

*Please reply to:*

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Date: 11 June 2007

## **NOTICE OF MEETING**

### **AUDIT COMMITTEE**

**DATE: TUESDAY 19 JUNE, 2007**

**TIME: 7.30 P.M.**

**PLACE: GODDARD ROOM, COUNCIL OFFICES, KNOWLE GREEN, STAINES**

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

J.D. Pinkerton (Chairman)

M.L. Bouquet

C.V. Strong

K. Chouhan (Vice-Chairman)

M.J. Collis

H.A. Thomson

E. O'Hara

#### **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 meeting held on 24 May 2007 (copy attached).

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

### **5. AUDIT SERVICES REPORT: APRIL – MAY 2007**

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

### **6. AUDIT SERVICES ANNUAL REVIEW**

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

### **7. STATEMENT ON INTERNAL CONTROL**

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

**8. STATEMENT OF ACCOUNTS**

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

**9. APPROVAL OF STATEMENT OF ACCOUNTS - Amendment to Terms of Reference**

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

**10. COMMITTEE WORK PROGRAMME 2007/8**

The Committee is requested to consider and approve its work programme for 2007/8. (copy attached)

## **MINUTES OF THE AUDIT COMMITTEE**

**24 MAY 2007**

Present:-

M.L. Bouquet  
K. Chouhan

M.J. Collis  
E. O'Hara  
J.D. Pinkerton

C.V. Strong  
H.A. Thomson

### **153/07 APPOINTMENT OF CHAIRMAN**

**RESOLVED** that Councillor J.D. Pinkerton be appointed Chairman of the Audit Committee for the Municipal Year 2007/2008.

### **154/07 MINUTES**

**RESOLVED** that the minutes of the meeting held on 19 April 2007 be approved as a correct record.

### **155/07 APPOINTMENT OF VICE-CHAIRMAN**

**RESOLVED** that Councillor K. Chouhan be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2007/2008.

Chairman\_\_\_\_\_

19 June 2007

**AUDIT SERVICES REPORT  
(FOR THE PERIOD APRIL – MAY 2007)**

**Audit Committee: 19 June 2007  
Report of the Strategic Director (Support)  
Resolution Required**

## **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 April - May 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' Report for the period April – May 2007.**

**Contact: Deanna Harris (Head of Audit Services) 01784 446207  
Portfolio Holder: Cllr Bouquet**

## 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 Review** – An annual review of internal audit is now a statutory requirement. Details of the review have been reported separately.

- 2.2 **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. A review of the partnership has been completed and some minor amendments have been made to staff responsibilities.

- 2.3 **Work undertaken on behalf of external audit** – Testing on all key financial systems was finalised. Recommendations with a significant risk attached are as follows:

(a) Main Accounting Systems

There is a risk of failure to record and collect income from some grants and Section 106 agreements if services fail to notify Financial Services of sums due. Financial Services are currently reviewing the system.

(b) Sundry Debtors

- (c) Audit recommended that written procedures should be updated for business continuity purposes.

(d) NNDR

- i) Audit found that only limited independent checks had been undertaken on suppressed accounts and these had not been carried out regularly. Management are currently reviewing the process.
- ii) Management should ensure that there is an adequate and up to date audit trail on the system for each account detailing action taken on outstanding accounts.

(e) Payroll

- i) In order to ensure there is a systematic and independent verification of the validity of payroll transactions it has been recommended that the Human Resources Officer carries out regular monthly checks of a sample of amendments input by Payroll staff. Although assurance had been provided during 2006 that checks were being undertaken, it is apparent that due to shortage of staff only limited checks have been carried out.
- ii) Recommendations have been made to improve control/reduce risks associated with the use of the HR system master password by Payroll officers.

- iii) Following a failure in the IT service provider to properly back up the payroll system, Audit have recommended that officers should periodically test check that these have been completed. Action has been taken by management with Steria to ensure controls are in place to reduce the risk of re-occurrence.

(f) Creditors

Cash and Bank  
Treasury Management  
Housing Benefits  
Council Tax

There are no significant matters to report on testing undertaken in these areas.

2.4 **IT Security.** Audit attends a regular IT security meeting with Steria and in-house staff to discuss and agree improvements in IT security. A recent failure to back up certain systems has been escalated and action has been taken by Steria to address the issue. Audit alerted management to the need to confirm that back ups were being undertaken regularly.

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 **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.

3.3 **National Fraud Initiative** –The Audit Commission compares data from each local authority to identify potential 'matches' for example benefit claimants receiving payments from more than one authority or duplicate creditor payments. Although the exercise identifies several thousand potential matches, further investigation usually confirms that there is an explanation. Occasionally, frauds are detected and will be investigated accordingly. Audit is currently co-ordinating the Council's investigations and further details will be reported in due course.

3.4 **Car Parking** – Audit provided advice on income related matters including handling of cash, reconciliation of income and collection of unpaid penalty charge notices. Meetings were held with Car Parks staff to ascertain general security arrangements, and advice provided to improve controls in some areas.

3.5 **Planning and Housing Strategy** – Audit completed the service risk assessment and carried out testing relating to expenditure and planning applications. Further

testing is in progress. Proposals discussed and agreed with Management include the need to review the housing strategy action plan regularly; introduction of formal agreements with RSL'S, improvements in management information regarding housing needs; ensuring that section 106 agreement income due is promptly identified, recorded, monitored and collected.

- 3.6 **Community Services (Leisure)** - The final audit summary report was issued. Audit monitored progress with Leisure centre contract.
- 3.7 **E Government Services** – Further audit work has been suspended pending completion of the review of the service risk assessment by the service head.
- 3.8 **Direct Services, Housing Options and Environmental Health / Building Control** - Risk assessments and testing are in progress.
- 3.9 **Asset Management** - Audit advised the Head of Corporate Governance and Strategic Director (Support) to review the appointment and management of consultants used within the Asset Management Service. Recommendations have also been made to improve control over the use of the planned maintenance budget to ensure that any non scheduled work is separately approved.
- 3.10 **Business Continuity** - Previous audit concerns regarding the lack of up to date and tested business continuity plans are being address by consultants appointed by the Head of Environment Services. The authority should ensure all plans are completed, tested and updated regularly.
- 3.11 **Advice** - Advice has been requested from all directorates on a variety of risk and control issues.
- 3.12 **Miscellaneous** – appraisals, staff/team/departmental/manager's meetings, audit training, risk management training, CAP's user group attendance, recruitment and selection interviewing training, business continuity planning, Audit Committee reports, liaison with Surrey Audit Group and external audit, budget monitoring/preparation, re-design of audit documentation, registered interim contract payment certificates and reviewed the e-tendering policy.

#### **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 REVIEW**

**Audit Committee: 19 June 2007**

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

**Resolution Required**

# **Executive Summary**

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

The Audit Service provides assurance that the authority's risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.

### **Purpose of Report**

The review of Audit is a statutory requirement of the Accounts and Audit Regulations.

### **Key Issues**

- Meeting Audit aims and objectives
- Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2006
- External audit assessment/ reliance on internal audit
- Customer survey feedback
- Adding value and assisting the organisation in achieving its objectives
- Achievements during 2006/7
- Improvement plan

### **Financial Implications**

No financial implications.

### **Corporate Priority**

All four

### **Officer Recommendations :**

**The Audit Committee is asked to note the contents of Audit Services' Annual Review.**

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

**Portfolio Holder: Councillor Michel Bouquet**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 Internal Audit is a statutory function and it is the responsibility of the Council to 'maintain an adequate and effective system of internal audit...'
- 1.2 The amended Accounts and Audit Regulations require the authority to undertake an annual review of internal audit.
- 1.3 The Audit Service is responsible for:
  - (a) Providing **assurance** to the authority that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.
  - (b) Providing **advice** regarding risk, internal control and governance arrangements.
  - (c) Assisting management in **assessment of risk**.
  - (d) Undertaking special investigations as necessary.
  - (e) Testing of financial systems on behalf of external audit.
- 1.4 The nature of this review has not been specified externally but advice has been obtained regarding issues which should be considered and these are detailed below. There are no nationally set indicators relating to audit.

### 2. KEY ISSUES

- 2.1 Meeting aims and objectives Aims, objectives and targets are set out in the Service Plan. Targets (2006/7) together with comments on progress are attached at **Appendix 1**.
- 2.2 Two of the most significant targets related to the creation of an Audit Committee and development of an audit partnership.
- 2.3 The Audit Committee was formed in 2006 and has met on eight occasions (Feb 2006 – April 2007). Member training was provided through a series of presentations on the role of the Audit Committee, Internal/External Audit and Risk Management. During the period the Committee received regular reports on the work of Internal Audit which helped members to understand the role of the service and key issues identified by the team. The Committee also considered Audit Plans, the Statement on Internal Control (SIC), Corporate Risk Management, Anti Fraud and Corruption and Whistleblowing Policies. External audit attended to present various reports.
- 2.4 A partnership with Surrey Heath Borough Council was formed in October 2006. Spelthorne's Head of Audit currently manages audit teams at both authorities. Benefits include financial savings and more efficient use of resources, shared expertise, greater flexibility and resilience. This is a major achievement for the authority and audit team.
- 2.5 Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2006
- 2.6 The Code of Practice defines the way in which the internal audit service should undertake its functions. It sets out a framework for measurement, management

and monitoring of the audit function. Exceptionally, there may be circumstances preventing full compliance but the authority should demonstrate that there are alternative measures in place.

- 2.7 The checklist appended to the Code of Practice has been used to confirm overall compliance with the Code and to identify an action plan of some minor improvements. These have been highlighted under each of the standards in **Appendix 2**.
- 2.8 External audit assessment/ reliance on internal audit
- 2.9 External audit assessment of audit is 'good' and they continue to place reliance on the work of internal audit to support their opinions.
- 2.10 Customer survey feedback
- 2.11 None of the respondents rated Audit below satisfactory. The majority of respondents felt the service had not changed since the introduction of the partnership. There appeared to be some inconsistency and lack of understanding regarding the role of audit and this will be addressed by the team.
- 2.12 Adding value and assisting the organisation in achieving its objectives
- 2.13 The following headings have been extracted from the CIPFA Code of Practice as useful indicators to demonstrate the audit service is adding value and assisting the organisation in achieving objectives:
- (a) Audit has an understanding of the organisation, needs and objectives through:
- Attendance at corporate meetings
  - Review of Management Team (MAT) reports
  - Regular contact with senior management/directors
  - Service Plan relating to corporate objectives
- (b) Audit has an understanding of its position with respect to the organisation's other sources of assurance through:
- Working closely with external audit and Heads of Corporate Governance and Financial Services.
  - Contribution to Statement on Internal control, Use of Resources Assessment and annual review of the Code of Corporate Governance.
  - Direct involvement with the authority's risk management arrangements including participation in Corporate Risk Management Group and risk based audit approach.
- (c) Audit may act as a catalyst for change at the heart of the organisation. Examples include:
- Involvement in various corporate initiatives eg Business Improvement Programme (BIP) and risk management
  - Contribution to corporate issues eg partnering, Use of Resources, project management etc
  - Involvement in selection of IT systems and other new developments
  - All recommendations arising from planned / other audit work

- (d) Audit can add value and assist the organisation in achieving its objectives.
- All recommendations are related to risk and assist the authority to make better use of resources
- (d) Audit are forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact. This is achieved through:
- Auditors are professionally qualified and are kept up to date on national issues through CIPFA, Institute of Internal Auditors (IIA), contact with other auditors and various other sources of information.
  - Internally, auditors receive information via various communication channels Management Team (MAT), departmental management teams (DMT), managers briefings, staff meetings, publications, Continuing Professional Development (CPD) training, close working with policy and Head of Finance etc
  - All senior managers are consulted regarding the audit plan
  - All key issues are incorporated within plan and risk assessments
- (f) Audit are innovative and challenging
- Risk based audit approach introduced
  - New reporting summary introduced
  - Partnering initiative
  - See quarterly reports for detail of audit work undertaken
- (g) Audit help shape ethics and standards of the organisation
- Contribution to Code of Corporate Governance
  - Close working with Head of Corporate Governance/Head of Financial Services
  - Prepared/input into Confidential Reporting (Whistleblowing) Code, Codes of Conduct, Code of Corporate Governance, Anti Fraud and Corruption Policy
  - Incorporate relevant issues in each service risk assessments
- (h) Audit ensure the right resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly.
- Plan allocated to auditors according to skills and experience
  - Training and development identified in appraisals
  - Examples of training include Institute of Internal Audit, CIPFA Diploma in Audit, ECDL, CIPFA professional updates
  - Budget available for IT audit
  - IT audit training provided for all staff and IT work shadowing implemented
- (i) Audit share best practice with other auditors through:

- Partnership in place
- Close working with others through Surrey Audit Group
- Use Cipfa manual which refers to best practice models

(j) Seek opportunity for joint working with other organisations

- Partnership in place

### **3. ACHIEVEMENTS 2006/7**

- Continued to operate innovative risk based approach to audit work
- Implemented partnership
- Reviewed and implemented audit documentation with partnership branding
- Auditors assisted managers to update risk registers and identified risks for some key projects such as waste management.
- Contributed to Business Improvement Plan
- Organised joint/interactive IT security event between auditors, IT staff and Steria
- Completed all external audit testing
- Reported to Audit Committee and assisted in development of their role.
- Contribution to 2006/7 Use of Resources assessment and improvement plan.

### **4. IMPROVEMENT PLAN – 2007/8**

4.1 The following actions have been identified to improve the audit service:

- Review and revise the Audit Charter.
- Develop role of Audit Committee following the elections.
- Continue to meet regularly with Strategic Director (Community) regarding emerging service issues.
- Prepare schedule of competencies required for all audit posts and implement development plan.
- Improve use of Council's performance management system (PB Views) to monitor outstanding audit recommendations.
- Implement customer feedback on individual audit assignments.

### **5. OPTIONS ANALYSIS**

5.1 There are none

### **6. PROPOSALS**

6.1 There are none

### **7. BENEFITS AND SUSTAINABILITY**

7.1 Not applicable.

### **8. FINANCIAL IMPLICATIONS**

8.1 There are none

**9. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

9.1 This review has been undertaken to comply with the Accounts and Audit Regulations.

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

10.1 Loss of key staff could temporarily impact on the efficiency of the service and the implementation of improvement plan actions.

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

**Background Papers:  
There are none**

## APPENDIX 1

Priority	Performance Indicator	Target	Actions Needed	Progress
<b>Customers</b>				
Internal Assurance	Completion of audit plan	90%	Develop realistic plan and implement / manage	The 2006/7 Audit Plan was prepared in consultation with management and was completed.
Internal Assurance	Statement of internal control related to internal Audit accepted by External Audit	Acceptable	Write summary report to S151 Officer	SIC prepared and presented to member 2006.
Effective Contribution to Corporate Governance	Level scored in key lines of enquiry for use of resources judgement relating to the Internal Audit role in Corporate Governance	Level 4	Establish Audit Committee Complete Audit Plan	Audit Committee established and all actions identified in improvement plan implemented. All level 4 boxes ticked in relation to audit work.
Inclusive treatment of all clients	No. of complaints regarding conduct of Audit team	Nil	Ensure relations with all clients follow professional code of conduct and Audit Manual	One complaint received following matter of concern raised by Audit. Complaint related removal of gifts from depot. As Audit were actually asked to remove the gift by a manager, it was felt this matter required no further action.



Priority	Performance Indicator	Target	Actions Needed	Progress
<b>Resources</b>				
Efficient Working	Overall cost of Internal Audit Service	Reduce cost by x % by 2009 compared with 2004/05 figures	Actively develop partnership approach.	Partnership implemented and savings achieved.
Efficient Working	Electronic filing of working papers and other hard copy documents	Implement by end 2006/07	Write Business Case and submit to E Government Group. Develop Project Plan	This target overtaken by work undertaken to develop and improve e documentation within the team and in conjunction with SHBC
Value for Money Audits	Notional savings to the Authority	£20,000 in 2006/07	Highlight and quantify VFM recommendations where possible	All audit work considers vfm and there are numerous examples eg climate change consultants, BIP work, car park issues
External Audit Liaison	Additional assurance work by External Audit	Nil	Ensure planned meetings take place with External Audit	Achieved

Priority	Performance Indicator	Target	Actions Needed	Progress
<b>Operations</b>				
Effective Risk Management	External Audit Rating of Internal Audit involvement in Risk Management Systems	Maintain at good	Complete the Audit Plan	Achieved
Regulatory Compliance	External Audit Rating of Internal Audit in Financial System Report	Maintain at good	Complete the Audit Plan; Comply with code of practice	Achieved
Consultative Audit Planning	Level of comments on Audit Plan	Nil comments after consultation process	Full consultation prior to preparation of Plan	Achieved
Improving Customer Satisfaction	Rating of Customer Satisfaction from Survey	70%	1. To issue Customer Satisfaction questionnaire annually 2. To resolve any issues raised	Results satisfactory. Some scope for improving understanding of audit role.

Priority	Performance Indicator	Target	Actions Needed	Progress
<b>Capacity</b>				
Improve Performance Management	Levels of completion of Audit Plan	25% 1 <sup>st</sup> quarter 50% 2 <sup>nd</sup> quarter 70% 3 <sup>rd</sup> quarter 90% 4 <sup>th</sup> quarter	Develop and implement viable monitoring system to enable effective management	Plan monitored constantly. Each auditor has section of plan and monitoring system established
Develop, Recruit and Retain Good Staff	Levels of staff qualification	All auditors to receive appropriate professional training and development	<ol style="list-style-type: none"> <li>1. Request adequate budget</li> <li>2. Identify individual training needs</li> <li>3. Support auditors through appropriate and professional training</li> </ol>	DH – CIPFA PT – IIA NS – CIPFA DPA JH – IIA trainee
Support Member Development	Established Audit Committee with properly trained members	4 meetings of the Committee in 2006/07	Build Audit Committee meetings into the Committee cycle Develop agenda for Member Induction Training	Achieved



**CIPFA CODE OF PRACTICE – STANDARDS**

**1. Scope of Internal Audit**

This section refers to the need for internal audit to have clear terms of reference and properly defined scope.

Comment: Internal Audit has a Charter approved by members in 2003. This requires some minor amendment and will be presented to future Audit Committee for approval.

**2. Independence**

Internal audit should be independent of the activities it audits to ensure judgements and recommendations are impartial. The Head of Audit should have sufficient status and have access to, and freedom to report to members and officers.

Comment:

There are no concerns regarding the independence of internal audit at Spelthorne.

**3. Ethics for Internal Auditors**

Internal auditors should:

- Demonstrate integrity in all aspects of their work
- Be objective and not unduly influenced by personal interest or the views of others
- Carry out work competently
- Keep their work confidential

Comment:

There are no concerns regarding compliance with ethical standards.

**4. Audit Committees**

This section sets out the purpose of the committee and its relationship with internal audit.

Comment:

The Audit Committee was established in 2006 and has developed its role through presentations and review of various internal and external reports. Following the recent elections the committee now has a new Chairman and new members. A programme of induction training will commence in June 2007.

## **5. Relationships**

Internal audit is involved in a wide range of internal and external relationships (management, other internal auditors, members, external auditors and other regulators/inspectors). The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence.

Comment:

Generally, relationships between auditors and others are sound. Auditors are not always popular particularly where matters of concern have been raised and occasionally escalated to senior management and members if agreed action has not been taken. Where difficulties have arisen steps are usually taken to resolve matters. The Head of Audit is now meeting with the Strategic Director (Community) on a regular basis to ensure that any issues are discussed and resolved as necessary. Meetings also take place with the Strategic Director (Support) where any matters of concern are escalated.

## **6. Staffing, Training and Continuing Professional Development**

Internal Audit should be appropriately resourced to meet its objectives.

Comment:

Auditors are professionally qualified and a new member of staff is currently studying for the IIA professional qualification. There are sufficient resources to complete the Audit Plan however, high levels of unexpected work would impact on the delivery of planned work. The service no longer has a dedicated training budget as all funding has now been amalgamated into a central budget. There is need to ensure funding for audit training receives sufficient priority within directorates overall budget. The Head of Audit plans to use a recent Cipfa publication on assessing auditor skills to develop auditors.

## **7. Audit Strategy and Planning**

The audit strategy is a statement of how the service will be delivered and how it links to organisational objectives and priorities. This should be supported by a risk based audit plan

Comment:

At Spelthorne this strategy is delivered through the Service Plan. All audit work is risk based and this informs the audit plan.

## **8. Undertaking Audit Work**

The standard sets out how individual assignments should be planned, undertaken using a risk based approach and recorded.

Comment:

At Spelthorne auditors do not specify the scope of the audit brief in detail because the scope is dependent on the outcome of risk assessment.

## **9. Due Professional Care**

The standard defines due professional care:

- Working with competence and diligence – it does not imply infallibility.
- Use of audit skills, knowledge and judgement based on appropriate experience, training, ability, integrity and objectivity.
- Respecting and understanding confidentiality.

The responsibilities of individual auditors and Head of Audit in respect of due professional care are set out in the standard.

## **10. Reporting**

The primary purpose of audit reporting is to provide an independent opinion on the control environment and exposure to risk, and to prompt management to implement agreed actions. The standard sets out principles of good reporting and minimum requirements for annual reporting.

Comments:

Spelthorne audit introduced risk based auditing with focus on medium/high risks in summary reports. There is a need to formalise procedure for following up outstanding recommendations by management and this has been partially addressed by the use of the Council's performance management software, PB Views to record audit recommendations. However, further work needs to be done to encourage management to use this system.

The implementation of quarterly reviews of the audit plan will help to ensure outstanding recommendations are followed up.

The Head of Audit reports to MAT and Audit Committee quarterly and summarises overall audit opinion and outstanding issues in the annual report contained within the Statement on Internal Control (SIC).

## **11. Performance, Quality and Effectiveness**

The standard sets out how the quality of audit work should be assessed.

Comments:

The Audit Service is subject to fairly extensive performance management and review through:

- quarterly reporting to MAT and Audit Committee on all work undertaken,
- review by external audit of the service and detailed assessment of its work on all the Council's financial systems and it is subject to annual review in accordance with the Accounts and Audit Regulations.
- The Head of Audit has regular meetings with the Strategic Director (Support) to discuss targets and
- the work of the audit team is managed through monitoring of the audit plan, weekly team meetings, review of individual audits and appraisals.

One area where some further improvement could be made is through customer feedback. New forms have been designed and will be implemented shortly.



## **STATEMENT ON INTERNAL CONTROL 2006-07**

**Audit Committee – 19 June 2007**

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

**Resolution Required**

### **EXECUTIVE SUMMARY**

#### **How does the content of this report improve the quality of life of Borough Residents**

Ensures the Council is following approved procedures in line with the parameters that have been set, thus ensuring peace of mind to the local residents.

#### **Purpose of Report**

The Accounts and Audit Regulations 2003 require the Council to consider and approve a Statement on Internal Control for inclusion within the Statement of Accounts.

#### **Key Issues**

The Statement on Internal Control:

- Reviews the Council's control framework
- Identifies significant risk issues
- Identifies steps to address those risk issues

#### **Financial Implications**

There are none.

#### **Corporate Priority**

All four

#### **Officer Recommendations:**

**The Audit Committee is asked to approve the draft Statement on Internal Control and endorse the improvement actions identified in part 5 of the Statement.**

**Contact: Sue Sturgeon, Strategic Director (Support) 01784 446221**

**Portfolio Holder: Cllr Michel Bouquet**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 The need to review arrangements for internal control and the Statement on Internal Control (SIC) is given statutory backing by the Accounts and Audit Regulations 2003. In particular these Regulations say that the Council should:
- (a) Ensure that the financial management and control systems are adequate and that there is effective risk management,
  - (b) Include a statement on internal control, prepared in accordance with proper practice, in its financial statements, and
  - (c) Conduct a review at least once a year of the effectiveness of its system of internal control.
- 1.2 The review should set out improvement actions to mitigate any key risks to service delivery that are identified.
- 1.3 The internal control framework extends beyond financial controls to include all aspects of the conduct of the Council's business and takes the form of a review of the effectiveness of the internal control systems. Statutory guidance requires the SIC to be signed by the most senior officer (Chief Executive Officer) and the most senior Member of the Council (the Leader) at the same time as the Statement of Accounts is approved. A draft of the Statement on Internal Control is attached as an appendix to this report.
- 1.4 The Chartered Institute of Public Finance (CIPFA) published a statement in April 2004 to help authorities prepare the SIC. This statement constitutes "proper practice" under the 2003 Regulations. It was deliberately not prescriptive and authorities were encouraged to determine the exact form and content for much of the SIC for reporting with their accounts.
- 1.5 The Audit Commission is keen that the annual review of internal controls should not be seen as an add-on end of year activity simply to comply with legislation. In the new CPA process, internal control is one of the 5 key lines of enquiry (KLOE) that make up the *Use of Resources Assessment*. The Council received a score of 3 (out of 4) for Internal Control with the external auditors assessing the Council's arrangements for internal control as being good.

### 2. KEY ISSUES

- 2.1 The Statement on Internal Control sets out the framework within which internal control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The SIC also identifies any areas of significant weakness in internal controls, and areas for improvement, and the actions taken to remedy these.
- 2.2 The Statement on Internal Control relates to the system of internal financial control as it applied during the financial year in this case, the 2006/07 financial year.
- 2.3 The Council's external auditor is expected to review the SIC for 2006/07 closely. Furthermore, the Audit Commission's Code of Audit Practice 2005 (which applies from 2005/06) states that the SIC and underlying process will form a key piece of evidence for auditors' work on the authority's arrangements to secure economy, efficiency and effectiveness. In summary, the SIC will form an increasingly

important part of the external auditors' work and subsequent opinion on the control arrangements of the Council.

2.4 Reviewing the effectiveness of Internal Control

2.5 The scope of internal control spans the whole range of local authority activities and includes those controls designed to ensure that:

- (a) Council policies are put into practice
- (b) There is compliance with law and regulation
- (c) Agreed procedures are followed
- (d) Financial statements and other published information are reliable and accurate.
- (e) There is the efficient and effective use of management and resources in the delivery of high quality services.

2.6 The CIPFA statement recommends that the Council should satisfy itself that it has obtained relevant and reliable evidence to support the Statement and sets out an **assurance gathering process** framework. This framework comprises the following stages:

- (a) Establish principal statutory obligations and organisational objectives.
- (b) Identify key risks to their achievement.
- (c) Identify and evaluate key controls to manage principal risks.
- (d) Obtain assurances on the effectiveness of key controls.
- (e) Evaluate and identify gaps in controls and assurances.
- (f) Produce an action plan to address gaps and ensure continuous improvement in internal controls.
- (g) Produce the Statement on Internal Control.
- (h) Report to Committee.

2.7 Officers in undertaking the review of internal control arrangements for 2006-07 have completed a detailed assurance matrix which in detail identifies the arrangements and evidence relating to items a to f as set out under paragraph 2.6 above.

2.8 The sources of assurance include:

- (a) Published documents (e.g. Constitution)
- (b) Directors and managers throughout the organisation assigned with the ownership of risks and delivery of services
- (c) Annual Review of Corporate Governance
- (d) The Monitoring Officer
- (e) The Responsible Financial Officer
- (f) Internal Audit
- (g) External Audit
- (h) Review agencies and inspectorates

- 2.9 In undertaking the review and completing the Statement on Internal Control all of the above sources of assurance have been taken into consideration.
- 2.10 An important source of assurance is provided by the work of Internal Audit and several of the control issues identified in part 5 of the Statement relate to items identified in the Audit Services Reports for 2006-07 which have been considered by the Audit Committee.
- 2.11 It is important the actions identified with regard to the control issues are taken forward.

### **3. OPTIONS ANALYSIS**

- 3.1 There are none.

### **4. PROPOSALS**

- 4.1 There are none.

### **5. FINANCIAL IMPLICATIONS**

- 5.1 There are none.

### **6. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

- 6.1 The Accounts and Audit Regulations require the Statement of Accounts to include a signed off Statement on Internal Control, failure to do so could result in qualification of the accounts.

### **7. RISKS AND HOW THEY WILL BE MITIGATED**

- 7.1 Failure to implement improvement actions will result in increased risks for the authority.

### **8. TIMETABLE FOR IMPLEMENTATION**

- 8.1 The Statement on Internal Control relates to the system of internal financial control as it applied during the financial year in this case, the 2006/07 financial year.
- 8.2 The Council's external auditor is expected to review the SIC for 2006/07 closely. Furthermore, the Audit Commission's Code of Audit Practice 2005 (which applies from 2005/06) states that the SIC and underlying process will form a key piece of evidence for auditors' work on the authority's arrangements to secure economy, efficiency and effectiveness.

**Report Author: Terry Collier Head of Financial Services (01784) 446296**

**Background Papers:  
There are none.**

## **Statement on Internal Control**

### **1. Scope of Responsibility**

- 1.1 Spelthorne Borough Council (The Council) 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.
- 1.2 In discharging this overall responsibility the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

### **2. The Purpose of the System of Internal Control**

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.2 The system of internal control has been in place at Spelthorne Borough Council for the year ended 31 March 2007 and up to the date of the approval of the annual report and accounts.

### **3. The Internal Control Environment**

- 3.1 Spelthorne has published a corporate plan which covers the period 2005-08 and clearly sets out our aims and objectives and our key service priorities. In order to ensure we deliver on our priorities we have used a balanced score card approach to provide a framework to translate strategic aims into actions. To enable us to monitor progress we have set a number of corporate targets which are regularly monitored at Management Team and Member level. These are supported by service improvements plans. The monitoring is done on a traffic light system which is effective in highlighting any areas which require review. This is a particularly effective method of assurance.
- 3.2 The key elements of the internal control environment at Spelthorne Borough Council are set out below:

### 3.2.1 Ensuring compliance with legislation constitution , standing orders, financial regulations

The Council's Head of Corporate Governance, who is also the monitoring officer, is responsible to ensure compliance with legislation and the constitution. The constitution is kept under review and is updated annually. The constitution facilitates policy and decision-making by setting framework for the operation and conduct of the Council's business. All reports to management and to the Executive/Council contain a section on legal implications, and the Council's solicitor give advice on all appropriate policy changes and key issues.

The council has in place a code of corporate governance which is based on the framework published by CIPFA and SOLACE, which establishes structures, procedure, processes and a system of contracts to ensure that the necessary standards of corporate governance are achieved and maintained.

The Council recognises that these arrangements need to be monitored, reviewed and updated. The code adopted by the /Council has 5 dimensions as follows:

- **Community Focus**

Community focus means how the Council relates to and works with its communities and stakeholders in providing services to its customers and making sure the priorities it sets reflect their needs. In carrying out its general and specific duties and accepting it's responsibilities and ability to exert wider influence, the Council commits to

- Work for and with local communities
- Exercise leadership in the local communities, where appropriate
- Undertake an 'ambassadorial' role to promote the well-being of the Borough, where appropriate, through maintaining effective arrangements:
  - For explicit accountability to stakeholders for the Council's performance and its effectiveness in the delivery of services and the sustainable use of resources
  - Demonstrate integrity in the Council's dealings in building effective relationships with other public agencies and the private/voluntary sectors
  - Demonstrate openness in all its dealings

- Demonstrate inclusivity by communicating and engaging with all sections of the community to encourage active participation
  - Develop and articulate a clear and up-to-date vision and corporate strategy in response to community needs.
- **Service Delivery**  
 This dimension is about how the Council manages its resources to ensure that services are provided in a manner that represents best value, achieves its objectives, is sustainable and ensures continuous improvement in performance. The Council commits to ensure that continuous improvement is sought, agreed policies are implemented and decisions carried out by maintaining arrangements which:
    - Discharge accountability for service delivery at a local level
    - Ensure effectiveness through setting targets and measuring performance
    - Demonstrate integrity in dealings with service users and developing partnerships to ensure the 'right' provision of services locally
    - Demonstrate openness and inclusivity through consulting with key stakeholders, including service users
    - Are flexible so that they can be kept up-to-date and be adapted to accommodate change and meet user wishes
  - **Structures and Processes**  
 This dimension focuses on how the Council makes arrangements to govern decision-making and the exercise of authority within the organization, by both Members and Officers. The Council commits to establishing effective political and managerial structures and processes to govern its decision making and the exercise of authority within the organisation. The Council will maintain arrangements to:
    - Define the roles and responsibilities of Members and officers to ensure accountability, clarity and ordering of the Council's business
    - Ensure that there is proper scrutiny and review of all aspects of performance and effectiveness
    - Demonstrate integrity by ensuring a proper balance of power and authority
    - Document clearly such structures and processes and ensure that they are communicated and understood to demonstrate openness and inclusivity

- Ensure such structures and processes are kept up to date and adapted to accommodate change

- **Risk Management and Internal Control**

This is about how the Council manages risk and maintains and reports on arrangements for the control, management and security of its assets and resources. The Council commits to establishing and maintaining a systematic strategy, framework and processes for managing risk. Together, these arrangements include:

- making public statements to stakeholders on the authority's risk management strategy, framework and processes to demonstrate accountability
- mechanisms for monitoring and reviewing effectiveness against agreed standards and targets and the operation of controls in practice
- Demonstrating integrity by being based on robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks
- Displaying openness and inclusivity by involving all those associated with planning and delivering services, including partners
- mechanisms to ensure that the risk management and control process is monitored for continuing compliance to ensure that changes in circumstances are accommodated and that it remains up to date

- **Standards of Conduct**

This focuses on how the Council ensures that its Members and Officers maintain the highest standards of integrity and behaviour in the performance of their duties. The openness, integrity and accountability of individuals within the Council form the cornerstone of effective corporate governance. The reputation of the Council depends on the standards of behaviour of everyone in it, whether Members, employees or agents contracted to it. Therefore Members and senior officers will:

- Exercise leadership by conducting themselves as role models for others within the Council to follow.
- Define the standards of personal behaviour that are expected from Members and staff and all those involved in service delivery, and put in place arrangements to ensure:
  - Accountability, through establishing systems for investigating breaches and disciplinary problems and taking actions where appropriate, including arrangements for redress



- Effectiveness in practice through monitoring their compliance
- That objectivity and impartially are maintained in all relationships to demonstrate integrity
- That such standards are documented and clearly understood to display openness and inclusivity and are reviewed on a regular basis to ensure that they are kept up to date.

### 3.2.2 A comprehensive system of financial management

The Strategic Director (Support) is responsible to ensure that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control.

The operation of an effective system of internal financial control during the year is based on regular information being made available to managers, adherence to financial regulations and standing orders, the implementation and adherence to appropriate administrative systems and procedures, management supervision and a system of delegation and accountability being in place. All new staff attend induction training of which financial management is one of the topics covered.

### 3.2.3 A comprehensive system of performance management

To ensure that performance management is embedded within the organisation the following framework is in place:

#### Annually

- All Best Value Performance Indicators (BVPI) year-end figures and Local Performance Indicators (LPIs)/Service Performance Indicators (SPIs) are reported to the Council's Management Team, Executive and Performance Management and Review Committee.
- Quality of Life Indicators are reported to Management Team, Executive, and the Local Strategic Partnership Assembly
- Summary of Key PIs are reported to staff via the intranet and newsletter and to Members via the Members' Information Bulletin

#### Quarterly

- Key Performance Indicators reported to Portfolio Holders, Management Team and Performance Management and Review Committee.
- All key BVPIs and LPIs/SPIs are reported to Management Team.

- Summary of key performing areas are reported to staff via the intranet, newsletter and posters.
- Summary of quarterly performance information to Members are reported via Members' Information Bulletin.
- Local Performance Indicators/Service Performance Indicators are reported to Departmental Management Teams with exception reporting to Management Team and the Portfolio Holder
- Service Standards are reported to Departmental Management Teams with exception reporting to Management Team and Portfolio Holder

#### Monthly

- PI's, where serious issues are identified, are reported to Management Team and, where appropriate, the relevant Portfolio Holder
- Departmental Management Teams discuss relevant local performance indicators where serious issues are identified
- Updates are provided to staff on progress against key areas via the intranet, newsletters and posters.

For 2006-07 an online performance management system has been implemented to ease input of performance indicators and to enable managers across the organisation monitor easily their performance indicators.

#### 3.2.4 A strategic approach to the management of risk

The Strategic Director (Support) is chairman of the Council's Corporate Risk Management Group, which reports to the Council's management team. The group has developed a corporate risk strategy, policy and a risk pack for members. The Council has in place a rigorous approach to the identification of risk at both member and corporate levels. The corporate risk register is updated in a timely manner and the Head of Audit Service's service overviews and service risk registers are regularly updated. Additionally, all reports that include changes in policy, or service delivery include a section on risk; thus corporate risk awareness and management is embedded within the organisation.

The Head of Audit Services co-ordinates promotion and mainstreaming corporate risk within the Authority. As part of this process the corporate risk register has been updated and the protocols for managing risk reviewed.

### **4. Review of Effectiveness**

- 4.1 Spelthorne Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Council who have responsibility for the development and maintenance of the internal control

environment, and also by comments made by the external auditors and other review agencies and inspectorates.

- 4.2 Update – During 2006-07 the second Use of Resources assessment of the Council was undertaken by the Council's external auditors. Against all five elements of the assessment: Financial Reporting; Financial Monitoring; Financial Standing; Internal Control; Asset Management; and Value for Money the Council was given scores of 3 (out of maximum 4) indicating good level of performance, The one sub-element (Financial Reporting) for which previously we had a score of two was upgraded to a 3 in recognition of the summary accounts published with the winter Borough Bulletin. Whilst the auditors did not increase the council's overall scores they have indicated that a number of the 3s are now stronger 3s. Officers will produce an updated improvement plan to address the further opportunities for improvement identified in the Use of Resources assessment.
- 4.3 The full Council is responsible for determining the financial and policy framework and all major strategies and plans. The Executive is responsible for the day-to-day running of the Authority but must refer any matters outside the policy framework to the Council. The Council has two scrutiny committees, the Improvement and Development Committee, whose main function is to review Council policy and advise the Executive, and the Performance Management and Review Committee which is responsible to monitor and review the Councils' performance. Both committees have power to 'call in' decisions taken by the Executive within 5 days of the decision being taken.
- 4.4 During 2006-07 the Council's Audit Committee completed its first full year of operation. Audit committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. The terms of reference for the Audit Committee are to:
- Approve (but not direct) internal audit strategy, plan and performance
  - Review summary internal audit reports and seek assurance that action has been taken by management where necessary
  - Consider reports of external audit and inspection agencies
  - Consider the effectiveness of the authority's risk management arrangements
  - Review the Statement on Internal Control
  - Ensure that there are effective relationships between external and internal audit, and others, and that the value of the audit process is actively promoted
  - Review the financial statements, external auditors opinion and reports to members, and monitor management action in response to the issues raised by external audit
- 4.5 Internal audit is responsible for evaluating and reporting upon the adequacy of the whole system of internal control as a contribution to the proper, economic, efficient

and effective use of Council resources. Internal audit carries out a full programme of audits in accordance with a formally approved Audit Plan that is based on an assessment of the risks facing the Council. The plan is supported by a formal risk assessment undertaken in each service. Audit findings are routinely reported to the Section 151 Officer, Senior Management Team and Members through the Audit Committee.

- 4.6 A risk based approach to audit has been in place for a number of years. This involves production of a comprehensive risk assessment for each service, which identifies areas for further examination using established system based audit techniques. The most significant risks identified are recorded on service risk registers, which in turn inform the corporate risk register. In this way, the routine work of internal audit is used to support corporate risk management and the new statement of internal control. It also reflects professional best practice as required by the CIPFA Code of Practice for Internal Audit in Local Government (2006). All main financial systems continue to be reviewed by Internal Audit.
- 4.7 Reporting to the Audit Committee, the Head of Audit Services provides independent assurance on the adequacy and effectiveness of the system of internal financial control. The Internal Audit reports for 2006-07 summarise audit work carried out during the period, bring together areas involving significant audit input, those of general corporate interest or where there are significant audit findings. All other audit work is then listed for completeness, with some detail on "Other Audit Work" to illustrate the range of responsibilities. Controls are generally operating well. Recommendations have been made to improve management control in some areas. These are addressed in section 5 of this statement. Findings identified in this year's managed audit are currently being addressed and will be reported by the external auditor in his management letter.
- 4.8 The performance management system (PB Views), mentioned under paragraph 3.2.3, implemented in April 2006 will be used for monitoring implementation of audit recommendations and there will be quarterly reports to the Audit Committee so that the Committee can fulfil their role to 'Review summary internal audit reports and seek assurance that action has been taken by management where necessary'
- 4.9 Investors in People (IIP) is a nationally recognised standard which sets good practice for improving an organisation's performance through its people. Performance is subject to external scrutiny every 15 months with an emphasis on good working practices and continuous improvement. During 2006/07 the Council received confirmation that it had maintained its IIP status.
- 4.10 The Council's annual financial statements are examined by external audit (Baker Tilly). Whilst the scope of their work is not designed to cover the effectiveness of the control environment it does give assurance that the financial position of the Council is fairly presented. The Council was assessed as good for all five elements of the Use of Resources criteria including for its internal control arrangements.

4.11 The Use of Resources assessment undertaken in 2006-07 suggested that internal controls could be further improved by:

The Council should consider offering members an ongoing programme of formal risk management awareness training and encourage take up from all members.
Risk Champions should ensure they are helping to embed risk management throughout the organisation and be able to demonstrate this.
The role of the Audit Committee needs to develop further to ensure that it becomes a fully effective part of the Council's system of internal control (Level 4.)
Standing Orders should be amended to make reference to partnership arrangements (Level 4.)
Governance arrangements in respect of partnerships should be reviewed regularly and updated as required (Level 4)

4.12 As stated the external auditors assessed the Council as having a good control framework and the above represent opportunities to further improve the control framework. The Council is currently preparing a Use of Resources improvement plan to put in place actions to address the improvement opportunities identified. The Use of Resources assessment was undertaken before the first meeting of the Audit Committee had taken place.

## 5. Significant Internal Control Issues

5.1 As part of the Annual Review of Corporate Governance undertaken by the Head of Audit Services and the Head of Corporate Governance and reported to the Performance Management and Review Committee, it has been agreed that the Head of Financial Services will update the Financial Regulations . This was completed in 2006.

5.2 As part of the Annual Review of Corporate Governance the Performance and Review Committee asked the Assistant Chief Executive (People and Partnerships) to review the Council's key strategic partnerships to ensure that the Council has clearly stated outcomes for each partnership and has adequately assessed the risks involved with each partnership. The outcome was reported back to the Performance and Review Committee in 2006.

5.3 The Head of Audit Services reports quarterly to the Council's Management Team and Audit Committee on the following:

- Audit work undertaken which has assisted in the reduction of risks.
- Outstanding issues of concern where risks are considered significant.
- Other audit work and corporate projects undertaken by the team.

Action has been taken by management to address issues raised by Audit Services and with the exception of the following matters, internal control and risk management arrangements are sound.

## 1. Financial Systems

### 1.1 Main Accounting Systems

There is a risk of failure to record and collect income from some grants and Section 106 agreements if services fail to notify Financial Services of sums due. Financial Services are currently reviewing the system. Accountancy are addressing this by reminding the relevant departments of the need to pro-actively draw to Accountancy's attention incoming receipts which Accountancy may not be aware of and to advise where they should be coded to. The Head of Planning will be commencing a quarterly monitoring report to Asset Management Group on the S106 position.

### 1.2 Creditors

No significant matters to report.

### 1.3 Sundry Debtors

Audit recommended that written procedures should be updated for business continuity purposes.

### 1.4 NNDR

1. Audit found that only limited independent checks had been undertaken on suppressed accounts and these had not been carried out regularly. Management are currently reviewing the process.

2. Management should ensure that there is an adequate and up to date audit trail on the system for each account detailing action taken on outstanding accounts.

### 1.5 Payroll

1. In order to ensure there is a systematic and independent verification of the validity of payroll transactions it has been recommended that the Human Resources Officer carries out regular monthly checks of a sample of amendments input by Payroll staff. Although assurance had been provided during 2006 that checks were being undertaken, it is apparent that due to shortage of staff only limited checks have been carried out.

2. Recommendations have been made to improve control/reduce risks associated with the use of the HR system master password by Payroll officers.

3. Following a failure in the IT service provider to properly back up the payroll system, Audit have recommended that officers should periodically test check that these have been completed. Action has been taken by

management with Steria to ensure controls are in place to reduce the risk of re-occurrence.

## 2. Business Continuity

Previous audit concerns regarding the lack of up to date and tested business continuity plans are being addressed by consultants. The authority should ensure all plans are completed, tested and updated regularly.

## 3. Project Management

The Council has sound project management systems and methodology in place but there are varying levels of compliance throughout the authority.

The Corporate Risk Register requires MAT to give consideration to the overall programme of Council projects to ensure responsibilities have been identified and sufficient capacity exists to deliver.

This has been partially addressed through a report issued by the Policy Officer during the year and it has been agreed that Procurement, E Government and Asset Management Boards will review the programme of projects within their remits to confirm compliance with project management systems.

Audit recommends that MAT re-consider project management arrangements particularly the following matters:

- The authority's/ staff capacity to deliver all projects in accordance with the Council's policy on project management.
- Confirmation that responsibility for delivery has been identified.
- Projects are supported by business case, appropriate approvals and funding.
- Implement a line of reporting from the project boards to MAT – summary or exception basis.
- Consider member engagement in project monitoring through Executive members or Performance Management and Review Committee.

## 4. Car Parks

A significant proportion of the audit plan has been devoted to car parking issues during the year and management should keep risks identified under review.

Following a report to Audit Committee action has been taken to reduce health and safety risks associated with cash handling.

A new cash collection contract is currently being considered and this will improve control/reduce risks associated with cash handling at the car parks.

Difficulties linking the Council's car park software to the Traffic Enforcement Centre has delayed the recovery of unpaid penalty charge notices. This has recently been resolved.

5. Asset Management

Audit advised management to review the appointment and management of consultants used within the Asset Management Service. Recommendations have also been made to improve control over the use of the planned maintenance budget to ensure that any non scheduled work is separately approved.

6. Business Improvement Programme

Audit support the authority's Business Improvement Programme and have provided challenge and support during the last year. Recent loss of staff trained to carry out the review of services will have an impact on progress made and increases the risk of not achieving targeted savings. The authority is currently reviewing the approach and resources required to complete reviews.

5.10 The Council will implement an improvement plan to address the improvement opportunities, including those relating to internal control identified by its external auditors in their Use of Resources assessment.

5.11 The Council will continue to respond positively to any review of procedures which indicates that control procedures should be identified.

.....  
**Councillor J Packman**  
**Leader of the Council**

.....  
**Mr R Tambini**  
**Chief Executive**

**Date:** .....

**Date:** .....





**OUTTURN AND STATEMENT OF ACCOUNTS 2006/2007  
KEY DECISION**

**Audit Committee: 19 June 2007**

**Recommendation required**

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

## **Executive Summary**

### **How does the content of this report improve the quality of life of Borough's residents**

By producing an annual Statement of Accounts the Council is accounting to its stakeholders including local residents on how it spent its financial resources in the preceding financial year.

### **Purpose of Report**

The Council's Statement of Accounts for 2006/07 has been completed and the audit is due to commence in Mid August. The Accounts and Audit Regulations require the accounts for 2006/07 to be completed and approved by the Council by 30 June 2007, and signed by the Leader and the Chief Financial Officer (Strategic Director (Support)). Any issues arising from the audit that require the Executive's attention, together with the Audit Commission's Annual Audit Letter, will be reported in due course.

### **Key Issues**

Revenue outturn compared to original budget

### **Financial Implications**

As set out in the report and statements

### **Corporate Priority**

All 4 priorities

### **Officer Recommendations**

**The Audit Committee is asked to recommend to Full Council on 21 June 2007 that the Statement of Accounts for 2006/2007 be approved and that they be signed by the Leader of the Council.**

**Contact:** Sue Sturgeon, Strategic Director (Support) on Tel: 01784 446225

**Portfolio Holder:** Councillor Michel Bouquet

**1. BACKGROUND**

- 1.1. To consider the Council's Outturn for 2006/07 and Financial Statement of Accounts for 2006/07.

**2. KEY ISSUES**

- 2.1. Under the Accounts and Audit Regulations 2003 the Council is required to formally approve the Statement of Accounts for the financial year ending 31<sup>st</sup> March 2006 by 30th June 2007.
- 2.2. The Committee is asked to consider these accounts and to recommend that the Council formally approve them. **A copy of the draft Statements [green cover] is to follow under separate cover.**
- 2.3. The External Audit of the Council's accounts will commence in August 2007. The Auditors opinion on the Accounts will be reported once the audit has been completed.
- 2.4. The Financial Review by the Strategic Director (Support) within the Statement outlines what the Statement of Accounts contains and provides a review of the year, and the accounts are annotated throughout. The content of the Statement is prescribed by regulations supported by the most recent Accounting Codes of Practice with which the Council has complied.
- 2.5. The Statement on Internal Control, which is in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, will be considered as an earlier item on the agenda of this Committee meeting.
- 2.6. The Statement of Responsibilities for the Statement of Accounts will be signed by the Strategic Director (Support) and the Leader of the Council, and the Consolidated Revenue Account and Consolidated Balance Sheet signed by the Strategic Director (Support). Following approval the Accounts will be available for public inspection during September on the day (yet to be confirmed by the Auditor) assigned as the day members of the public can raise queries with the External Auditor.
- 2.7. For the 2006/7 Statement of Accounts there have been a number of amendments to the layout and format of the accounts to bring them more in line with General Accounting and Audit Principles (GAAP).
- 2.8. The Consolidated Revenue Account has been replaced by an Income and Expenditure Account. This new format also includes a note on the Statement of Movement on the General Fund Balance, a reconciliation statement and a Statement of Recognised Gains and Losses (STRGL)
- 2.9. The Consolidated Balance Sheet has been renamed the Balance Sheet

- 2.10. The layout of the statements has also changed. The core financial statements which comprise the Income and Expenditure Account, Balance Sheet and Cash Flow Statement are now all shown together at the start of the Statements. They are followed by a section called notes to the core financial statements and these explain the detailed information behind the figures.
- 2.11. The changes to the Income and Expenditure Account have meant that the prior years figures have also needed to be restated. The reasons for the changes are set out in the Statement of Accounts to ensure that readers of the Accounts are able to follow the approach.
- 2.12. The actual outturn on the revenue account for 2006-07 compared to the outturn for 2005-06 is summarised by the Income and Expenditure Account, which brings together all the revenue income and expenditure on all services together with the movements (appropriations) to/from reserves to agree to the amount raised from council taxpayers.
- 2.13. The Council's original revenue budget was set as follows:

	<b>£</b>
Total Service Expenditure	15,598,296
Asset rental adjustment	(1,891,040)
 Net Expenditure	 13,707,256
 Less contribution required from General Reserves	 (1,201,200)
Less interest on balances	<u>(1,159,706)</u>
Original Budget Requirement	<b>11,346,350</b>

- 2.14. After the 2005-06 outturn was known, £255,204 of carry forward of expenditure from 2005-06 into 2006-07 was approved. This was subsequent to the original budget and council tax being set for 2006-07 and therefore reflects additional spending provision against which the outturn expenditure should be compared. The table below indicates that taking account of the carry forward expenditure from 2005-06 the underlying under spend for the year was £478,241.

**Table 1: Underlying Under spend against Original Budget**

	£
Net Expenditure	13,707,256
Net Expenditure Budget (excl Building Maintenance)	13,328,936
Service Variance before Building Maintenance	(378,321)
Add Building Maintenance	155,284
Less Carry forward provision (from 05/06)	255,204
Underlying Difference against Original Budget	(478,241)

2.10 In response to the above underlying underspend additional appropriations (contributions) to reserves has been made as follows:

- The Building Maintenance Fund, £180,000 to renew a sufficient level of balance for future works to Council assets. Revenue Contributions from Service Area budgets were reduced by £90k in the 2005/06 revised budget and the revenue budget of £250k was taken as part of the savings included in the 2006/07 budget.
- Carry forward of revenue expenditure from 2006/07 to 2007/08 of £199,400.

2.11 The above appropriations total £180k and partly offset the underlying under spend shown in Table.1

After making the additional appropriations to the new reserves, to provide for specific anticipated future demands on expenditure, the overall transfer (surplus) to the General Fund spend is currently **£50k** and therefore there is a marginally higher net level of reserves at the end of 2006-07 than had originally been anticipated.

2.12 In addition to the above under spend interest earnings have increased by £136,000 compared with the original estimate. This improvement is mainly attributable to positive cash flow and hence higher fund balances available for investment arising from the under spend on capital and revenue. The improved performance also reflected improved investments returns as a result of bring back in house during 2006-07 funds previously placed with an external fund manager. This higher than anticipated interest earnings have allowed us to put additional money into the Interest Equalisation Reserve which now has a balance of £773,000. This reserve will be used in future years to help manage the peaks and troughs in year to year performance

from our investment portfolio that arise from market factors outside of the direct control of the Council.

- 2.13 The final outturn for the year was **£13,484,219** with a net contribution from general reserves of **£464,773** required, as per **Appendix A**.
- 2.14 The use of reserves to support the revenue account is reflected in the level of reserves available to the Council at the end of 2006-07 as shown in the Balance Sheet.

### **ANALYSIS OF VARIANCE**

- 2.15 A summary of the major differences between the final outturn and the original budget is attached at **Appendix A**. The following items are worthy of note:
- 2.16 Spelthorne Accessible Transport - £150k adverse – due to redundancy costs, the delay in reducing the service, reduced income received and a vehicle approved additional to that originally budgeted for.
- 2.17 Refuse Collection - £80k favourable – predominantly due to no insurance costs being charged, controlled use of agency staff and increased income.
- 2.18 Public Conveniences £131k adverse - the expected closure of the toilets was delayed due to legal reasons and we were required to continue with the leasing arrangements for the financial year
- 2.19 Day Centres - £215k adverse – due to reduced food sales and redundancy costs incurred in the closure of the day centres plus additional costs implementing the revised arrangements for the new centres
- 2.20 Human Resources £76k favourable - predominantly due to savings on the pay and grading review budget
- 2.21 Housing Benefits £94k favourable – increased income due to staff effectiveness in recovering benefit overpayments.
- 2.22 Unapportionable Central Overheads £654k favourable – savings shown are due to the Actuaries superannuation calculation being the actual expenditure required to be shown in the accounts and the revenue budget being set by including the staff superannuation costs figure plus an amount for the expected balance of the costs to reach the actuaries valuation i.e. the balance has therefore has been allocated across a range of cost centres not just in one.
- 2.23 Car Parks £343k favourable income – predominantly due to increased income for backdated car parking charges at Tothill.

- 2.24 In the light of the under spend the portfolio holder (corporate) has agreed a process of carrying forward of some budgets, where it was not possible to spend the money in 2006/07. The sum approved is £199,400. It should be noted that tighter criteria have been applied this year for approval of carry forwards and the total is less than the carry forward total approved for 2005-06

### **CHANGES IN ACCOUNTING FOR PENSIONS – FRS17**

- 2.25 The Statement of Recommended Practice (SORP 2003) applicable to Local Authorities requires the full application of Financial Reporting Standard (FRS) 17 in preparing the Authority's Financial Statements with effect from the financial year 2003/4.
- 2.26 The main feature of FRS17 is to require the financial statements to reflect the actuarially assessed ultimate 'true' cost of employee pensions, in the year that the liability for them is initially incurred. Prior to 2003/04 the accounts only reflected the value of pension contributions made to the Local Government Pension Scheme (administered by Surrey County Council). The actuary has assessed the 'true' cost of pensions to the Authority to be £299k more than the value of contributions made during 2006/07.
- 2.27 However, this additional notional cost of pensions must be excluded from the calculation of Council Tax, requiring a compensating adjustment between the Consolidated Revenue Account and Authority's Balance Sheet. For the purposes of this Outturn Report the adjustment is shown on [Appendix A](#) as a reduction against Service Expenditure. It should be noted that the Authority's revenue budget continues to be prepared on a pre FRS 17 basis, hence there being no adjustment to the Original Budget.
- 2.28 The FRS17 analysis identifies a net pension liability on the Consolidated Balance Sheet of £16.4m. The liability shows the underlying commitments that the authority has in the long term to pay retirement benefits. The liability, which is mirrored by a negative reserve, has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. It is anticipated the national local government pension scheme will be amended in 2008 to help make it more affordable for employers.

### **Capital Outturn**

- 2.29 The Statement of Accounts reflects actual expenditure on both revenue and capital (investment in assets which provide benefits to the authority beyond one year). The Statement includes a summary of actual expenditure in 2006-2007 which totalled £4.042m and how this was financed.

<b>Source of finance</b>	<b>£000's</b>
Capital Receipts	3,497
Specific Grants	239
Reserve	306
Total	4,042

2.30 The approved capital programme for 2006-07 totalled £4.436 million, there was therefore slippage/under spending of £0.394million. There were several areas of slippage of which the most significant were

- Thames Towpath - £59k - Works delayed due to permissions from SCC and the Environment Agency not received and poor weather conditions.
- Public convenience modernisation - £33k under spend – works delayed due to legal issues
- Renovation Grants - £146k under spend – reduced numbers of requests received.
- Renewal Loan Fees - £42k under spend - Changes in legislation will necessitate a different approach in dealing with the new hazards / areas of renewal that have been identified. The private sector renewal strategy that is now required to be produced will identify the way forward for spending this budget and a revised grant scheme is likely to be implemented during 2007/08.

2.31 Officers will be putting in place during 2007-08 further improvements to capital schemes budget preparation, programme management and monitoring.

### **3. OPTIONS ANALYSIS**

3.1. There are none

### **4. PROPOSALS**

4.1. There are none

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

5.1. Good financial management of the budget and management of the levels of spend and investment income has enabled the level of reliance on reserves to be reduced.

### **6. FINANCIAL IMPLICATIONS**

6.1. The net effect of all these changes during the year has resulted in a final net contribution from general reserves of £464,773.

### **7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**



## **Agenda Item: 8**

- 7.1. The variations set out in **Appendix A** with ongoing effects will be included in future budget forecasts and reported to the Executive when considering the Outline Budget in November 2007.

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

- 8.1 A timetable has been prepared to enable progress to be tracked against the necessary dates and weekly meetings are held to check on the progress and try to identify early any potential problem areas.

### **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 The accounts must be prepared by 30<sup>th</sup> June 2007 and signed off by the Council's external auditors (Baker Tilly) by 30<sup>th</sup> September 2007

#### **Contact:**

Sue Sturgeon, Strategic Director (Support) on Tel: 01784 446221 or  
E-mail: [s.sturgeon@spelthorne.gov.uk](mailto:s.sturgeon@spelthorne.gov.uk)

#### **Portfolio Holder:**

Councillor Michel Bouquet

#### **Background Papers:**

There are none.

## Appendix A

<b>Comparison of Actual Expenditure 2006/07 to Budget</b>			
	<b>Original Budget 2006/07</b>	<b>Actual Expenditure 2006/07</b>	<b>Variance Actual to Original Budget</b>
	<b>(1)</b>	<b>(3)</b>	
	<b>£</b>	<b>£</b>	<b>£</b>
Corporate Activities	2,986,960	2,723,941	(263,019)
Chief Executives Directorate	971,342	779,958	(191,384)
Community Directorate	9,624,702	9,088,567	(536,135)
Support Directorate	2,235,292	2,039,644	(195,648)
Net Expenditure reductions to be identified	(220,000)	0	220,000
<b>SERVICE EXPENDITURE</b>	<b>15,598,296</b>	<b>14,632,110</b>	<b>(966,186)</b>
Building Maintenance	0	155,284	155,284
Reversal of FRS17 items included within Service Expenditure	0	(299,000)	(299,000)
Asset Management Account	(1,891,040)	(1,004,175)	886,865
<b>NET EXPENDITURE</b>	<b>13,707,256</b>	<b>13,484,219</b>	<b>(223,037)</b>
Interest on Balances	(1,159,706)	(1,296,270)	(136,564)
Transfer from Earmarked Reserves	(411,200)	(376,826)	34,374
Contribution (from) / to other Reserves	(790,000)	(464,773)	325,227
<b>BUDGET REQUIREMENT</b>	<b>11,346,350</b>	<b>11,346,350</b>	<b>0</b>

**APPROVAL OF STATEMENTS OF ACCOUNTS  
KEY DECISION**

**Audit Committee: 19 June 2007**

**Recommendation required**

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

## **Executive Summary**

### **Purpose of Report**

To seek approval for an amendment to the Terms of Reference of the Audit Committee to give it authority to approve the Statement of Accounts for 2007-08 and beyond.

### **Key Issues**

To enable the Audit Committee rather than full Council approve the Statement of Accounts.

### **Financial Implications**

None

### **Corporate Priority**

All 4 priorities

### **Officer Recommendations**

**The Audit Committee is asked to recommend to Council that the Committee's terms of reference be changed to allow it to approve in future the annual Statement of Accounts.**

**Contact:** Sue Sturgeon, Strategic Director (Support) on Tel: 01784 446225

**Portfolio Holder:** Councillor Michel Bouquet

**1. BACKGROUND**

- 1.1. Currently under the Council's Constitution the annual Statement of Accounts are approved by Full Council.

**2. KEY ISSUES**

- 2.1. Under the Accounts and Audit Regulations 2003 the Council is required to formally approve the Statement of Accounts by 30<sup>th</sup> June each year.
- 2.2 Under the Accounts and Audit Regulations 2003 10 (3) (a) the statement of accounts as required by regulation 7(1) or regulation 7(6), as the case may be, shall be approved by a resolution of a committee of the relevant body or otherwise by a resolution of the members of the body meeting as a whole, such approval to take place as soon as reasonably practicable and in any event before the 30th June immediately following the end of a year
- 2.3 In the past there has not been an Audit Committee and therefore there has not been an appropriate committee of the Council to approve the Statement. It is suggested that in light of 10 (3) of the Accounts and Audit Regulations that the remit of the Audit Committee be amended to enable it as an appropriate committee of the Council to approve the annual Statement of Accounts.

**3. OPTIONS ANALYSIS**

- 3.1. Either
- a) leave remit unchanged
  - b) change remit of the Committee.

**4. PROPOSALS**

- 4.1. That the Committee's terms of reference be amended to enable it to approve the Annual statement of Accounts

**5. BENEFITS AND SUSTAINABILITY**

- 5.1. Good financial management of the budget and management of the levels of spend and investment income has enabled the level of reliance on reserves to be reduced.

**6. FINANCIAL IMPLICATIONS**

- 6.1. None

**7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

- 7.1 The proposal is consistent with the statutory accounts and audit regulations.

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

- 8.1 None identified.

**9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 If the remit were changed it would mean the June 2008 Audit Committee would approve the 2007-08 Statement of Accounts.

**Contact:**

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**Portfolio Holder:**

Councillor Michel Bouquet

**Background Papers:**

There are none.

