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Date: 11 April 2007

## **NOTICE OF MEETING**

### **AUDIT COMMITTEE**

**DATE: THURSDAY 19 APRIL, 2007**

**TIME: 7.30 P.M.**

**PLACE: COUNCIL CHAMBER, COUNCIL OFFICES, KNOWLE GREEN, STAINES**

**TO: ALL MEMBERS OF THE AUDIT COMMITTEE**

M.L. Bouquet  
K. Chouhan

Mrs. M. Hyams  
S.B.S. Lorch  
E. O'Hara

J.D. Pinkerton  
C.V. Strong

#### **EMERGENCY PROCEDURE**

In the event of an emergency the building must be evacuated. All Members and Officers should assemble on the Green adjacent to Broome Lodge. Members of the Public present should accompany the Officers to this point and remain there until the Senior Officer present has accounted for all persons known to be on the premises.

#### **THE LIFT MUST NOT BE USED**

This Agenda and any Reports are available in Large Print on request. Contact: Gill Hobbs (01784) 446405

## **RESPONSIBILITIES OF THE AUDIT COMMITTEE**

### **Purpose**

To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process

### **Core Functions**

- (a) To approve (but not direct) the internal audit's strategy, plan and performance.
- (b) To review summary internal audit reports and the main issues arising, and to seek assurance that action has been taken where necessary.
- (c) To consider the reports of external audit and inspection agencies.
- (d) To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- (e) To be satisfied that the Authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and to take actions required to improve it.
- (f) To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (g) To review the financial statements, external auditors opinion and reports to members, and monitor management action in response to the issues raised by external audit.

## **A G E N D A**

### **1. APOLOGIES**

To receive any apologies for non-attendance.

### **2. DISCLOSURES OF INTEREST**

To receive any disclosures of interest from Members in accordance with the Members' Code of Conduct.

### **3. MINUTES**

To consider the Minutes of the Special meeting held on 19 March 2007 (copy attached).

### **4. MATTERS ARISING FROM THE MINUTES**

### **5. QUARTERLY AUDIT AND RISK REPORT**

To receive a report from the Strategic Director (Support) (copy attached).

### **6. AUDIT SERVICES ANNUAL PLAN**

To receive a report from the Strategic Director (Support) (copy attached).

### **7. COMMITTEE WORK PROGRAMME 2007**

The Committee is requested to consider its work programme for the June 2007 meeting (copy attached).

## MINUTES OF THE AUDIT COMMITTEE

19 MARCH, 2007

### Present:

Councillor *M.L. Bouquet (Chairman)*  
Councillor *J.D. Pinkerton (Vice-Chairman)*

Councillors *Mrs. M. Hyams* and *E. O'Hara*

**Apologies:** Councillor *C.V. Strong*

### Officers

Deanna Harris – Head of Audit Services

Terry Collier – Head of Financial Services

Nighat Sheikh – Auditor

Trevor Baker – Senior Committee Manager

Gillian Hobbs – Committee Manager

### Others

Henry Arthurs - Baker Tilly

Nick Ward – Audit Commission

### 78/07 MINUTES

**RESOLVED** that the minutes of the meeting held on 30 January 2007 be approved as a correct record.

### 79/07 ANNUAL AUDIT AND INSPECTION LETTER

The Chairman introduced Henry Arthurs, the representative from the Council's External Auditors, Baker Tilly and Nick Ward, the Council's Relationship Manager from the Audit Commission. They jointly presented and summarised the Audit Commission's appraisal of the Council, which had drawn on audit, inspection and performance assessment work. The letter included the Audit Commission's review of how well the Council had progressed and how well it had managed its finances.

They highlighted the main messages for the Council and the action it needed to take.

The Chairman thanked Mr Arthurs and Mr Ward for their presentation.

**RESOLVED** to receive and note the findings contained in the External Auditor's Annual Audit and Inspection Letter to Members 2006/2007.

### 80/07 EXCLUSION OF PRESS AND PUBLIC

**RESOLVED** that under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business on the grounds that they involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of Schedule 12A of the Act indicated below.

**81/07 CAR PARKS**

***(Paragraph 7 - Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime)***

The Head of Audit Services reported on an exempt matter relating to certain operational issues in car parks.

Members of the Committee asked questions of the Head of Environment Services and the Car Parks Services Manager and were satisfied that the issues had been dealt with appropriately.

**RESOLVED** that the information be noted.

Chairman \_\_\_\_\_  
19 April 2007

## **QUARTERLY AUDIT AND RISK REPORT**

**Audit Committee: 19 April 2007**

**Report of the Strategic Director (Support)**

### **Executive Summary**

#### **How do the contents of this report improve the quality of life of Borough Residents?**

The Accounts and Audit Regulations require the Council to maintain an adequate and effective internal audit of their accounting records and control systems. This report provides the Council with assurance of the adequacy of those controls as a contribution to the proper, economic, efficient and effective use of resources.

#### **Purpose of Report**

The report provides details of work undertaken by Audit Services during the period January - March 2007.

#### **Key Issues**

Internal audit partnership with Surrey Heath  
Audit Plan  
Work on behalf of external audit  
IT Security  
Waste and Recycling  
Day Centres  
Leisure  
Risk

#### **Financial Implications**

No financial implications.

#### **Corporate Priority**

The maintenance of a strong internal control environment supports all corporate priorities.

#### **Officer Recommendations**

**The Audit Committee is asked to note the contents of Audit Services' Quarterly Report.**

**Contact: Deanna Harris (Head of Audit Services) 01784 446207**

**Portfolio Holder: Ed Searancke**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 The Accounts and Audit Regulations require the Council to maintain an adequate and effective internal audit of their accounting records and control systems. This report provides the Council with assurance of the adequacy of those controls.

### 2. KEY ISSUES

- 2.1 **Internal Audit partnership with Surrey Heath Borough Council.** The partnership is progressing well and both authorities are benefiting from more efficient use of resources, shared expertise, greater flexibility, resilience and financial savings.
- 2.2 **Audit Plan.** A separate report has been prepared for the Audit Committee on the Annual Audit Plan. Audit Services has been meeting all service heads and directors to ensure all relevant areas are covered by the plan.
- 2.3 **Work undertaken on behalf of external audit** – Testing continued on all key financial systems. This is a major piece of work for the service, particularly during the final quarter of 2006/7. Audit Services must meet external audit requirements in terms of timescales, tests, working papers and evidence. Audit also update all risk assessments for each of the financial systems which may identify any further testing required.

No significant issues have been identified from external audit testing to date.

- 2.4 **IT Security.** Audit organised an interactive IT security event attended by auditors, IT staff and representative from Steria. The agenda covered system development, project management, compliance with standards, IT security policy, user access control, audit tools, change control and Network security. A number of issues have been identified for further review by the IT Security working group of officers, auditors and Steria. Advice has also been given on security issues relating to XDAs. Audit tested anti virus software and found this had not been updated on some of the authority's PCs.
- 2.5 **Waste and Recycling** – Audit assisted the Heads of Environment and Direct Services in assessment of risks relating to this major project.
- 2.6 **Community Services (Independent Living - Day Centres).** Audit continued to advise on financial procedures and matters associated with relocation of Stanwell and Benwell day centres including disposal of furniture and equipment.
- 2.7 **Risk.** Audit updated risk registers with service managers, attended the re-formed Corporate Risk Management Group and continued to incorporate all risk related recommendations within the Council's performance management system (PB Views).

### 3 OTHER AUDIT WORK

- 3.1 **Use of Resources** – Assistance was provided in the implementation of the improvement plan, particularly in relation to risk management. Audit provided all evidence required for key lines of enquiry relating to internal control and risk management and subsequently met with external audit to discuss overall findings of their assessment.

- 3.2 **Business Improvement Programme** – Audit continued to advise the programme board and individual review teams on the approach, potential efficiencies and control related matters. Audit were consulted about structural changes proposed in one service area.
- 3.3 **Car Parking** – Audit provided advice on income related matters including replacement of pay on foot equipment and health and safety matters.
- 3.4 **Leisure** – Recommendations were reported to the previous committee. The Head of Audit will update members as to the status of recommendations at the committee meeting. A site visit was conducted at Spelthorne Leisure Centre to review contract progress and associated documents are currently being reviewed.
- 3.5 **Planning and Housing Strategy** – A meeting has been held with the Housing Officers to identify potential risks within the housing strategy function, and note control procedures in place. A meeting has been held with the Head of Planning to assist with risk assessment and advice given regarding Business Continuity.
- 3.6 **Insurance, E Government Services, Direct Services, Housing Options and Environmental Health / Building Control**– Risk assessments and testing in progress.
- 3.7 **Land Charges / Mayoral Expenses** – Systems have been reviewed and testing of income and expenditure undertaken. Several recommendations have been made to improve control and reduce risks.
- 3.8 **Advice** - Advice has been requested from all directorates on a variety of risk and control issues including: issuing of contracts in Environment Services; compliance with Contract Standing Orders; Financial Regulations; Corporate Procurement issues; financial system; partnering in revenue services; staffing issues; income procedures for Youth council events; procedure retention/disposal/scanning documents; issuing of contracts in E-Government Services; petty cash enquiries; compliance with the gifts and hospitality policy etc.
- 3.9 Audit made suggestions to reduce delays in processing invoices in one service area and this should have an impact on the authority's overall performance indicators.
- 3.10 Following request for advice on the appointment of consultants to produce a Climate Change Strategy audit queried whether some of the work could be undertaken in conjunction with another local authority or completed in-house using model formats. This matter is being pursued by the Chief Executive.
- 3.11 Advice has been given on proposed office moves including implications on cashiering functions.
- 3.12 This work accounts for a significant proportion of audit days available and is an indication that management value audit advice.
- 3.13 **Miscellaneous** – appraisals/staff/team/departmental/manager's meetings, IT security audit training, business continuity planning, Audit Committee reports, liaison with Surrey Audit Group and external audit, budget monitoring/preparation and re-design of audit documentation.

#### 4. OPTIONS ANALYSIS

- 4.1 There are none

**5. PROPOSALS**

5.1 There are none.

**6. BENEFITS AND SUSTAINABILITY**

6.1 Not applicable.

**7. FINANCIAL IMPLICATIONS**

7.1 There are none

**8. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

8.1 Completion of the Audit Plan demonstrates compliance with Local Government Act 1972 and Accounts and Audit Regulations.

**9. RISKS AND HOW THEY WILL BE MITIGATED**

9.1 Significant risks associated with individual audits are reported in this report. Implementation of audit recommendations will reduce risks for the authority. All audit work is supported by detailed risk assessment.

**Report Author: Deanna Harris (Head of Audit Services) – 01784 446207**

**Background Papers:**

**There are none**



## **AUDIT SERVICES – ANNUAL PLAN 2007/8**

**Audit Committee: 19 April 2007**

**Report of the Strategic Director (Support)**

# **Executive Summary**

### **How do the contents of this report improve the quality of life of Borough Residents?**

The Audit Plan demonstrates how the service will provide independent assurance to the organisation on the control environment which helps to ensure the proper, economic, efficient and effective use of resources.

### **Purpose of Report**

This report summarises the work planned by Audit Services during 2007/8.

### **Key Issues**

A copy of the Annual Audit Plan for 2007/8 is attached (Appendix 1).

### **Financial Implications**

None

### **Corporate Priority**

The work of Audit Services supports all corporate priorities.

### **Officer Recommendations**

The Audit Committee is asked to note the work plan (2007/8) for Audit Services.

**Contact: Deanna Harris (Head of Audit Services) 01784 446207**

**Portfolio Holder: Ed Searancke**

## **MAIN REPORT**

### **1. BACKGROUND**

- 1.1 The Accounts and Audit Regulations require local authorities to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices'. The Annual Plan demonstrates how the authority will fulfil this requirement in accordance with the Code of Practice for Internal Audit (Chartered Institute of Public Finance and Accountancy).
- 1.2 The plan ensures all auditable areas are identified, prioritised and sufficient time allocated to carry out the work. The plan is supported by risk assessments undertaken for each service during the year and other factors such as value/volume of transactions, known system weaknesses etc.
- 1.3 The Annual Plan is finalised after consideration of risks and consultation with senior management. It also reflects the requirements imposed by external audit through their managed audit initiative.
- 1.4 Audit projects are allocated to individual auditors who carry out the work and report back to management on their findings. Quarterly reports summarising the work of the section are prepared for Management Team and Audit Committee.
- 1.5 Audit will review and roll forward the plan on a quarterly basis in future so that the service always has a 12 month work schedule.

### **2. KEY ISSUES**

- 2.1 A copy of the Annual Audit Plan Summary (2007/8) is attached (Appendix 1).
- 2.2 Part 1 of the document shows the scope of audit work ie service risk assessment (including testing), work completed on behalf of external audit, corporate projects and advice. Approximately 30% of available time is set aside for contingency. This time is then allocated to special investigations and other unplanned work as it arises.
- 2.3 Part 2 shows the actual work planned for each directorate/service. Risk assessments will be updated for each service, new systems will be examined, previous recommendations will be followed up and a number of known areas of medium/high risk reviewed.
- 2.4 In addition to the audit projects identified, assistance will be given a number of corporate issues such as the Business Improvement Programme, Use of Resources Assessment, corporate risk management and debt management. Audit Services have also been asked to co-ordinate the Audit Commission's National Fraud Initiative (data matching between authorities).

### **3. OPTIONS ANALYSIS**

None

### **4. PROPOSALS**

None

### **5. BENEFITS AND SUSTAINABILITY**

N/A

**6. FINANCIAL IMPLICATIONS**

None

**7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

7.1 Completion of the Audit Plan demonstrates compliance with Local Government Act 1972 and Accounts and Audit Regulations.

**8. RISKS AND HOW THEY WILL BE MITIGATED**

8.1 The Audit Plan is informed by the authority's risk management process and other issues such as volume/value of transactions, and previous audit findings. Significant risks identified by audit are reported to the Audit Committee on a quarterly basis. Implementation of audit recommendations will reduce risks for the authority.

**Report Author: Deanna Harris (Head of Audit Services) – 01784 446207**

**Background Papers:  
There are none**

**SPELTHORNE AUDIT SERVICES**

**ANNUAL AUDIT PLAN SUMMARY – 2007/8**

**1. Scope of Audit Work**

1.1 Risk Assessment

Risk assessments enable auditors and managers to identify controls which reduce risks. These are also used to determine the nature and level of testing required in each service area.

Audit Services also review new systems/procedures, IT developments, introduction of new legislation etc. The level of audit input will be determined by assessed risks.

1.2 Work undertaken on behalf of external audit

Audit Services review and test all the authority's main financial systems on behalf of external audit.

1.3 Advice

Audit provides advice on financial procedures, compliance with Contract Standing Orders, Financial Regulations etc.

1.4 Contingency

Unplanned audit work including special investigations, management request for assistance, additional time required on planned audits if weaknesses identified etc.

1.5 Corporate Projects

Assistance with corporate issues such as risk management, partnering initiatives, Business Improvement Programme and Use of Resources Assessment.

Whilst auditors are well placed to undertake corporate projects and other co-ordinating roles, it is important that audit independence is not compromised by excessive involvement in non-audit work.

**2. Planned Audit Work Summary – 2007/8**

2.1 Audit Category: Risk Assessment

Services to be

	<u>Audited:</u>	<b>All Services (CX, Support and Community) and corporate systems</b>
	<u>Audit Objectives:</u>	<p>Assist managers to update risk assessments.  Carry out testing identified by the risk assessment. Follow up previous recommendations.</p> <p>In addition to risk assessment of all services, audit will review (risk assess) implementation of the new housing system, any new partnering initiatives, extension of contact management, waste/recycling, town centre developments and procurement.</p> <p>Audit will continue to assist with management of risks associated with re-configuration of elderly services.</p> <p>Joint work with E Government services planned to review and improve IT security.</p>
2.2	<u>Audit Category:</u>	Work on behalf of external audit
	<u>Systems to be audited:</u>	Main Accounting, Payments, Debtors, Cash and Bank, Payroll, Housing Benefits, Council Tax, NNDR and Loans / Investments
	<u>Audit Objectives:</u>	Complete documentation and testing of systems as directed by external audit. Follow up previous recommendations.
2.3	<u>Audit Category:</u>	Advice
	<u>Services:</u>	All – as necessary
	<u>Audit Objectives:</u>	Provide advice and ensure that all relevant risks are considered.
2.4	<u>Audit Category:</u>	Contingency
	<u>Services</u>	All – as necessary
	<u>Audit Objectives:</u>	Undertake any ad hoc work and special investigations.

2.5	<u>Audit Category:</u>	Corporate Projects
	<u>Services to be audited:</u>	All/Corporate
	<u>Audit Objectives:</u>	<p>Assistance/advice on the following corporate projects:</p> <ul style="list-style-type: none"> <li>• Business Improvement Programme - member of sponsor group and assistance to review teams in specific areas.</li> <li>• Debt Management – assistance to the project team established to review debt management arrangements.</li> <li>• Use of Resources Assessment – completion of 2007/8 assessment in conjunction with Head of Finance.</li> <li>• Corporate Risk Management – assist the Risk Champion to co-ordinate authority's risk management arrangements.</li> <li>• National Fraud Initiative – co-ordinate the Council's data submissions and response to data matches.</li> </ul>

Deanna Harris  
Head of Audit  
March 2007