance theme will have a Programme Board with a lead councillor, lead commissioner and Senior Responsible Officer (Chief Finance Officer) who will monitor progress on a monthly basis and report to the Improvement and Recovery Board which will produce quarterly monitoring reports. In March 2025 a new experienced interim Chief Accountant was appointed and since then working with the Commissioners a number of accountants have been appointed and additional external expertise has been brought in. As part of the Finance theme a major exercise is being undertaken to refresh the Medium Term Financial Planning analysis.

Housing – Development and Targets	The Council refined its Local Plan and took it through the Planning Inspection process. The outcome of the assessment is expected in November 2025.
Housing Supply and Demand – addressing Need	The Council used the Local Authority Housing Fund to lever in funding to acquire 81 TA and resettlement properties. The Council responded to the increasing pressure on its homelessness budget and demand for Temporary Accommodation (TA) by levering in a significant amount of Local Authority Housing Fund capital grant to enable it to acquire 81 temporary and permanent housing units. These units were transferred to and are managed by Knowle Green Estates the Council's wholly owned housing management company.
Climate Change and Environmental Sustainability	Council has continued to roll out its Carbon Literacy programme achieving Bronze level accreditation and is close to achieving silver.
	Council completed its Passivhaus Eclipse leisure centre in 2024 and it is estimated it will save 60% on energy compared to a conventional centre. Monitoring over the first year will confirm energy savings as compared to a conventional site.
Periodical Review of procedural practices and policy frameworks	The Council has created a central register of polices to enable close monitoring and timely reviews.
Audit Trails and Decision making	Officers have addressed the specific recommendations in audit reports produced in 2023-24
Corporate Procurement	Training for staff and elected members on the Procurement Act 2023 took place in the summer and autumn of 2024. Internal processes have been reviewed and updated addressing some recommendations in the 2023 Internal Audit of Procurement and all staff briefing took place in early 2025. In spring 2025 the Council was looking to entered into an arrangement with NHS Commercial Solutions for targeted procurement support. The Council was also exploring opportunities for joint working with another Surrey Borough Council to deliver continuous improvement through staff training, upskilling and support.

2. Review of significant governance issues arising during 2024-25 and how we are addressing them - a Forward Look

Note that the appointment of Commissioners

In May 2025 by the Secretary of State appointed Commissioners to lead an intervention to oversee the Council's implementation of the recommendations in the <u>Best Value Inspection report</u>, recovery process and ensure effective governance.

As a consequence, the Council is implementing in 2025-26 a comprehensive Improvement and Recovery Plan to ensure that all significant financial, governance and risk issues identified by Best Value Inspection report and all past external reviews are addressed.

As set out above, the Council take very seriously all of the recent external reviews' recommendations on risk and governance issues. In response it will:

- 1) Ensure that officers and relevant Committee Chairs own the external review recommendations by engaging and involving officers as Senior Responsible Officers for the Improvement and Recovery Plan and ensuring that relevant Committee Chairs and lead councillors are regularly briefed on progress against the IRP.
- 2) Working with the Commissioners to put in place an Improvement and Recovery Plan addressing all the Best Value Directions, to be presented to Council in October 2025 for approval setting out the actions to address the Best Value Recommendations. An Improvement and Recovery Board to be chaired by the Lead Commissioner will meet monthly to monitor progress and will produce quarterly reports to go to Corporate Policy and Resources Committee and six monthly reports to MHCLG. That the Council works with the Commissioners, following their steer, to address the financial, governance and risk issues identified in the Best Value Report and in so doing also address the External Auditors Annual Audit Report and Audit Findings recommendations. With respect to the latter, additional resource has been brought into the Finance team to ensure that as robust as possible draft statement of Accounts for 2024-25 is published by early September 2025.
- 3) As an early action to address comments in the Best Value Inspection Report on the quality of some of the Council's reports, the Council commenced review of the Committee report template and all internal sign off processes to ensure that the elected members are presented with all the relevant information and available options to aid robust decision making. Report writing training took place in July 2025 with a follow up session planned for late 2025-early 2026.
- 4) As another early action to address recommendation 11 in the Best Value Inspection Report, the Council undertook a recruitment process for the appointment of a second independent member of the Audit Committee. This process was successful, and the Council has confirmed appointment at the meeting on 17 July 2025. This appointment will provide further independent oversight and constructive challenge.

The list below sets out the proposed core components of the Improvement and Recovery Plan and the Theme Workstream underpinning it:

1. Commercial Theme

Commercial property rationalisation plan

Commercial governance

People, systems and data management

Commercial strategy

Contract management and procurement process review

2. Regeneration and Housing Theme

Regeneration and housing confidence

Knowle Green Estates Ltd future resolution

Balanced housing mix

Thriving communities and infrastructure

Homelessness prevention

3. Finance Theme

Minimum Revenue Position (MRP)

Sinking fund strategy and assumptions

Audit and accounts

Systems and data

Capacity and capability

Minimum Term Financial Plan (including Treasury Management and capital strategies)

4. Governance Theme

Decision making process review

Risk culture

Internal audit

Reports and guidance

Culture and continuous improvement

5. Local Government Reorganisation Theme

Data collection / sharing

HR rationalisation

Financial rationalisation

Systems and contracts

Elections and governance

Change management

Each Theme will be guided by its own Programme Board save for the Commercial Theme and Regeneration Theme which will share the same Programme Board; overall oversight will be provided by the Improvement and Recovery Board with regular progress updates presented to the Corporate Policy and Resources Committee and Full Council.

Conclusion

As we deal with the challenges of the next few years moving through the Reorganisation process towards the creation of a new unitary Council, working with Commissioners and delivering the Improvement and Recovery Plan whilst still addressing the Cost of Living, cost of doing business and housing crises together with wider externalities on our economy, health and well-being, the Council is

focused on rebuilding assurance in the effectiveness	ss of its financial, governance and risk managemen
arrangements.	

Cllr Joanne Sexton Daniel Charles Mouawad

Leader of the Council Chief Executive





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Overview

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Purpose of the Annual Audit Letter and Auditor's Annual Report

This summarises the key issues arising from the work that we have carried out in respect of the years ended 31 March 2019 to 31 March 2023.

We are required to issue an Annual Audit Letter for the years ended 31 March 2019 and 31 March 2020 and issue an Auditor's Annual Report for the years ended 31 March 2021, 31 March 2022 and 31 March 2023. We have included our findings in a combined report as many of the issues found cover more than one year.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibility of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Circumstances that have affected our work

There has been a deterioration in the timeliness of local audit in recent years leading to a persistent and significant backlog of audit opinions. Across England, the backlog of outstanding audit opinions stood at 771 at 31 December 2023 and increased to almost 1,000 at 30 September 2024. In February 2024, the Department for Levelling Up, Housing and Communities published 'Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit'.

This joint statement confirmed that:

"The issues facing local audit are widely recognised as multi-faceted and complex with no single cause or solution".

The factors contributing to the delay in issuing audit opinions on the financial statements of Spelthorne Borough Council include, but are not limited to:

- Increased regulator expectations on auditors
- Difficulties in attracting, developing and retaining staff to perform local audit work
- Impact of the Covid-19 pandemic
- Delayed conclusion of the 2017/18 financial statements audit and value for money work by the predecessor auditor.

During 2024, organisations involved in the regulation and oversight of local body financial reporting and audit worked collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.

To clear the backlog of historical accounts and 'reset' the system, the Accounts and Audit (Amendment) Regulations 2024 required local bodies to publish audited financial statements for all outstanding years up to and including 2022/23 by 13 December 2024 ('the backstop date'). In addition, the National Audit Office made changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published.

The backstop date created time constraints that prevented us from completing all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil the objectives of auditing standards. Therefore, the backstop date created circumstances which required us to modifying our opinion on Spelthorne Borough Council's financial statements.

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Audit Conclusions

Audit opinions on the Council's financial statements

The Accounts and Audit (Amendment) Regulations 2024 require Spelthorne Borough Council to publish audited financial statements for all years to 31 March 2023 by 13 December 2024.

We were not able to obtain all the necessary audit evidence upon which to form an opinion since there was insufficient time to perform all necessary audit procedures by that date. As a result, we were unable to conclude that Spelthorne Borough Council's financial statements for the years ended 31 March 2019, 31 March 2020, 31 March 2021, 31 March 2022 and 31 March 2023 as a whole were free from material misstatement. We concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

Therefore, we issued a disclaimer of opinion on the financial statements for each of the five years referred to in the previous paragraph on 13 December 2024.

When we disclaim an opinion on the financial statements, we are required to describe in our opinion the reasons for any other matters of which we are aware that would have required a modification to the opinion and the effects thereof.

For the years ending 31 March 2020, 31 March 2021, 31 March 2022 and 31 March 2023 our opinions on the financial statements included details of material inconsistencies between comparative figures in that year's financial statements and corresponding figures in the prior year financial statements. The financial statements did not include any information explaining these inconsistencies and it is unclear whether they were identified by officers during the production of the financial statements.

Conclusion on the Council's use of resources

Our work on the Council's value for money arrangements identified significant weaknesses in a number of areas.

We were unable to conclude that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resource for the years ended 31 March 2019. 31 March 2020, 31 March 2021, 31 March 2022 and 31 March 2023.

Further information on the weaknesses identified are included on page 6 onwards.

As required by the 2015 Code of Audit Practice, we issued an adverse conclusion on the Council's use of resources for the years ended 31 March 2019 and 31 March 2020 on 25 September 2025.

The 2024 Code of Audit Practice removed the requirement to issue a separate conclusion on the Council's use of resources and our findings, including the significant weaknesses on arrangements identified, are reported in this Annual Auditor's Report.

Audit Certificate

We issued our audit certificates for the completion of the audits for each year on 25 September 2025.

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Audit opinion on the financial statements

We issued a disclaimer of opinion on the financial statements for the years ended 31 March 2019, 31 March 2020, 31 March 2021, 31 March 2022 and 31 March 2023. because of the conditions created by the backstop arrangements described on pages 3 and 4.

In the remainder of this report, we quote both financial and non-financial information from various sources, including the Council's Statement of Accounts for the year's ended 31 March 2019, 31 March 2020, 31 March 2021, 31 March 2022 and 31 March 2023. For the avoidance of doubt, we have not completed any audit work in respect of any information quoted from these Statement of Accounts and its inclusion in this report should not be used to infer otherwise.



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Scope

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

When performing our value for money work, we are required to have regard to the Code of Audit Practice and other guidance issued by the NAO. Due to the circumstances described on pages 3 and 4, the guidance which describes the matters we are required to consider have changed, as has the way in which we report these matters.

Value for money (2018/19 and 2019/20)

For the years ending 31 March 2019 and 31 March 2020, we are required to report to you on an 'except for' basis. This is based on the following reporting criterion (as determine by the 2015 Code of Audit Practice):

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

There are three sub-criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- · Informed decision making
- · Working with partners and other third parties.

We have issued an adverse conclusion on the Council's arrangements for securing economy efficiency and effectiveness.

This means that we have been unable to conclude that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for money (2020/21, 2021/22 and 2022/23)

The 2024 Code of Audit Practice reduced the scope of our value for money work for the years ending 31 March 2021, 31 March 2022 and 31 March 2023. The sub-criteria we are required to consider were amended by Schedule 3 of the 2024 Code of Audit Practice to the following:

- · Financial sustainability
- Governance
- Other matters that have come to our attention.

The way in which we report our findings for the years ending 31 March 2021, 31 March 2022 and 31 March 2023 has also changed. Instead of issuing a conclusion on the Council's arrangements for securing value for money, we present a narrative commentary on our findings and, where appropriate, make recommendations regarding any significant weaknesses in arrangements identified.

The changes introduced by the 2024 Code of Audit Practice also permit auditors to combine the reporting for multiple years into one document, which we have done in this report.

We set out the context in which our value for money work has taken place on the following pages.



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Context and background

The Council has acquired a significant commercial property portfolio in recent years. The programme of commercial investment commenced in September 2016 with the purchase of BP's Headquarters at Sunbury for £385 million. To finance the purchase the Council drew down loans of £405 million, all of which were provided by the PWLB.

The predecessor auditor (KPMG) raised concerns regarding the governance arrangements in relation to this purchase, ultimately leading to an adverse use of resources conclusion for 2016/17. KPMG's intention to issue an adverse conclusion was verbally reported to the Audit Committee at its meeting on 26 July 2018. The work supporting the conclusion was not concluded until early 2019, with findings reported to the Audit Committee on 5 February 2019. In summary, the reasons for adverse conclusion were as follows:

- An inadequate trail supporting the decision-making process underpinning the purchase leading to uncertainty whether all associated risks had been properly considered
- No scenario analysis to determine the financial impact were BP not to renew its lease or agree different lease terms
- Failure by the Council to publish the associated decision made by the Chief Executive in a timely manner as required by legislation.

The minutes of the Audit Committee on 5 February 2019 record that the Council disagreed with the findings. The Council's detailed responses to the recommendations raised by KPMG are included in the External Audit Report 2016/17.

The Council made further acquisitions of commercial property during 2017/18 (purchase price in brackets):

- 3 Roundwood Avenue, Stockley Park in July 2017 (£21.4 million)
- World Business Centre 4, Heathrow in September 2017 (£47.2 million)
- 12 Hammersmith Grove, Hammersmith, London in January 2018 (£160 million)

These acquisitions were financed by PWLB loans totalling £225 million.

KPMG performed work on the arrangements relating to the acquisitions made in 2017/18, culminating in a Public Interest Report (PIR) issued in November 2022 and a second adverse conclusion on the Council's use of resources for that financial year.

While work on the PIR was ongoing, the Council purchased its final tranche of commercial properties in August 2018, comprising the following (purchase price in brackets):

- The Charter Building, Uxbridge (£136 million)
- Thames Tower, Reading (£119 million)
- The Porter Building, Slough (£66 million)

The Council borrowed £332 million from the PWLB to finance the purchases.



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The Council's 2016-2019 Corporate Plan set out Housing and Economic Development as two strategic priorities for the Council. To support delivery of these priorities, the Council also commenced a programme of property acquisitions to facilitate the creation of additional housing and regeneration of town centres within the borough. The first of these took place July 2018, when Communications House in Staines was purchased for £11 million.

The commercial and regeneration property acquisitions completed in 2018/19 were financed by PWLB borrowing.

Following publication of the PIR, the Department for Levelling Up, Housing and Communities (DLUHC, now MHCLG) commissioned a review into the Council's indebtedness (undertaken by CIPFA). The scope of this review set out the following areas of focus:

- · An assessment of the Council's financial risk due to its profile of investments and debt (current and planned)
- An assessment of the Council's capacity, capability and arrangements for managing its investment and debt risks, and whether these are sufficient and appropriate for the council's activity
- An assessment of actions the Council can reasonably take to reduce its debt and commercial exposure, or other actions it can take, with respect to reducing its overall level of risk over the short, medium and longterm.

This review was completed in March 2023 and the report was shared with the Council (via DLUHC) in July 2023.

The review raised a number of concerns.

In response, DLUCH initiated a Best Value Inspection in May 2023. This concluded in February 2025 and the report was published by the government on 17 March 2025.

In addition to the above, the Council also commissioned two Local Government Association (LGA) Peer Challenge reviews. The first of these took place in 2020 and focused on corporate finance. The second took place in 2022 and looked at a range of areas across the Council.

For the reasons set out on pages 3 and 4 of this report, our value for money work in relation to arrangements in place during the years ended 31 March 2019, 31 March 2020, 31 March 2021, 31 March 2022 and 31 March 2023 did not commence until October 2024.

We are required to consider arrangements in place during each relevant year (2018/19 to 2022/23). While some of the work supporting the external reviews took place after relevant periods, in some areas the arrangements in place remained the same throughout and the findings and observations provide insight into the effectiveness of the arrangements in place during each year.

We have therefore drawn on these reviews when performing our risk assessment, further audit work in relation to the matters above and in forming our conclusion on whether the Council had proper arrangements in place to secure value for money.

Risk assessment

We have undertaken a risk assessment to establish whether there are aspects of the Council's operations where further audit work is required to allow us to determine whether the arrangements in place are adequate or where there is a significant risk of weaknesses in those arrangements.



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This risk assessment identified that further work was required in the following areas:

- Medium Term Financial Sustainability focus on income from commercial properties
- Quality and robustness of information used for decision making
- Governance of Knowle Green Estates Ltd (KGE Ltd)
- Introduction of the committee system
- Viability of the Council's housing delivery programme.

The above areas are considered in further detail on pages 10 to 44 of this report.

Legality of commercial property acquisitions

As described on pages 7 and 8, KPMG performed work on the arrangements relating to the commercial property acquisitions made in 2017/18, culminating in the Public Interest Report (PIR) issued in November 2022 and an adverse conclusion on the Council's use of resources.

Section 4 of the PIR relates to legal issues in relation to the commercial property acquisitions. Given similar acquisitions were made during 2018/19, we have considered the implications for our own reporting.

In summary, KPMG obtained Queen's Counsel (QC) legal advice regarding the Council's powers to borrow and invest and how those powers, where they exist, interact with each other. They concluded that the Council did not have a legal basis for either purchasing the commercial properties or financing those purchases by borrowing.

KPMG further observed that the Council did not have regard to the DCLG Guidance and Prudential Code, meaning that even if powers had existed, the Council exercised them unlawfully.

In its response to the PIR, the Council strongly disputed the matters raised, noting that it had also obtained its own QC's advice which confirmed that the purchases were lawful. The Council also highlights that it obtained further legal advice following the publication of the PIR which reinforced this view.

Subsequent external reviews have not commented on the legality of the commercial property acquisitions, although the BVI Report does note the following at para 7.9:

"...no specific QC opinion was sought for the decision to acquire three investment properties at the Cabinet meeting in July 2018. Legal advice referenced a previous QC opinion from 2016, despite new statutory guidance on Local Authority Investments that took effect in April 2018. The report to Cabinet did not mention this change in guidance."

It is clear from the PIR and the Council's response that the legal framework which governs a local authority's power to invest and borrow is subject to differing legal opinions and as such it would be for the courts to decide whether the Council acted lawfully. Both KPMG and the Council acknowledged this at the time.

Given the time that has elapsed since the final purchases of commercial property (which took place in August 2018), the absence of any intention by the Council to pursue further such acquisitions, and the significant cost to the taxpayer which would be incurred were an application to be made to the court, we do not consider an application to the court to be a proportionate course of action.

We also note that the government has updated its statutory guidance on investing and borrowing by local authorities since 2018, effectively prohibiting similar transactions in the future.



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Financial Sustainability

The Medium Term Financial Strategies (MTFS) presented to Council in December 2018 and December 2019 identified that commercial properties were expected to generate approximately £50 million of income per annum over the four years covered by the MTFS (2019/20 to 2022/23). Of this, approximately £9 million was to be used to fund the cost of providing day to day services. The remainder was to be used to service the debt raised to fund the commercial property acquisitions, set aside a minimum revenue provision (MRP) and build up 'sinking funds'.

The MTFS presented to Cabinet in January 2021 identified that commercial properties were expected to generate approximately (gross rents) £53 million of income per annum over the four years covered by the MTFS. Of this, between £8.8 million and £10.4 million per annum would be used to fund the cost of providing day to day services.

The MTFS referred to above also highlighted significant budget gaps in each of the four years covered by the forecasts.

There is a risk that the Council is both over-reliant on income from commercial properties to support its revenue budget and is setting aside insufficient amounts in its sinking funds and for MRP. Should this be the case, the Council may need to identify savings and efficiencies in existing services to address the budget gaps identified in the MTFS.

We have considered whether the planned annual contributions to the sinking funds are sufficient in the context of the wider property portfolio and whether the level at which MRP is being charged is appropriate.

Our work has been informed by the findings of external reviews in relation to the sinking fund strategy and MRP (both of which are directly related to the Council's investment property acquisition strategy).

Arrangements and Findings

Historical financial performance (pre 2018/19)

The table below summarises the net revenue outturn position for each of the previous three years prior to 2018/19 at the net budget requirement level (equivalent to net expenditure on services less interest and central government funding and before any surplus or deficit on the collection fund and prior year revenue carry forward). This information is shown in Appendix A to each years' revenue outturn report presented to Cabinet.

	Original budget (£000)	Revised budget (£000)	Outturn (£000)	Variance to revised budget (£000)
2015/16	7,194	7,419	7,375	(44)
2016/17	7,329	7,425	3,377	(4,778)
2017/18	7,655	7,672	6,894	(777)

The above table shows that in each of the previous three years the Council delivered a surplus against budget.

The significant surplus in 2016/17 is due rental income from the BP Campus Site, which the Council purchased during the year. This rental income net contribution to revenue (ie gross rent received less borrowing costs associated with the acquisition, MRP and transfers of a portion of the income to a sinking reserve) was not included in the original budget for 2016/17 but was included the following year.



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MTFS 2019/20 - 2022/23 and financial outturn

The MTFS for the period 2019/20 to 2022/23 (referred to as the 'Outline Budget' in Council committee papers) was presented members at the Council meeting held on 11 December 2018. The budget gaps identified in the MTFS presented to Cabinet in December 2018 were as follows:

	2019-20	2020-21	2021-22	2022-23
	£000	£000	£000	£000
Estimated gap	1,366	4,847	6,028	4,082

While the report makes it clear that these gaps were before the implementation of any mitigating actions, the projection for each year did include forecast income from the commercial property portfolio. An analysis of this income, and how the Council intended to utilise it, was also included in the report and this is reproduced below:

	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Rental Income	(50,629)	(49,122)	(50,116)	(50,366)
Loan Interest Payable	23,028	22,911	22,760	22,370
Minimum Revenue Provision	11,052	11,334	11,624	11,921
Sinking Funds	6,405	4,840	5,840	6,735
Set aside for specific revenue purposes	555	555	555	555
Net Income (used to fund Revenue budget)	(9,589)	(9,482)	(9,337)	(8,785)

In summary, the Council expected the income generated by the commercial property portfolio to contribute approximately £9 million towards its revenue budget in each year of the next four years.

For context, the Council expected to incur net expenditure (before taking into account income from commercial properties or the cost of servicing the debt raised to finance the purchase of those properties) on the delivery of services in each of the four years covered by the MTFS:

	2019-20	2020-21	2021-22	2022-23
	£000	£000	£000	£000
Net	23,608	25,597	26,752	24,050
expenditure				

The forecast income from commercial properties presented a significant percentage of forecast net expenditure, as shown in the following table:

	2019-20	2020-21	2021-22	2022-23
	£000	£000	£000	£000
Net income commercial properties	9,589	9,482	9,337	8,785
Net expenditure	23,608	25,597	26,752	24,050
Net income as % of net expenditure	40.6%	37.0%	34.9%	36.5%

Income from commercial properties was therefore expected to fund more than a third of net expenditure on the delivery of services in each of the years covered by the MTFS. This illustrates the significance of the commercial property income to the Council's ability to finance its operations.



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The timing of our work enables us to consider the extent to which the Council was able to address the forecast budget gaps reflected in the December 2018, December 2019 and January 2021 MTFS, the reasonableness of the budget assumptions and to mitigate any risks.

The table below shows the gap reported and the final outturn position for each year (positive numbers represent a deficit while negative numbers are a surplus). It is important to note that the period covered by the MTFS was impacted by economic volatility caused by the pandemic and then global events (particularly the conflict in Ukraine).

This shows the Council reported a surplus for each of the years covered by the MTFS and the two subsequent years up to the date of our work. A brief summary for the reasons for the underspends include:

- 2019/20 underspend achieved by services
- 2020/21 underspend due to a combination of underspend of Covid-19 related grants to cover additional cost pressures (£1.5 million) and non-Covid-19 expenditure (£2 million)
- 2021/22 underspend achieved by services
- 2022/23 underspend by services £3.2 million offset by a reduction of £3 million in commercial property income
- 2023/24 underspend by services £3.3 million and a favourable variance of £4.7 million for investment property income
- 2024/25 underspend by services £7.4 million offset by a net contribution to reserves of £4.8 million.

	2019-20	2020-21	2021-22	2022-23	2023-24	2024/25
	£000	£000	£000	£000	£000	£000
Estimated gap as per Dec 2018 MTFS	1,366	4,847	6,028	4,082		
Estimated gap as per Dec 2019 MTFS		(1,412)	255	71	1,810	
Estimated gap as per Jan 2021 MTFS			(658)	1,284	2,324	282
Estimated gap as per Nov 2021 MTFS				960	838	2,611
Estimated gap as per Jan 2023 MTFS					574	3,617
Final outturn	(4,939)	(3,258)	(3,742)	(479)	(10,604)*	(3,112)

^{*} This surplus figure is taken from the addendum on page 17 in the 2023/24 Revenue Outturn Report. The final outturn figures for years prior to 2023/24 have been taken from appendix A to the outturn reports, which show the net revenue budget monitoring and agree to the covering report. This is not the case for 2023/24, where appendix A appears to show a deficit of £3.788 million. It is unclear from the report why this discrepancy exists and we have not investigated the differences further.



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Commercial property acquisitions (August 2018)

Significant risk / risk of significant weakness Medium Term Financial Sustainability focus on income from commercial properties.

The Council purchased its final tranche of commercial properties in August 2018, comprising the following:

- The Charter Building, Uxbridge (£136 million)
- Thames Tower, Reading (£119 million)
- The Porter Building, Slough (£66 million)

The Council provided copies of the financial models prepared as part of the pre-acquisition due diligence.

The Council engaged external advisors to prepare 'base case' assumptions and cash flow information for each of the three properties. The cash flow assumptions were prepared on a base-case and worst-case scenario.

The Council used this information to prepare its own financial models, which reflect MRP and contributions to the sinking funds, to arrive at the revenue contribution expected in each of the next 50 years.

As part of the pre-acquisition process, the Council commissioned different external advisors to perform a review of the cash flow modelling. While the adviser was broadly of the view that each input into the models was reasonable and/or prudent, the following matters were identified:

 50-year cash flows are relatively unusual with investors typically modelling over a hold period of between 5 and 10 years. Projections over the long term are inevitably

- sensitive to the input assumptions and will be required to be regularly monitored
- The cash flows present two scenarios a 'base' case and a 'worst' case and the 'base' case has been prepared on a prudent basis, with the 'worst' case a reasonable downside case
- · The cash flow does not represent a full investment appraisal or assess the risk / return metrics of the investment relative to the price paid
- The cash flows also make no allowance for capital expenditure required to maintain the properties and associated rental income.

Regarding the penultimate bullet point above, the Council has previously expressed the view (in response to the PIR) that traditional metrics used to measure the rate of return "are less relevant to a Council due to our position as a long-term investor focused principally on income return (main purpose was to generate surplus income to offset the loss of grant funding and to support service provision for residents)."

Regarding the final bullet point, the external adviser noted that the Council was aware of the omission of capital cash flows and had made allowance for this elsewhere in its financial assessment. The 'allowance' referred to is the contribution to the Council's sinking funds.

The external adviser also noted that both the base and worst-case scenarios make the same assumptions regarding lease terms, voids, rent free periods and break options, although they considered the base case to be appropriate given the current lettings status of the properties.



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We note that the PIR described the assumptions in the financial models supporting the commercial property acquisitions in 2017/18 in relation to void periods, rentfree periods and landlord costs to be potentially optimistic. The Council disputed this in their response.

The presence of such modelling and the engagement of a third-party expert to support this process demonstrate that the Council implemented arrangements to ensure due diligence was performed.

However, the review highlighted the unusually long time period over which the Council was preparing its models, that the cash flow was not a full investment appraisal and that the cash flow models lacked any allowance for capital expenditure.

Covenant reviews

As part of the pre-acquisition process for the three commercial acquisitions in August 2018, the Council commissioned external advisors to undertake a review of the financial standing of existing / prospective tenants.

This involved rating each tenant as having no signs of financial stress (green-rated), some signs of financial stress (amber-rated) or there being insufficient information available to make an assessment (red-rated).

Of the 20 tenants in place across the three properties, 12 were rated green, seven amber and one red. The red rated tenant only contributed £40,000 to a total headline rent of £3.943 million.

The Council commissioned a further review of five specific tenants across four of its commercial properties in January 2019 with the same approach taken as that described above. The review identified one amber-rated tenant and one red-rated tenant.

Portfolio Property Reviews

The Council commissioned external advisers to undertake a review of its commercial property portfolio in March 2019. The advisors raised the following recommendations:

- Continue to undertake covenant monitoring and maintain informal dialogue with tenants to both monitor covenant and intentions regarding upcoming lease breaks or expiries
- Develop formal asset management plans and undertake annual reviews of asset performance against these plans
- The advisors note that the sinking fund approach is not common practice in the investment property market and more detailed modelling should be undertaken given both the intention to hold the properties for 50 years and the Council's sensitivity to income changes
- Consider diversification away from office properties in the Heathrow Economic Area should further investment be undertaken.

A copy of this report was presented to the Overview and Scrutiny Committee at its meeting on 19 March 2019 under a private agenda item. This was accompanied by a covering report describing the Council's acquisition process.

The minutes of the meeting note that questions were raised and answered by officers, the Leader and Portfolio Holder for Finance and that the report was noted.



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Commercial property income forecasts and actuals

We have compared the Council's forecast rental income from commercial properties, borrowing costs and sinking fund contributions with those reported in the Council's financial statements. These comparisons are shown in the following tables.

Other than voids, we would expect limited variation between forecasts and actuals given that tenancy agreements will specify rents due.

The significant variance in rental income in 2022/23 is due to the loss of a tenant in 2022 following the start of the war in Ukraine and the sanctions against Russia (the tenant was a Russian owned-business).

The table below demonstrates that the rental income forecasts in the December 2018 MTFS were reasonable.

The pandemic and circumstances leading to the loss of a tenant in 2022/23 could not reasonably have been foreseen and the impact of these is not indicative of poor forecasting.

For context, it also helpful to consider the collection rates for rental income from commercial properties. The information is taken from either the corresponding Asset Annual Report prepared by the Council or the annual Statement of Accounts, where collection rates were disclosed.

- 2019/20 90% (from Annual Asset Report)
- 2020/21 98.09% (from Annual Asset Report)
- 2021/22 99% (from Annual Asset Report)
- 2022/23 98.9% (from Statement of Accounts)
- 2023/24 99.09% (from Statement of Accounts)

The low collection rate in 2019/20 is due to the onset of Covid.

	2019-20	2020-21	2021-22	2022-23
Rental income	£'000	£'000	£'000	£'000
Rental Income per Dec 2018 MTFS	(50,629)	(49, 122)	(50,116)	(50,366)
Rental income per Statement of Accounts	(51,079)	(49,516)	(50,609)	(44,826)
			·	
Variance	450	394	493	(5,540)



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Loan interest and sinking fund contributions

We would expect limited variation in loan interest payments given the Council pursued a policy of fixing interest rates for the duration of the loans. Similarly, the Council's approach to sinking funds means that forecasts should be achievable, subject to rental income remaining consistent.

The tables below shows that loan interest forecasts were reasonable and, with the exception of 2022/23, the Council was able to maintain contributions to the sinking fund that were consistent with the December 2018 MTFS.

As noted previously, the circumstances which led to the need to withdraw from the sinking funds were outside of the Council's control.

However, this significant withdrawal to support the Council's budget has resulted in the sinking fund falling below its target level and may need to be replenished in the coming years.

It also demonstrates the sensitivity and exposure of the Council's financial position to changes in the net rental income achieved and the impact of voids on the Council's budgets.

Loan Interest	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Loan interest payable per Dec 2018 MTFS	23,028	22,911	22,760	22,370
Interest payable per Narrative Statement in Statement of Accounts	23,328	23,156	23,032	22,690
Variance	-300	-245	-272	-320
Sinking fund contributions	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Forecast sinking funds contributions per Dec 2018 MTFS	6,405	4,840	5,840	6,735
Actual sinking fund contribution per Narrative Statement in Statement of Accounts	6,796	5,090	6,090	3,891*
Variance	-391	-250	-250	2,844

^{*} The Council reported a contribution to the sinking fund of £7.658 million offset by a withdrawal from the fund of £3.767 million to cover the loss of a tenant and associated rental income in the year (as described above).



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Sinking Fund methodology

The Council maintains sinking funds for each of its investment properties. The purpose of these funds is to mitigate against circumstances which may reduce revenue generated by the commercial property portfolio (such as loss of a tenant) or generate costs which will need to be met from revenue resources (such as reconfiguration of the property at the end of a lease).

The Outline Budget Report presented to members at the Council meeting held on 11 December 2018 including the following analysis of the amounts planned to be transferred to the sinking funds between 2019/20 and 2022/23. The table from the report is reproduced below:

	2019-20	2020-21	2021-22	2022-23
	£'000	£'000	£'000	£'000
BP Main Site	3,190	3,690	4,190	4,290
BP SW Corner	655	805	955	1,105
Elmbrook House	223	273	323	373
12 Hammersmith Grove	2,208	3,108	4,008	4,908
Stockley Park	450	550	650	750
WBC4	0	200	400	600
Communications House	536	1,036	1,536	2,036
Thames Tower	1,121	1,961	3,011	4,061
Charter Building	1,543	4,023	5,213	7,013
Porter Building	677	1,362	1,562	1,652
Total	10,603	17,008	21,848	26,788

We have not seen any evidence of committees having the opportunity to scrutinise the methodology used by the Council to determine the amounts to be set aside in sinking funds, either in years prior to 2018/19 or during 2018/19 itself.

We understand it is derived from modelling the impact of future voids, rent free periods and refurbishments on a property by property basis.

Para 5.4 of the Public Interest Report issued by KPMG raised concerns regarding the robustness of these models and recommended that:

"The Council should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to longer term"

Para 2.10 of the Council's response states:

"The Council do not accept that the models were simplistic (PIR paragraph 1.8 a), although it is true to say that they became more sophisticated post 2017/2018."

Nonetheless, the Council accepted all of the recommendations made in the PIR, and its response to the recommendation above included the following:

"The Council is already committed to undertaking a review of its Sinking Fund Strategy covering the next 50 years bringing independent consultants to review assumptions about future income levels, rental activity and to make recommendations around levels of sinking funds contribution to reserves to ensure that we continue to have a sufficient level of reserves to cover any dips in income and to cover all financing and management costs."



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Subsequent external reviews also commented on the adequacy of the sinking funds. Section 2.1.6 of CIPFA's Capital Assurance Review highlights that:

"While the sinking fund reserve has been established for a number of years, SBC has only recently [Feb 2023] set a policy concerning its use."

CIPFA raised the following recommendation (Recommendation 4) in response to the findings of its review in relation to the Council's sinking fund methodology:

"Agree specific terms of reference for the review and treatment of the sinking fund

The planned sinking fund review should make use of the independent resources provided. The review must take a long-term view of potential risks and their financial consequences. The council needs to set clear rules for the sinking fund in relation to its commercial investments and the overall financial resilience of the Council."

In its response to CIPFA's recommendation, the Council stated:

"Councillors have already agreed that we undertake a review to assess the sinking funds projections over a 50-year horizon. We are looking to secure external assistance and would be open to discussions as to how best we achieve this. In undertaking this review, we will seek to provide greater transparency for councillors as to the methodology and rationale underpinning the future projected contributions and will seek to link more clearly the sinking fund contributions to anticipated future behaviour of individual properties."

Further to the above, the Best Value Inspection (BVI) report noted that:

"5.16 We have observed delays and inadequate execution in the review process. The intention to report the 50 year projections to the Corporate Policy and Resources Committee by June 2024 was only completed in January 2025. The Inspection team initially requested a copy of the 50-year model in May 2024, but it was not available. A draft was only provided on 7 November 2024, despite multiple reminders and an email to the Chief Executive in September, and assurances that the information would be shared soon.

5.17 While the Council initially considered using external consultants to develop the model, it opted instead to rely on in-house expertise."

Significant weakness

In the absence of an approved sinking fund policy (presented to Corporate Policy and Resources Committee in February 2023), scrutiny by members of the underlying methodology used by the Council to determine the adequacy of the amounts being set aside and underlying sinking fund modelling which mirrors the timeframe over which the Council intends to hold the associated properties, we are unable to conclude that the Council had proper arrangements in place to ensure that sufficient amounts are being set aside from net rental income to support future capital costs or rent losses from voids.



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Council's MRP policy

Since 2004, local authorities have been responsible for determining whether their capital expenditure is affordable, prudent, sustainable and offers value for money. This is done within a framework known as the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code'). Councils are required to comply with the Prudential Code by legislation (The Local Government Act 2003 in England and Wales).

Councils demonstrate compliance with The Prudential Code using 'prudential indicators'. These are set and approved by members as part of the annual budget setting process.

There is a further element of the Prudential Code, known as the Capital Financing Requirement (CFR). The CFR measures the extent to which a local authority's historical capital expenditure still needs to be financed (ie the authority has not yet used capital receipts, capital grants or revenue resources to finance the capital expenditure) and reflects the authority's underlying need to borrow (and repay) funds.

The Prudential Code determines how a local authority should calculate its CFR. Once calculated, the CFR is used to determine an amount known as a 'minimum revenue provision' ('MRP'). The purpose of the MRP is to ensure that a local authority is setting aside resources to maintain its underlying need to borrow at an affordable level.

The requirement to set aside MRP is set out in legislation rather than the Prudential Framework. In a local authority's annual Statement of Accounts, this is achieved by reducing the General Fund by the value of the MRP.

It is important to emphasise that the MRP represents a reduction in the revenue resources available to a local authority - once charged to the General Fund (a cash backed, usable reserve) in the accounts, it is money that is no longer available to spend on future service delivery or capital programmes.

Legislation provides a number of options which a local authority can use to calculate its annual MRP charge. A local authority must state which option(s) it has chosen to apply as part of the budget setting process. This statement is then approved by members as part of the wider budget approval. The Council set out its MRP policy choices in its Annual MRP Statement.

The Council commenced MRP charges in 2017/18 following acquisition of the investment properties and draw down the loans to finance these acquisitions. Prior to this the Council was debt-free and did not charge MRP.

The MRP policy applicable to 2018/19 was approved by Council (following recommendations from Cabinet) in February 2018 as part of the budget setting process. Cabinet considered the policy at its meeting on 21 February 2018.

The policy is reproduced below:

"Capital expenditure incurred during the financial year on asset acquisitions will not be subject to a MRP charge until the following complete financial year. For capital expenditure incurred that is funded from borrowing, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate at the point the expenditure is incurred (continued over).



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MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

The annuity method makes provision for an annual charge to the General Fund which takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the DCLG "Meaning of Prudent Provision" which provide that "debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits.

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20."

The statutory guidance applicable from 1 April 2019 is the Capital finance: Guidance on minimum revenue provision (4th edition). The guidance provides four options which an authority may use to calculate its MRP (and notes that an authority may use a combination of the four to reflect when debt was taken out), although it is important to note para 23 of the guidance, which states:

"However, this does not rule out or otherwise preclude a local authority from using an alternative method should it decide that is more appropriate."

Option 1 (the "Regulatory Method") and Option 2 (the "CFR Method") may only be used where capital expenditure was incurred before 1 April 2008 (per para 38 of the guidance). The Council has not used either of these methods. Option 4 (the "Depreciation method") is not appropriate for commercial properties given that depreciation is not charged on assets of this type and this is reflected in para 45 of the statutory guidance, which states:

"The duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements. As depreciation is not charged on investment properties, Option 4: the Depreciation method is not a suitable approach for calculating the MRP to be charged in respect of investment properties."

The Council has therefore employed Option 3: the Asset Life method in accordance with the guidance.

The Asset Life method can be applied in two ways:

- The equal instalment method, which results in an equal amount being charged as MRP in each year of the asset's useful economic life
- The annuity method, where the MRP charged reflects the principal amount to be repaid in the year so that, over the asset's useful life, the amount of capital expenditure financed by borrowing is fully funded from revenue resources.



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As per the Council's policy above, the Council has opted to apply the annuity method. In practice, this results in the nominal value of the MRP increasing on an annual basis. However, because this method takes into account the time value of money, the charge is effectively spread equally over the life of the asset. The Council's policy makes this clear.

The Council's MRP policy states that "For capital expenditure incurred that is funded from borrowing, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset". This approach is consistent with the guidance.

For commercial properties purchased in 2018/19, the Council included the MRP profile for each asset in the respective financial model prepared prior to acquisition. This uses Excel's PPMT function to calculate the principal repayment on the borrowing taken out to fund the asset using the 50-year annuity rate as at a given date. The profile shows the nominal value of the MRP set aside increasing between year 1 and year 50. This methodology is consistent with the acquisitions made in 2017/18.

The BVI report raises concerns regarding the amount of MRP provided for in 2023/24, highlighting that the charge is only around 1% of the CFR. For context, MRP charges in the years 2018/19 to 2022/23 are shown in the tables below (based on the CFR note in the published Statement of Accounts for those years). This shows that for the years preceding 2023/24 (including 2018/19), the MRP charge has been approximately 1% of the CFR.

As noted above, the annuity method applied by the Council will result in lower MRP charges in earlier years, increasing as a proportion of the CFR in later years. However, because this method takes into account the time value of money, the real charge borne by tax payers remains consistent in each year.

Following the issues raised by the BVI team, the Council commissioned its treasury advisors to review its MRP policy. The Council have provided us with a copy of the report, which concludes that the methodology applied by the Council is consistent with government guidance.

	2018-19	2019-20	2020-21	2021-22	2022-23
	£000	£000	£000	£000	£000
Opening CFR per Capital Financing and Expenditure note in Statement of Accounts	678,998	1,051,121	1,116,100	1,128,532	1,117,687
MRP charged to general fund per Capital Financing Note in Statement of Accounts *	7,845	11,052	11,903	12,327	12,095
MRP charge as a % of CFR (%)	1.16	1.05	1.07	1.09	1.08

^{*} This is incorrectly referred to as a repayment of debt in the Capital Expenditure and Financing Note



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Commercial property valuations

The Council engages an external valuer to value its commercial properties. This exercise is undertaken annually. The table below shows the purchase price and value of the Council's commercial property portfolio at each financial year end covered by this report.

This information is taken from the Council's annual commercial asset reports. For the reasons set out on pages 4 and 5 of this report, these values have not been subjected to any audit procedures.

Value as at

				, 11110 110 110		
Property (purchase date)	Purchase price (£m)	31 March 2019 (£m)	31 March 2020 (£m)	31 March 2021 (£m)	31 March 2022 (£m)	31 March 2023 (£m)
BP Campus, Sunbury Business Park, Sunbury (September / December 2016)	384.90	389.08	391.73	393.10	386.80	302.35
12 Hammersmith Grove (January 2018)	170.00	170.80	165.90	162.00	162.00	140.25
Charter Building, Uxbridge (August 2018)	135.98	135.40	131.20	105.00	99.00	80.00
Thames Tower, Reading (August 2018)	119.32	127.20	126.80	113.80	109.84	103.70
The Porter Building, Slough (August 2018)	66.47	71.40	69.90	62.00	57.35	45.50
World Business Centre 4, Heathrow (Sept 2017)	47.25	47.00	45.80	46.00	45.10	36.10
3 Roundwood Avenue, Stockley Park (July 2017)	21.40	20.55	20.10	18.34	16.40	11.00
Elmbrook House, Sunbury (December 2016)	7.16	7.46	7.24	7.23	6.25	4.50
TOTAL	952.48	968.89	958.67	907.47	882.74	723.40



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The value of the Council's commercial property portfolio for the period 31 March 2019 to 31 March 2023 fell by £245 million (25%), with all properties declining in value. The year-on-year overall change is shown in the table below.

The most significant fall in the value of properties was in 2022/23 with 3 Roundwood Avenue, Stockley Park and Elmbrook House both losing almost a third of their value.

While the falls in 2022/23 were caused primarily by wider market conditions which affected office accommodation more broadly, the loss of tenants during the year had an impact on the valuation for two of the properties (The Porter Building and 3 Roundwood Avenue, Stockley Park).

The fall in the value of the commercial properties did not impact on the Council's General Fund because:

- The capital accounting and funding framework which applies to local authorities requires movements in the value of investment properties to be excluded from the General Fund
- No additional revenue provision (MRP) has been made as it expects rents over the 50-years to continue to be sufficient to cover the financing costs and principal repayments associated with the borrowing

The nature of property means that values are expected to fluctuate from year to year in cycles that mirror the wider economy. Nonetheless, significant falls such as those experienced in 2022/23, when coupled with loss of tenants (and the associated loss of income) could significantly impact the Council's ability to service and repay its borrowing because:

- A reduction in income reduces the revenue funds available to pay interest due and set aside to fund the repayment of principal
- In the event the Council was unable to set aside sufficient amounts from revenue, it may be necessary to dispose of the asset and use the resulting capital receipts to repay debt. Where property values have fallen, the capital receipts received may not be sufficient to cover these repayments.

We have commented on exit strategies on the following page.

	Value as at						
	31 March 2019 (£m)	31 March 2020 (£m)	31 March 2021 (£m)	31 March 2022 (£m)	31 March 2023 (£m)		
Value of commercial property portfolio	968.89	958.67	907.47	882.74	723.40		
Year-on-year change in value	1	-10.22	-51.2	-24.73	-159.34		
Year-on-year change in value (%)	-	-1.05%	-5.34%	-2.73%	-18.05%		



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Asset management plans and exit strategies

The portfolio review by external consultants in March 2019 highlighted that there were no formal, long-term asset management plans in place for the commercial properties. The consultants noted that such plans were particularly important for the multi-let assets and recommended that once such plans had been developed, monitoring against these should take place on an annual basis.

Cabinet approved an overarching Asset Management Plan in September 2020, although this was strategic in nature, covering the Council's entire asset basis (ie municipal, commercial and regeneration portfolios) and did not address intentions regarding individual properties in the portfolio.

At the same meeting, Cabinet received the first annual property report. This reported detailed the portfolio's performance against the KPIs set by the Council, market commentary, lettings activity and asset management activity. The report also included a profile of each asset in the portfolio, incorporating a brief description of the strategy for the asset.

Except for Elmbrook House, where the medium-term strategy was to consider a residential development, the Council's intention was to hold the commercial properties for the long term whilst maximising income through proactive management of tenancies.

Similar annual reports were prepared for 2020/21, 2021/22 and 2022/23.

The Council did not develop exit strategies for its commercial properties. The BVI report noted the following regarding exit strategies (4.22 of the BVI Report):

"When we requested to see individual exit strategies for the investment properties in May 2024, we found that these strategies were not in place. First drafts were eventually provided to us in November 2024. In our view, these strategies are not fit-for-purpose. They focus more on maintaining ownership rather than on potential exit options, and fail to adequately consider site disposals"

Significant weakness

In the absence of asset management plans and exit strategies prepared in a timely fashion after the acquisition of the commercial properties, we are unable to conclude that the Council had proper arrangements in place to manage the medium and long-term risks (both financial and non-financial) associated with the commercial property portfolio.

Conclusion

In recent years, the Council reported surpluses against its revenue budget and was able to close the budget gaps forecast in the December 2018 MTFS.

Apart from 2019/20, when the onset of the pandemic in March 2020 had a significant impact on commercial property income, the Council collected more than 98% of the commercial rent due. In 2019/20, 90% of the rent due was collected.

Net income from commercial properties (rents less interest on borrowing and MRP) has supported the Council's budgets and allowed the Council to build up its sinking fund to cover future voids or capital expenditure required to maintain these assets as Prime / Grade A commercial assets over their 50-year target lifespan.



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However, in 2022/23 the contribution to sinking funds was significantly reduced by a withdrawal from the fund (£3.767 million) to cover the loss of a tenant and associated rental income in the year.

External advisers undertook reviews of the cash flow models for each commercial property and noted that these were not full investment appraisals and that cash flows associated with future capital costs had been excluded (the Council's view is that traditional investment performance measures were not relevant and future capital costs was addressed by the sinking fund).

The portfolio review in March 2019 highlighted that there were no asset management plans in place for the commercial properties and that more detailed modelling of the sinking fund contributions was required given the time frame over which the Council intended to hold the assets.

It is unclear how the Council calculated the amounts to be transferred to sinking funds in the financial models as the calculations are not included in these models. In some years the contribution to the sinking fund exceeds the amount of available revenue after MRP and debt interest cost, indicating that in some years the general fund would potentially need to contribute to the sinking fund.

The Council also failed to set a policy for the future use of the sinking funds (this was not done until February 2023) when the Sinking Fund Policy was presented to the CPRC).

The annual MRP charge currently appears very low at only 1% of the Capital Financing Requirement. This is due to the Council applying an annuity based MRP charge where the MRP increases as the borrowing costs decrease each year and results in a consistent total charge amount each year.

Although the valuation of the commercial property portfolio has fallen (31 March 2019 £968.89 million to 31 March 2023 £723.40 million), the financial models continue to forecast that net rents will be sufficient to repay borrowing and therefore no additional amounts have been set aside as MRP for these valuation losses.

While the Council has been able to deliver budget surpluses through to 2022/23, the budget has been heavily reliant on rents from commercial properties and is significantly exposed to sensitivities around this.

We have noted significant weaknesses in respect of asset management plans, financial modelling and the adequacy of sinking funds for the commercial property portfolio.

Therefore, we are unable to conclude that the Council had proper arrangements in place to ensure that it:

- Plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- · Identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

2015 Code reporting criteria

For 2018/19 and 2019/20 these significant weaknesses impact on:

- Planning finances effectively to support sustainable delivery of strategic priorities and maintain statutory functions
- Managing and utilising assets effectively to support the delivery of strategic priorities.



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Informed decision making and governance

The Council has been subject to a number of external reviews which have raised concerns regarding information presented to members to support decision making. These concerns cover the following areas:

- Budgeting, financial monitoring and performance monitoring
- Acquisition and financing of investment and regeneration properties
- Affordable housing programmes
- Risk management
- Adequacy of internal audit.

Our work has been informed by the findings of external reviews.

Arrangements and Findings

Budgeting, financial monitoring and performance monitoring

Significant risk / risk of significant weakness
Quality and robustness of information used for decision making.

The Council set its budgets for each of the five financial years covered by this report (2018/19 - 2022/23) in accordance with statutory requirements.

Each of the revenue budgets were balanced with limited use of reserves. The 2023/24 budget approved by Council at its meeting on 20 February 2023 was also balanced, although this was only achieved through drawing down £5.9 million from property sinking funds.

Members received quarterly revenue and capital monitoring reports throughout the year. These were presented to Cabinet prior to May 2021 and the Corporate Policy and Resources Committee (CPRC) thereafter.

During 2018/19 and 2019/20, quarterly revenue monitoring reports included a summary of the position against the net budget. Variances greater than 5% or £5,000 (whichever is the lower) against each area of spend were then reported, categorised by portfolio. A separate section for the revenue impact of the commercial asset acquisitions was also included. Each report was accompanied by appendices providing a more granular analysis of each area of expenditure.

In 2020/21, the format of revenue reports were amended to include an explanation of the existing and forecast impact of Covid 19 on the Council's finances.

In 2021/22, further changes were made to the revenue monitoring reports, increasing the threshold above which variances were reported to £20,000 (from the lower of 5% or £5,000), structuring the report around committee responsibilities and adding additional information regarding the net revenue forecast position. Appendices provide more granular analysis of income and expenditure.



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Each quarterly capital monitoring report provides a summary of the status of the programme on a portfolio basis. A detailed analysis of each scheme is included in the appendices to the guarterly report, which was amended to reflect the new committee structure from May 2021.

It is unclear to what extent the Council developed, maintained and reported on non-financial key performance indicators during the period 2018/19 to 2021/22. We have not seen any evidence that such key performance indicators, linked to the Council's strategic and operational objectives were reported to Cabinet or any other committee.

The CPRC received a Key Performance Indicator Report at its meeting on 22 April 2022. The service delivery KPIs are included in appendix 1 to the report and are described in para 1.1 as KPIs reported within the Council to monitor service delivery.

The KPIs are categorised by committee responsibility. Appendix 4 includes the investment and property KPIs although it states that these are only reported annually.

The report recommends that members agree the KPIs to be reported on a quarterly and annual basis to both the CPRC and the relevant committees. The minutes of the meeting show that this was agreed by members. However, there is no evidence of the KPIs being reported to either the CPRC or other committees for the remainder of 2022/23.

Significant weakness

It is unclear what arrangements the Council had in place to ensure formal monitoring, scrutiny and challenge of KPIs by members.

Acquisition and financing of investment properties

The Council purchased its final tranche of commercial properties in August 2018, comprising the following:

- The Charter Building, Uxbridge (£136 million)
- Thames Tower, Reading (£119 million)
- The Porter Building, Slough (£66 million)

In July 2018, Cabinet recommended to Council that a supplementary capital estimate (ie an amendment to the previously approved capital programme for 2018/19) for an additional £594.859 million be approved for property acquisitions to support housing and regeneration projects.

This was approved by members at the Council meeting held on 19 July 2018. To allow the purchases to be financed by borrowing, an increase in the formal limits on the amounts the Council could borrow of £590 million was also approved at the meeting.

Confidential papers were presented to the July 2018 Cabinet meeting regarding the acquisitions. All three properties were considered under agenda item 17 'Investment acquisition (N)'. This agenda item was accompanied by two appendices. The first summarised the three proposed acquisitions. The second appendix included pre-acquisition reports prepared by the Council's external property advisers.

As far as we are aware, these were the only reports presented to members of the Cabinet prior to the acquisitions being completed.



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While the covering paper includes a section headed 'Financial Implications' this does not include any detailed financial information from the financial models such as amounts to be set aside for sinking funds and MRP and the methodologies for calculating those amounts. Instead, there is a focus on the low borrowing rates available to finance the acquisitions.

The covering report also refers to the three properties generating £18.7 million gross rental income per annum over the period of the tenants' leases.

A pricing commentary is included each of the external property adviser's reports. This includes details of the passing rent per annum, weighted average unexpired lease term and their view of the purchase price range.

The minutes of the meeting record that the acquisitions were approved. The details of discussion (if any) of the risks and rewards associated with each of the purchases is not recorded in the minutes.

The nature of information presented to Cabinet in relation to the August 2018 commercial property acquisitions is consistent with that presented to Cabinet in respect of the acquisitions which took place in 2017/18 and which was the subject of KPMG's Public Interest Report. The acquisitions were not subject to consideration by members of any other committee.

A presentation to the Overview and Scrutiny Committee took place at its meeting on 19 March 2019. A covering report summarising the reasons for the commercial acquisitions was presented, accompanied by the property portfolio report prepared by the external advisers.

This included an analysis of the portfolio by property showing purchase cost, annual rent, yield, lease length and contribution to revenue.

The publicly available minutes note that the members raised a number of questions, which were responded to by officers, the Leader and the Portfolio Holder for Finance.

At its meeting on 12 December 2017, Cabinet was presented with a number of property investment strategic parameters. These parameters are narrative criteria rather than any numerical metrics. The criteria are categorised under 'Revenue Generation' and 'Social Investment'. The paper notes that the parameters would be revisited following the conclusion of the Government's consultation on the statutory guidance relating to local authorities investing and borrowing.

The parameters were repeated in the Capital Strategy presented to Cabinet in February 2019 unamended, indicating that the Council continued to consider them relevant. It is therefore not clear why these parameters were not explicitly considered in the papers presented to Cabinet requesting approval for the acquisition of the three commercial properties in August 2018.

Significant weakness

The information contained in the reports presented to Cabinet regarding the commercial property acquisitions made in August 2018 was insufficient. The reports did not contain sufficient information on the financial implications of the purchases and the risks associated with holding the properties and how the risks would be managed.



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Risk Management

The Council has maintained a corporate risk register during the period covered by this report. The risk register was a standing agenda item for the Audit Committee throughout.

The corporate risk register was also periodically reviewed by Cabinet prior to the introduction of the Committee system.

The Internal Audit Manager had overall responsibility for the register and prepared and presented the associated reports to the Audit Committee.

The format of the Corporate Risk Register remained the same throughout 2018/19 to 2021/22. It mapped each risk to one of the four priorities in the Council's Corporate Plan (Housing, Economic Development, Clean and safe environment and Financial Sustainability) and assigned a risk owner(s).

Risks were scored based on the likelihood of the risk occurring and the impact were it to do so. Controls were recorded against each risk and any outstanding actions in relation to those controls are recorded on the risk register, along with a target date for completing the actions.

The Council utilised a RAG system to show the extent to which mitigating actions have been addressed or remain outstanding (a red-rating means that actions to address the risk are overdue and remain outstanding, amber means they have been partially actioned and green means actions completed and / or are subject to ongoing monitoring).

In our view, the format of the corporate risk register during the period 2018/19 to 2021/22 meant it was unclear what the impact of the mitigating controls is on the likelihood and impact of the risk.

This, in turn meant that members are unable to see what the residual risk is and determine whether further action may need to be taken by officers (or, alternatively, whether to accept the risk).

The Council refreshed its Corporate Risk Management Policy in July 2020. The format of the Corporate Risk Register was also amended significantly in November 2022 following comments raised by members of the CPRC in September 2022.

While the LGA Corporate Peer Challenge noted that corporate and service risk registers were well aligned, paragraph 6.23 of the BVI Report included the following observations:

"The risk registers that we inspected, including the corporate risk register regularly reported to Audit Committee and the Corporate Policy and Resources Committee, are not fit for purpose. Members have echoed this sentiment, stating that the risk registers are poor and contain errors, affecting decision making.

We note, for example, that while the investment portfolio is included in the corporate risk register, it is reported with a lower level of risk than other areas and does not adequately reflect the current forecasted income. Corporate risks also do not include the delivery of savings to balance the MTFS, despite this being a major risk to the Council."

Other weakness

The format of the risk register presented to members and the information it contained did not support robust scrutiny of the Council's risks and the actions being taken to mitigate those risks.



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Adequacy of Internal Audit

For each of the years covered by this report, an annual Internal Audit Plan was prepared and approved by the Audit Committee. Half yearly progress reports were also presented to the Audit Committee in each of the years.

Accompanying both the half-yearly updates and annual reports were updates reflecting progress on audits in that year's plan along with the current status of the audit (a status of 'Open audit' reflecting outstanding actions and 'Closed' denoting that no further action is required).

During the period covered by our report, concerns regarding the adequacy of internal audit resource available were raised by the Head of Internal Audit on two occasions:

- Internal Audit Summary Report for 2018/19 presented to the Audit Committee on 25 July 2019 notes that the Internal Audit function operated with significant resource shortage between April and October 2019, which required "some reprioritising of the 2018/19 Internal Audit plan"
- The covering report for the 2022/23 Internal Audit Plan presented to the July 2022 Audit Committee notes that the plan has been amended following revised budget position which resulted in the growth bid for an audit apprentice not being approved that resulted in a number of audits being removed from the workplan due to resourcing constraints.

In each of the five years covered by this report, the Head of Internal Audit's opinion provided 'reasonable assurance' over the adequacy and effectiveness of the Council's framework of governance, risk management and internal control.

A small number of reports issued by Internal Audit in each year subject to our review received opinions of 'Major improvement needed' (changed to 'limited assurance; in 2022/23 following a change in the opinion levels used by Internal Audit).

We requested copies of several Internal Audit reports during our work, but the Council was unable to provide these due to the amount of time elapsed since the work took place and internal changes to the internal audit team (which is now outsourced).

Examples include the Commercial Asset and Investment reviews performed in 2019/20 and 2020/21 (the Council could not locate final reports for either of these audits) and 2021/22 (the Council was only able to provide a proposed final draft).

While acknowledging the unusual circumstances in which our value for money work is taking place, we would expect the Council to have document management systems in place to ensure important information is held for an appropriate period of time.



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The Head of Internal Audit has undertaken self assessments against the requirements of the Public Sector Internal Audit Standards regarding the effectiveness of the Internal Audit function periodically during the five years covered by this review.

External effectiveness reviews also took place in 2018 and late 2023 (with the latter focussing on work performed in 2022/23). The outcome of both the self-assessments and the external reviews were reported to Audit Committee, with no significant shortcomings identified.

Internal Audit performed the following reviews relating to the Council's commercial property portfolio:

2019/20 - Commercial Asset Acquisitions and Investments 'Some improvement required'

2020/21 - Assessed as 'effective' (June 2021)

2021/22 - 'Some improvement needed' (July 2022)

2022/23 - 'Reasonable assurance' (June 2023)

Given the complex nature of the Council's commercial property portfolio, it is unclear whether Internal Audit possessed the necessary expertise to undertake effective reviews in this area, particularly given the existing resource constraints within the team.

Other weakness

The Council's Internal Audit function did not have sufficient capacity and capability to robustly assess the risks associated with the Council's commercial property portfolio and whether the associated control environment was appropriate for the scale and complexity of the investments made.

Governance of Knowle Green Estates Ltd (KGE Ltd)

Significant risk / risk of significant weakness Governance of Knowle Green Estates Ltd.

Knowle Green Estates Ltd was formed in May 2016 as a wholly owned subsidiary for the purpose of holding investments in residential property and affordable housing in the borough.

This followed approval from Cabinet to establish a local authority trading company for this purpose at its meeting on 7 April 2016.

On incorporation, the Council's two Deputy Chief Executives (Terry Collier, also the Council's s151 officer, and Lee O'Neil) were appointed as directors.

The s151 Officer remained a director until 1 January 2025. During that time, a number of other officers and elected members were appointed to the director / senior officer roles in the company.

This introduces potential conflicts of interest and governance risks where the senior positions in the company were all held by officers or councillors of the Council. During this time, the company acquired a substantial amount of property including asset acquisitions from the Council.

It was not until January 2021 that the company appointed two non-executive directors with no connection to the Council.



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In 2016/17, the Council donated Harper House to the company.

In May 2017, Cabinet was presented with a report on the relationship between the Council and the company. Given this relates to arrangements in place prior to 2018/19 we have not reviewed this report in detail but note that this appears to be the first report presented to members regarding KGE and was presented after the donation of Harper House to the company.

In September 2018, an update on KGE's business plan was presented to Cabinet as an exempt paper which stated that the company's business plan was being prepared with the assistance of qualified property accountants and tax advisors.

The business plan was not presented to Cabinet for approval until January 2020. As noted above, by this point the company was already holding property with substantial value on its balance sheet.

Prior to Cabinet's consideration of KGE's business plan, the Overview and Scrutiny Committee (O&SC) had an opportunity to review and comment on the content of the plan.

The outcome of this review is reflected in the recommendation to Cabinet, which highlights that members were unclear what the expectations of KGE were in the context of housing delivery and how arrangements relating to asset transfers from the Council to the company (including valuation of those assets) were operating.

The minutes of the Cabinet meeting show that the Leader agreed with the O&SC recommendations and asked the director of the company to provide further details.

The LGA Corporate Finance Peer Challenge (December 2020) noted that the Council should "seek assurance they are content with the financial and governance arrangements for KGE and its future viability as it continues to scale up its operations."

This was reflected in a recommendation raised by the peer review team:

"Clarify how the council is going to deal with viability issues for both individual housing schemes and the performance of your housing company."

The Council developed an action plan in response to the recommendations raised and this was presented to Cabinet in May 2021, with the following actions:

- KGE Business Plan being refreshed over 50-year time frame Cabinet has provided a steer on valuation basis to be used for transferring developments from Council to KGE
- New NEDs will provide additional expertise and challenge on KGE Board
- As [recommendation 23] above KGE 5 Year integrated business plan refreshed
- Align KGE with budget monitoring and financial reporting timeline for the Council.



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The action plan shows that these were to be implemented by June 2021.

A further update was presented to the Audit Committee in November 2021. This indicated that a 50-year viability model covering the P&L, balance sheet and cash flow had been produced and that the 2022/23 KGE budget was being produced alongside the Council budget.

In October 2021 and March 2022, papers were presented to CPRC regarding the provision of short-term funding assistance to the company. This was followed by a further report to CPRC in April 2022 regarding the repatriation of funds from KGE to the Council.

These reports were indicative of continuing ambiguity in the governance arrangements of KGE. The reports were prepared by the Council's Chief Accountant in his capacity as an officer of the Council, but who at the time continued to act as KGE's Head of Finance.

While the report legitimately deals with the Council's interest in realising a return from its subsidiary, there are some elements which we would reasonably expect the company to manage as part of its strategic and financial planning Council (such as determining how to fund the company's responsibilities for lifecycle replacement programmes), with resulting financial plans presented to the Council for further consideration.

We also observe that the financial information presented in the appendices to the reports does not reflect the options discussed.

Although this is made clear in para 3.1 and the report is presented in the context of some developments being subject to finalisation and approval, these discrepancies means the annual impact of the proposals on the company's financial performance is not clear from the information presented.

Subsequent external reviews have commented on the governance of KGE. The CIPFA Capital Assurance Review observed that potential conflicts could arise given that:

- The S151 officer advises the Council on the affordable housing schemes while also being involved in decision making around project viability at KGE
- The Council's Chief Accountant acts as KGE's Finance Director
- the Vice Chair of the Development Sub-Committee plays a role in the gateway process for key Council projects, including affordable housing projects that will potentially impact KGE over the long term.

CIPFA express the view that the arrangements described above are "potentially problematic" because:

"The \$151 has a statutory duty to administer council affairs and advise members of the prudence and legality of financial decisions. It is worth considering how effectively these powers can be deployed on decisions about KGE given that the \$151 chairs the KGE board."

CIPFA also note that the capacity of the finance team is impacted by these dual roles, with a subsequent impact on the timeliness and quality of financial report to members.



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While noting that KGE was subject to regular review by the Cabinet, Audit Committee and Overview and Scrutiny Committee, the BVI report made similar observations to CIPFA regarding governance:

"We believe [the \$151 officer's] dual role reflected poor governance practices by the Council. This was noted by CIPFA in their July 2023 report, which stated it was 'imperative that the KGE governance arrangements — and their practice — are as good as they can be.' The failure to address this issue in a timely manner is a concern."

We also note that a business plan was still being prepared in September 2018 (as reported to Cabinet that month), more than two years after the company was initially set up. By 31 March 2019, KGE held nearly £7 million of assets on its balance sheet. A business plan was not presented to members until January 2020.

Significant weakness

It is not unusual for local authority trading companies to initially appoint senior Council officers and members as directors on incorporation. However, it is important to develop a succession plan which allows senior officers and members to step away from company director roles as soon as possible, thereby mitigating any perceived or actual conflicts of interest.

While acknowledging senior officers' desire to ensure they were fully aware of KGE's operations and financial position, appropriate governance structures should have been planned and put in place to enable the Council to have the appropriate degree of oversight of its wholly owned subsidiary as soon as was practicable while avoiding potential conflicts of interest.

We have not seen any evidence that this was the case. This view is further reinforced by the external reviews which took place in later years (particularly the CIPFA Capital Assurance Review in 2023 and Best Value Inspection in late 2024/early 2025).

We also note that a business plan was still being prepared in September 2018 (as reported to Cabinet that month), more than two years after the company was initially set up. By 31 March 2019, KGE held nearly £7 million of assets on its balance sheet. A business plan was not presented to members until January 2020.

For the above reasons, we are unable to conclude that the Council put in place appropriate arrangements for the governance of KGE.



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Change to a committee system

Risk of significant weakness

Introduction of the committee system.

The Council moved from a cabinet and strong leader governance model to a committee model in May 2021.

Internal Audit completed a review of the arrangements and issued an assurance opinion of 'Major Improvement Required' and raised a number of recommendations.

The Council acknowledged this as a significant governance issue in the 2021/22 Governance Statement. This matter was also identified as an area of concern in the LGA Peer Review and BVI report.

The Council has been unable to locate a final copy of Internal Audit's report on the new committee system and we were provided with a copy headed as 'Proposed final report' which includes drafting comments from the s151 officer and Head of Corporate Governance.

A summary version of Internal Audit's report, along with the eight high priority, 'red-rated' recommendations raised, was presented to the 20 April 2022 meeting of the CPRC.

The recommendations paper included officer responses showing that the recommendations were accepted with a target implementation date of Autumn 2022.

Internal Audit's Annual Report for 2021/22 was presented to the Audit Committee in July 2022 and (Appendix A) noted the current status of the audit was 'Open Audit' and that the recommendations were to be "addressed further by the new Group Head of Corporate Governance when she starts post in September 2022".

Recommendation 1 acknowledged the upcoming LGA Corporate Peer Review. This review took place in November 2022 and reported to the Council in February 2023.

The Peer Review covered five themes:

- Local priorities and outcomes
- Organisational place and leadership
- Governance and culture
- Financial planning and management
- Capacity for improvement.

Under Governance and culture, the Peer Review team reported the following observations:

"The committee system that was introduced quickly last year at the behest of Councillors is not yet working well enough to create consensus to take forward important plans for the Council.

Whilst officers are satisfied that they delivered the committee system within the tight timeline prescribed by the Members, the impact of such a significant shift in the way decisions are made and scrutinised, seems to have been underestimated on both sides.

There appears to be little evidence that this transformative shift was resourced effectively and as a result Members at least have still not adapted to this new way of making democratic decisions.



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Some of the provisions within the committee system and its supporting constitution make decision making more complex, which can add to both the political tension within the committee system itself and undermine the confidence of partners in its observations of the functioning of the democratic system."

The Peer Review team's observations indicate that the Council had made limited progress against Internal Audit's recommendations by the Autumn of 2022 as originally envisaged.

The Peer Review team made the following recommendation in relation to these observations:

"Recommendation 9

Review the working of the committee system by looking at best practice elsewhere to consider how to create a system that is fit for purpose."

The Council developed an action plan to address the Peer Review's recommendations, although due to the timing of the review, this took place after 31 March 2023 (the outline action plan was presented to the CPRC at its meeting on 17 April 2023).

The BVI report acknowledged that the Council had made some progress in increasing the effectiveness of the committee system since the LGA Peer Review in 2022. However, the inspection team were unclear how much scrutiny and challenge is taking place in the committees.

Other weakness

The Committee system did not facilitate effective governance and decision making following its implementation in May 2021. Weaknesses in the system were identified by Internal Audit in early 2022 but the Council did not address these in a timely manner.

Housing and regeneration acquisitions and viability of the Council's housing developments (strategy)

Risk of significant weakness

Viability of the Council's housing delivery programme.

The Council's Corporate Plan 2016 - 2019 (adopted by the Council in July 2016) included housing and economic development as key strategic priorities.

Under the housing priority, the Corporate Plan stated that the Council planned to:

- invest in existing properties and convert them, where necessary, to provide much needed homes for our residents
- develop some of our existing sites as well as acquire new sites.

Under economic development the Council planned to "look for opportunities where we can use our assets to stimulate the local economy".



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The Council purchased the following properties in 2018/19 for the purposes of affordable housing and regeneration:

- Thameside House in April 2018 (£8.5 million)
- Communications House in July 2018 (£11.7 million)
- Victory Place Ashford in March 2019 (£5 million)

The purchase of Thameside House was approved by Cabinet in April 2018. The Council's initial intention was to hold the asset for investment purposes (through conversion to grade A office space), but it was subsequently decided to use it for regeneration purposes.

Cabinet received a covering report accompanied by the external property advisers' Market and Pricing Report. The latter included an analysis of redeveloping the site for both office and residential purposes.

In both cases, the adviser indicated that the analyses were based on optimistic assumptions. The covering report does not draw attention to these optimistic assumptions.

Communications House is an office building in Stainesupon-Thames and was purchased to initially generate an income stream and then regeneration. The purchase was approved by Cabinet in April 2018.

Victory Place Ashford was a car park site adjacent to Ashford Hospital which was designated by the NHS Trust as surplus to requirements and therefore put up for sale. The Council intended to purchase the land for the purposes of residential development. The purchase was approved by Cabinet in December 2018.

The substance of the reports presented to Cabinet was consistent with those for Thameside House (although Victory Place Ashford was not accompanied by a market and pricing report from the external property advisers).

Further properties were purchased in 2019/20 to support housing development and regeneration:

- Summit Centre in September 2019 (£13.785 million)
- Oast House in October 2019 (£20.097 million)
- Elmsleigh Centre in February 2020 (£39.325 million)

The reports presented to Cabinet in relation to the 2019/20 acquisitions were as described for those purchases made in 2018/19.

As with the acquisition of the commercial properties, the reports referred to in the previous paragraphs appear to be the only information presented to members of the Cabinet prior to the acquisitions being completed.

While the covering papers include a section headed 'Financial Implications' this does not include any detailed financial information, such as amounts to be set aside for sinking funds and MRP and the methodologies for calculating those amounts. Instead, there is a focus on the low borrowing rates available to finance the acquisitions.

We note that the external reviews refer to the absence of a strategic approach to both the affordable housing and regeneration programmes.



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The LGA Corporate Finance Peer Challenge (December 2020) noted that it was unclear to them how some of the Council's small-scale developments fit into the wider vision for delivery of affordable housing and included a recommendation to clarify how the Council is going to deal with viability issues for both individual housing schemes and the performance of the housing company.

The BVI report states the following:

"4.33 The Inspection team could not find a report, approved by members, that supports the development of a housing delivery programme with clear details on proposed sites, budgets, staffing resources, timescales, and associated risks. When asked, the Council pointed to two documents. First, the Corporate Plan 2016-19 which mentions the Council's aspirations to 'develop some of our existing sites for housing as well as acquire new sites'.

Second, an exempt Cabinet report from January 2020 on the Review of Knowle Green Estates, by which time all sites had already been purchased by the Council.

4.34 We believe the Council lacked a well-defined decision to embark on a programme of acquisitions for housing delivery. Members were not provided with sufficient information on the programme's scale, required budget, staffing resources, or risks, including those relating to planning and market conditions. The Council subsequently approved individual property purchases through exempt reports without the context of the programme being fully explained."

Significant weakness

Prior to embarking on acquisitions for regeneration purposes, the Council did not develop a strategy setting out how the acquisitions and their subsequent development would support achievement of the Council's corporate priorities regarding housing and regeneration.

Reports presented to members about the acquisitions did not contain sufficient information on the financial implications of the purchases and the risks associated with holding the properties and how the risks would be managed.

Housing and regeneration acquisitions and viability of the Council's housing developments (financial viability)

The viability of the Council's housing developments has become increasingly uncertain due to both the self-imposed moratorium on developments in Staines and wider macroeconomic factors which have had an adverse impact on forecast construction costs.

There is a risk that the Council is unable to fund those developments already underway to completion or is unable to divest from these developments without incurring significant revenue costs not previously budgeted for.

The key development sites for affordable housing were in Staines-upon-Thames, including Thameside House and Oast House, where initial plans were to provide 621 housing units, of which 426 would be affordable.



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At its meeting on 10 December 2020, full Council passed a motion requiring Cabinet to consider whether significant developments in Staines Town Centre, by the Council or private developers, should be kept on hold / deferred until the Staines Development Framework had been consulted on and adopted.

The matter was considered by Cabinet at its meeting on 25 January 2021, where officers presented report setting out the implications of placing developments on hold in Staines. This included the adverse impact on the Council's revenue budget, both in terms of lost income and the costs associated with holding sites and / or writing off previously capitalised costs to revenue.

Cabinet agreed to the moratorium, subject to three conditions being met:

- The Strategic Planning team undertake an Issues and Options consultation exercise for the Staines Development Framework
- A sub-committee, which was agreed at Extraordinary Council on 21 January 2021, is included in the recommendations of the Committee System Working Group to be reported to Extraordinary Council, currently scheduled for 25 March 2021
- The viability of all the developments are reviewed by the assets team.

Despite the significant financial impacts of the moratorium, these were not reflected in the MTFS for the period 2021/22 to 2024/25 or the detailed revenue budget for 2021/22.

Given the Council passed the motion on 10 December, and officers were able to prepare a paper setting out the financial implications ahead of the Cabinet meeting on 25 January, it is unclear why the potential impacts were not incorporated into the MTFS presented to Cabinet on 27 January 2021 and detailed 2021/22 budget presented to Council on 25 February 2021 (either when preparing the original papers or through an item added to the agenda).

The moratorium remained in place until early January 2022, when the Council determined that each of the three conditions imposed by Cabinet had been met. At its meeting on 19 January 2022, the CPRC decided not to impose a further moratorium.

Sections 3 and 4 of the report presented to the CPRC on 19 January 2022 are headed 'Options analysis and proposal' and 'Financial implications'. Both sections are very high level, with the 'Financial Implications' section referring to Appendix A of the report, which itself is one page setting out the monthly and cumulative revenue and capital costs of the affected schemes (Thameside House and Oast House).

It is notable that the report does not appear to offer any alternative other than proceeding with development of the sites for the purposes of housing provision and the costs that would be incurred were a further moratorium to be imposed.

For example, the financial implications of disposing of the affected site is not considered. It is therefore unclear whether members had all the necessary information to make an informed decision regarding the matter.



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A report was presented to an Extraordinary Council Meeting in February 2023 regarding the long-term viability of the Council's housing programme.

As the original intention was for KGE Ltd to take on responsibility for managing the developments once complete (assuming they were financially viable), the company's future was closely tied to the housing programme.

The report highlights the financial risks and challenges presented by the housing programme, which can be summarised as follows:

- Reductions in the number of affordable housing units (due to height restrictions placed on key developments by councillors) and the resulting reduction in rental income of £92 million
- Inflationary increases in construction costs and the associated impact on the housing schemes, exacerbated by the Council's self-imposed delays, adding £34 million to capital costs
- Increases in financing costs due to the additional borrowing needed to finance the increased capital costs.

The above increases were offset by reductions in lifecycle costs due to fewer housing units, meaning fewer bathroom and kitchen replacement works etc. Nonetheless, the paper still projected a fall of £196 million in KGE's cash balances by 31 March 2072 (ie in 50 years time).

This section of the report makes reference to Appendix A of the report which shows that this would result in KGE having a negative cash balance of £55 million by 2072.

The report also makes it clear that if it is not possible to make the schemes viable (whether that involves transferring to KGE or retention of the schemes by the Council) then the Council would face abortive costs of approximately £9 million, reflecting the capital costs incurred to date which would now need to be covered by the Council's revenue budget.

The paper then sets out a number of scenarios being considered to return the housing programme to viability:

- Scenario 1 An application for grant funding to Homes England to fund 25% of the development project costs, noting that this would require KGE Ltd to become a registered provider of housing
- Scenario 2 Bringing forward plans to develop the Tothill Car Park site "to cover the shortfall in KGE and make it financially viable"
- Scenario 3 Council injecting £55 million of capital into KGE Ltd through purchase of equity in the company.

The report considers the above three scenarios in combination are required to ensure viability.



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The report also presents the following scenarios but concludes that none are realistic:

- Scenario 4 Increasing the number of apartments at Thameside House and Oast House (not feasible due to additional capital and financing costs incurred)
- Scenario 5 Take out short term loans to finance additional construction costs to avoid locking in higher interest rates (not viable as interest rates not expected to fall in medium term)
- Scenario 6 Sell some units in each development to cover amounts borrowed while retaining freehold (not viable because rental reductions would not be offset by loan and interest savings)
- Scenario 7 Sell sites to other developers while acknowledging that capitalised costs relating to those sites may have to be written off to revenue (not recommended as officers considered the current market to be depressed and expect a net loss on the purchase price for Thameside House, Oast House and Victory Place)
- Scenario 8 become a commercial landlord (not viable because KGE would still be unable to maintain a healthy cash balance).

The report provides further information regarding the first three scenarios, although the financial impact of the actions required by each scenario, particularly on the Council, are difficult to follow and / or are unclear.

For example:

- Paras 2.15 2.18 refer to scenario 2 and bringing forward the Tothill Car Park investment. However, there are no details regarding the financial impact of doing so, with para 2.18 simply stating "The aim of the new development would be to build the maximum number of apartments to ensure that KGE becomes fully financially viable"
- Paras 2.30 2.32 imply that, even with Homes England funding (scenario 1), bringing forward the Tothill Car Park development (scenario 2, which as noted above, does not include any financial information) and an equity investment by the Council of £55 million (scenario 3), KGE would not be able to meet interest payments so would need the Council to provide £1 million to £2 million of additional cash support a year.

Para 2.33 states "Officers are recommending this Scenario, in conjunction with Scenario one and two above is agreed".

This is consistent with the recommendations at the start of the report, although is contradicted by 3.4 which states "Officers are recommending that these the Council agree to Scenario 1, 2, 3 and 4 to secure the financial viability of KGE, noting that under these options, KGE will be able to contribute to the Council's cashflow from March 2029"

Para 2.40 explicitly rules out scenario 4 as an option. This is also the first reference to March 2029 being the point at which KGE can contribute to the Council's cash flow.



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The minutes of the meeting show that Council approved the report.

Both the LGA Corporate Finance Peer Challenge (December 2020) and the BVI report identified the absence of a strategic approach to the Council's housing programme.

The LGA Corporate Peer Challenge (February 2023) report notes that there has been good collaborative working between officers and members on the new Local Plan but that members need to accept the trade off between urban density and protecting green belt land if the Council is to deliver its affordable housing programme.

The DLUHC CIPFA Capital Assurance Review (May 2024) draws attention to the fact that, at the date CIPFA was undertaking its review (early 2023), the impact of the review of the viability of the Council's housing programme in February 2023 had not been incorporated into the Council's medium term financial planning.

CIPFA raised concerns that reports taken to the Extraordinary Council Meeting on 2 February 2023 lack detailed sensitivity analysis taking into account construction cost inflation and interest rate movements. CIPFA also indicate that there are other risks not properly assessed, including:

- Tenants right to acquire properties and the impact of any such disposals during the 50-year period
- Planning conditions which may be imposed on the developments
- Eligibility for Homes England grant

 Timing of schemes, including one scheme only recently added to the programme (and therefore the least developed) but on whose completion progress on other projects will depend.

CIPFA also observe that the February 2023 Extraordinary Council Meeting at which the affordable housing programme was considered did not receive a detailed risk assessment of the impact of cancelling the programme versus its continuance and that officers offered an option at the meeting which was not covered in the papers (resulting in changes to the report recommendations).

CIPFA summarise the position relating to the affordable housing as follows:

"Mutual dependency between schemes, along with disparate timescales, the problem of timing, transfer viability assessment and funding eligibility are serious matters. Officers have stated that they are open to considering a wide range of further options if the deliverability of schemes becomes compromised.

These options appear to involve converting affordable housing to either private rented or private sales. This could compromise Homes England funding and create further losses. Moreover, the risks associated with progressing the schemes cannot be divorced from SBC's wider debt position, especially given the criteria that have triggered this DLUHC review.



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To date, the Council has been so focused on avoiding losses through sales that it might have underplayed the potentially greater risks associated with continuing the programme. It is accordingly essential that there is a clear and realistic assessment of the alternative options. This assessment may also need to revisit the valuations for individual properties in particular the Oast House to consider the site's potential value if developed to its maximum potential."

Significant weakness

Information presented to members regarding the financial implications of the housing development programme was inadequate. Key reports about the future direction of the programme were difficult to follow. It is unclear from the minutes of the meetings whether and to what extent members challenged the information presented.

Conclusion

While the Council sets and monitors its financial budgets it is unclear to what extent it has developed, maintained and reported on non-financial key performance indicators. We have not seen any evidence that such indicators were reported to Cabinet or any other committee.

The Council purchased its final tranche of commercial properties in August 2018. Confidential papers were presented to the July 2018 Cabinet meeting regarding the acquisitions and Members were presented with high level information. However, Members were not presented with any details of the Council's financial models, such as amounts to be set aside for sinking funds and MRP and the methodologies for calculating those amounts.

The Council developed a significant affordable housing programme and acquired a number of properties and sites for development. However, this does not appear to be supported by strategic plan and the Council has encountered a number of financial and operational issues in developing these sites.

Although improvements were made to the corporate risk register in 2022, there remain concerns over the effectiveness of how risks are assessed and reported.

The Internal Audit function has experienced capacity challenges during the period covered by this report and, in our view, did not fully consider the full extent of the operational and strategic risks of the commercial property portfolio.

We noted concerns around governance and potential conflicts of interest for KGE Ltd where officers and members of the Council were also the directors of the company.

While some progress has been made in implementing the committee system of governance some issues remain and it is not clear how much scrutiny and challenge is taking place in the committees.

We have noted a number of significant and other weaknesses in respect of the performance management arrangements, information presented to Members to support the acquisition of the commercial property portfolio, the strategic development for the affordable housing programme, risk management, capacity of the internal audit function, governance over KGE and the implementation of the committee structure.



BDO LLP

Value for money

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Therefore, we are unable to conclude that the Council had proper arrangements in place to ensure that it:

- Monitors and assesses risk and how the body gains assurance over the effective operation of internal controls
- Ensures effective processes and systems are in place to ensure budgetary control, to communicate relevant, accurate and timely management information (including non-financial information where appropriate) and ensure corrective action is taken where needed
- Ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

2015 Code reporting criteria

For 2018/19 and 2019/20 these significant weaknesses impact on:

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management
- Managing risks effectively and maintaining a sound system of internal control
- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.

We have summarised our findings in the tables on the following pages and have raised a recommendation regarding the matters identified on page 51.



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For audits relating to 2018/19 and 2019/20 (which have been conducted in accordance with the requirements of the 2015 Code of Audit Practice), we have identified the following significant weaknesses in arrangements which gave rise to qualification of our conclusions.

		Area	Year(s) affected	Finding	Overall conclusion
1		Sustainable resource deployment: Medium term financial sustainability	2018/19 2019/20	While the Council has been able to deliver surpluses, weaknesses in the Council's financial modelling related to commercial property acquisitions (as identified by the Council's external advisers) mean it is unclear whether amounts set aside into sinking funds are sustainable in the medium term.	Adverse
	2	Managing and utilising assets effectively	2018/19 2019/20	The portfolio review in March 2019 highlighted that there were no asset management plans in place for the commercial properties.	Adverse

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	Area	Year(s) affected	Finding	Overall conclusion	
3	Informed decision making: quality and robustness of information used for decision making	robustness of information used for maintained and reported on non-financial key			
			Acquisitions of both commercial and regeneration properties were subject to approval by Cabinet. Members were presented with high level information focussing on borrowing rates (in the covering report) and reports by the Council's property advisors on expected price ranges given the nature of the properties and national and local market conditions. Members were not presented with any details of the Council's financial models, such as amounts to be set aside for sinking funds and MRP and the methodologies for calculating those amounts. There was also no reference to the narrative 'Property Investment Strategic Parameters' presented to Cabinet in 2017 in any of the reports presented to Cabinet.		
			Information presented to members regarding the financial implications of the housing development programme was inadequate. Key reports about the future direction of the programme were difficult to follow. It is unclear from the minutes of the meetings whether and to what extent members challenged the information presented.		

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		Area	Year(s) affected	Finding	Overall conclusion
4	Working with partners and other third parties: Governance of Knowle Green Estates Ltd (KGE Ltd)	2018/19 2019/20	While acknowledging senior officers' desire to ensure they were fully aware of KGE's operations and financial position, appropriate governance structures should have been planned and put in place to enable the Council to have the appropriate degree of oversight of its wholly owned subsidiary as soon as was practicable while avoiding conflicts of interest. We have not seen any evidence that this was the case. This view is further reinforced by the external reviews which took place in later years (particularly the CIPFA Capital Assurance Review in 2023 and Best Value Inspection in late 2024 and early 2025).	Adverse	
				We also note that a business plan was still being prepared in September 2018 (as reported to Cabinet that month), more than two years after the company was initially set up. By 31 March 2019, KGE held nearly £7 million of assets on its balance sheet. A business plan was not presented to members until January 2020.	

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Value for money

Summary of weaknesses identified for 2020/21, 2021/22 and 2022/23

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For audits relating to 2020/21, 2021/22 and 2022/23 (which have been conducted in accordance with the requirements of the 2024 Code of Audit Practice), we have identified the following significant and other weaknesses in arrangements.

	Risk of significant weakness	Findings	Weakness identified?	Is weakness significant?	Recommendation raised?
	Sustainable resource deployment: Medium term financial sustainability	While the Council has been able to deliver surpluses, weaknesses in the Council's financial modelling related to commercial property acquisitions (as identified by the Council's external advisers) mean it is unclear whether amounts set aside into sinking funds are sustainable in the medium term.	Yes	Yes	Yes
1	2 Managing and utilising assets effectively	The portfolio review in March 2019 highlighted that there were no asset management plans in place for the commercial properties.	Yes	Yes	Yes
	Informed decision making: quality and robustness of information used for decision making	It is unclear to what extent the Council developed, maintained and reported on non-financial key performance indicators during the year. Acquisitions of both commercial and regeneration properties were subject to approval by Cabinet. Members were presented with high level information focussing on borrowing rates (in the covering report) and reports by the Council's property advisors on expected price ranges given the nature of the properties and national and local market conditions. Members were not presented with any details of the Council's financial models, such as amounts to be set aside for sinking funds and MRP and the methodologies for calculating those amounts. There was also no reference to the narrative 'Property Investment Strategic Parameters' presented to Cabinet in 2017 in any of the reports presented to Cabinet.	Yes	Yes	Yes
		Information presented to members regarding the financial implications of the housing development programme was inadequate. Key reports about the future direction of the programme were difficult to follow. It is unclear from the minutes of the meetings whether and to what extent members challenged the information presented.			

Summary of weaknesses identified for 2020/21, 2021/22 and 2022/23

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		Risk of significant weakness	Findings	Weakness identified?	Is weakness significant?	Recommendation raised?
ns	4	Informed decision making: quality and robustness of information used for decision making	The format of the risk register presented to members and the information it contained did not support robust scrutiny of the Council's risks and the actions being taken to mitigate those risks.	Yes	No	Yes
	5	Informed decision making: quality and robustness of information used for decision making	The Council's Internal Audit function did not have sufficient capacity and capability to robustly assess the risks associated with the Council's commercial property portfolio and whether the associated control environment was appropriate for the scale and complexity of the investments made.	Yes	No	Yes
	6	Governance of Knowle Green Estates Ltd.	While acknowledging senior officers' desire to ensure they were fully aware of KGE's operations and financial position, appropriate governance structures should have been planned and put in place to enable the Council to have the appropriate degree of oversight of its wholly owned subsidiary as soon as was practicable while avoiding conflicts of interest. We have not seen any evidence that this was the case. This view is further reinforced by the external reviews which took place in later years (particularly the CIPFA Capital Assurance Review in 2023 and Best Value Inspection in late 2024 and early 2025).	Yes	Yes	Yes
			We also note that a business plan was still being prepared in September 2018 (as reported to Cabinet that month), more than two years after the company was initially set up. By 31 March 2019, KGE held nearly £7 million of assets on its balance sheet. A business plan was not presented to members until January 2020.			

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	Risk of significant weakness	Findings	Weakness identified?	Is weakness significant?	Recommendation raised?
7	Introduction of committee system	The Committee system did not facilitate effective governance and decision making following its implementation in May 2021. Weaknesses in the system were identified by Internal Audit in early 2022 but the Council did not address these in a timely manner.	Yes	No	Yes
8	Viability of the Council's housing delivery programme	Prior to embarking on acquisitions for regeneration purposes, the Council did not develop a strategy setting out how the acquisitions and their subsequent development would support achievement of the Council's corporate priorities regarding housing and regeneration. Reports presented to members about the acquisitions did not contain sufficient information on the financial implications of the purchases and the risks associated with holding the properties and how the risks would be managed.	Yes	Yes	Yes
9	Viability of the Council's housing delivery programme	Information presented to members regarding the financial implications of the housing development programme was inadequate. Key reports about the future direction of the programme were difficult to follow. It is unclear from the minutes of the meetings whether and to what extent members challenged the information presented.	Yes	Yes	Yes

Recommendations

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Our work has identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources (value for money). These weaknesses relate to financial sustainability and governance and affect all years. Our findings are consistent with those matters raised in the various external reviews of the Council which have taken place over the past five years.

Given the timing of our work, the outcome of the various external reviews and inspections which have taken place since 2020, including the recommendations raised by each of those reviews, and the Council's ongoing work to address the recommendations, we do not consider it appropriate to re-raise these matters.

We understand that the Council has compiled an Improvement and Recovery Plan to address the recommendations previously raised by external reviews and inspections. As this was prepared after 31 March 2023 and does not relate directly to arrangements in place during the years we are required to report on, we have not undertaken any procedures to verify the completeness of the action plan or the effectiveness of the actions being taken by the Council. However, we acknowledge the importance of the Improvement and Recovery Plan in addressing the weaknesses we have described in this report and the recommendation below reflects this.

	Area	Year(s) affected	Significant weakness noted?	Recommendation	Management response
1	Financial Sustainability	2018/19	Yes	Continue to maintain and utilise the	
	Governance	2019/20		Improvement and Recovery Plan to capture and address the recommendations made by	
		2020/21		external reviews and investigations.	
		2021/22		Ensure member oversight of progress against	
		2022/23		e action plan is transparent and provides oportunity for constructive challenge and	
				scrutiny.	

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Independence

We confirm that the firm, and the engagement team including other BDO network firms conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and the IESBA Code of Ethics and are independent of Spelthorne Borough Council.

Details of services, other than audit, provided by us to the Group or Spelthorne Borough Council during the period and up to the date of this report are set out in the table below. We have not identified any threats to our independence arising from the provision of these services.

Commercial relationships

The Council acquired the freehold interest in a property in Reading in which we currently hold a lease under the terms arranged with the previous owner. We are satisfied that this does not present a threat to our independence and objectivity as your auditor as this commercial relationship is at arms length, the audit team are not party to the lease negotiations and the amounts are not material to either party.

This matter was considered by the Audit Committee on 1 November 2018, where members noted the relationship and agreed that it did not compromise our independence.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

Fee summary

Proposed audit fees for work performed in relation to the backstop arrangements and value for money are shown in the table below. These fees are subject to discussion with officers and approval by Public Sector Audit Appointments Ltd.

Our work relating to Housing Benefit Assurance Procedures is complete and the amounts shown in the table are the actual fees billed to the Council.

Year en Area	ded 31 March 2019	31 March 2020	31 March 2021	31 March 2022	31 March 2023	Independence safeguards	Impact on independence
Audit Services:							
Backstop arrangements relating to the State of Accounts (proposed)	ment 55,000*	10,500	10,500	10,500	10,500	None required	N/A
Value for Money (proposed)	20,000	15,000	15,000	15,000	15,000		
Non-audit services:							
Housing Benefit Assurance Procedures (actual	al) 7,102	13,102	22,260	16,800	21,084	None required	N/A
Total proposed fees	82,102	38,602	47,760	42,300	46,584		

^{*} The increased proposed fee for the year ended 31 March 2019 reflects preliminary planning and risk assessment procedures performed by the audit team in 2019 and 2020. This work was performed on the assumption the audit would commence as normal once the predecessor auditor had completed their work relating to the prior year.

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Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to Spelthorne Borough Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit Committee.

Communication

The National Audit Office has issued Local Audit Reset and Recovery Implementation Guidance (LARRIGs) to support the reset and recovery of local audit in England. LARRIG 02 states that the frequency with which matters are communicated to Those Charged With Governance may be less in the circumstances created by backstop arrangements and that it may therefore be appropriate to include all communications relevant to an audit within a single document. In line with this guidance, we issued a combined Audit Planning Report and Audit Completion Report in respect of the audit of the financial statements.

This Auditor's Annual Report includes our findings and conclusion for the review of the Council's arrangement for value for money.

Communication required	Date (to be) communicated	To whom	Communication method
Audit Planning Report	4 December 2024	Audit Committee	Combined Audit Planning Report and Audit Completion Report
Audit Completion Report	4 December 2024	Audit Committee	Combined Audit Planning Report and Audit Completion Report
Combined Annual Audit Letters 2018/19 and 2019/20 and Auditor's Annual Reports 2020/21, 2021/22 and 2022/23	25 September 2025	Audit Committee	Combined Annual Audit Letters and Auditor's Annual Reports

Local authority's responsibilities

Local authority's Responsibilities and Reporting

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Financial reporting

Spelthorne Borough Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which Spelthorne Borough Council accounts for its stewardship and use of the public money at its disposal.

The form and content of Spelthorne Borough Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting for the relevant year, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

Use of resources

Local authorities are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, Spelthorne Borough Council is required to bring together commentary on its governance framework and how this has operated during the period in a Governance Statement.

In preparing its Governance Statement, Spelthorne Borough Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.



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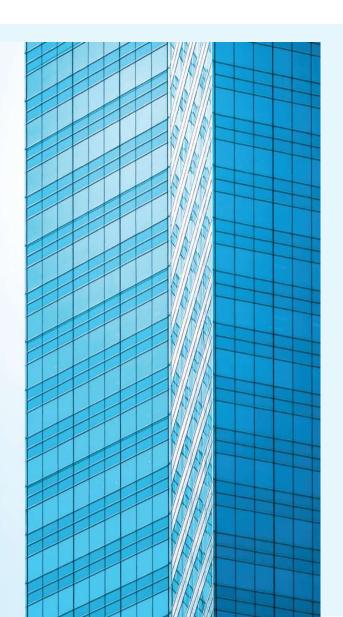
Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of Spelthorne Borough Council.

We are required to satisfy ourselves that Spelthorne Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether Spelthorne Borough Council has put arrangements in place that support the achievement of value for money.

What we don't report

Our audit is not designed to identify all matters that may be relevant to Spelthorne Borough Council and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist



For more information:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of Spelthorne Borough Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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