

## **Audit Committee - 23 May 2006**

**Time: 7.30pm**

**Place: Council Chamber**

### **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 18 May 2006.

### **4. THE RELATIONSHIP BETWEEN EXTERNAL AUDIT AND THE AUDIT COMMITTEE**

Henry Arthurs from Baker Tilly, the Council's External Auditors will provide an overview on the relationship between External Audit and the Audit Committee and answer Members' questions.

### **5. STATEMENT ON INTERNAL CONTROL**

To consider the report of the Head of Financial Services on the production of the Statement on Internal Control (copy of statement attached). The Accounts and Audit Regulations 2003 require that the Council conducts a review at least once a year on the effectiveness of its system of internal control and produces a statement on its effectiveness as part of the Council's Statement of Accounts. Internal control and risk management are key elements of good corporate governance. The Head of Financial Services will present the Statement of Internal Control for 2006/2007.

### **6. AUDIT SERVICES ANNUAL REPORT**

To receive a report from the Head of Audit Services (copy of report attached).

### **7. EXTERNAL AUDIT AND INSPECTION PLAN**

To consider the Audit and Inspection Plan for 2006/2007 prepared by the Council's External Auditors Baker Tilly (copy of Plan attached). The Head of Financial Services together with Henry Arthurs from Baker Tilly will present the Plan and answer any questions raised by members of the Committee.

### **8. INTERNAL AUDIT - AUDIT SERVICES ANNUAL PLAN**

To receive a report from the Head of Audit Services (copy attached).

### **9. COMMITTEE WORK PROGRAMME 2006**

The Committee is requested to consider the updated work programme for 2006/2007.

**AUDIT COMMITTEE**

**18 MAY 2006**

Present:

M.L. Bouquet  
Mrs M. Hyams

S.B.S. Lorch  
E. O'Hara

J.D. Pinkerton

**APOLOGIES:** Councillors K. Chouhan, C.V. Strong

**136/06 APPOINTMENT OF CHAIRMAN**

**RESOLVED** that Councillor M.L. Bouquet be appointed Chairman of the Audit Committee for the Municipal Year 2006/2007.

**137/06 MINUTES**

**RESOLVED** that the minutes of the meeting held on 14 February 2006 be approved as a correct record.

**138/06 APPOINTMENT OF VICE-CHAIRMAN**

**RESOLVED** that Councillor J.D. Pinkerton be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2006/2007.

Chairman\_\_\_\_\_

23 May, 2006

**STATEMENT ON INTERNAL CONTROL 2005-06**  
**Audit Committee – 23 May 2006**  
**Report of Strategic Director (Support)**

**Executive Summary**

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.

***Main Issues***

The Statement on Internal Control:

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

***Options***

There are none.

**Corporate Priority:**

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

***Officer Recommendations***

**The Audit Committee is asked to:**

1. **Approve the draft Statement on Internal Control and endorse the improvement actions identified in part 5 of the Statement.**

## 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:

- Ensure that the financial management and control systems are adequate and that there is effective risk management,
- Include a statement on internal control, prepared in accordance with proper practice, in its financial statements, and
- Conduct a review at least once a year of the effectiveness of its system of internal control.

The review should set out improvement actions to mitigate any key risks to service delivery that are identified.

1.2 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.

1.3 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.

1.4 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 MAIN 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 2005/06 financial year.
- 2.3 The Council's external auditor is expected to review the SIC for 2005/06 closely. Furthermore, the Audit Commission's Code of Audit Practice 2005 (which applies from 2005/06) will state 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.

### Reviewing the effectiveness of Internal Control

- 2.4 The scope of internal control spans the whole range of local authority activities and includes those controls designed to ensure that:
- Council policies are put into practice
  - There is compliance with law and regulation
  - Agreed procedures are followed
  - Financial statements and other published information are reliable and accurate.
  - There is the efficient and effective use of management and resources in the delivery of high quality services
- 2.4 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:
1. Establish principal statutory obligations and organisational objectives
  2. Identify key risks to their achievement
  3. Identify and evaluate key controls to manage principal risks
  4. Obtain assurances on the effectiveness of key controls
  5. Evaluate and identify gaps in controls and assurances

6. Produce an action plan to address gaps and ensure continuous improvement in internal controls
  7. Produce the Statement on Internal Control
  8. Report to Committee
- 2.5 Officers in undertaking the review of internal control arrangements have completed a detailed assurance matrix which in detail identifies the arrangements and evidence relating to items 1 to 6 as set out under paragraph 2.4 above.
- 2.6 The sources of assurance include:
- Published documents (e.g. Constitution)
  - Directors and managers throughout the organisation assigned with the ownership of risks and delivery of services
  - Annual Review of Corporate Governance
  - The Monitoring Officer
  - The Responsible Financial Officer
  - Internal Audit
  - External Audit
  - Review agencies and inspectorates
- 2.7 In undertaking the review and completing the Statement on Internal Control all of the above sources of assurance have been taken into consideration.
- 2.8 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 Annual Report for 2005-06, which is also on this agenda.
- 2.9 It is important the actions identified with regard to the control issues are taken forward.

### **3 OPTIONS**

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**

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

**8. SUPPORT FOR CORPORATE PRIORITIES**

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

**9. OFFICER RECOMMENDATIONS**

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

**Contact:**

Terry Collier Head of Financial Services (01784) 446296

**Report Author:**

Terry Collier Head of Financial Services (01784) 446296

**Portfolio Holder:**

Councillor Ed Searancke

**Background papers:**

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 2006 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, 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 impartiality 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.

### 3.2.2A 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.

### 3.2.3A 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 During 2005-06 the first 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, There was one sub-element for which a score of two was awarded this related to Financial Reporting and the lack of a summary statement of accounts being circulated to the public and other stakeholders. Officers will produce an improvement plan to address the 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 2005-06 the Council's Audit Committee commenced 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 The Council's Head of Audit Services has the responsibility to independently review the Council's compliance with best practice in corporate governance. Internal audit are also 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 covering value and a number of transactions, known system weaknesses and levels of known risk. Audit findings are routinely reported to the Section 151 Officer, Senior Management Team and Members through the Audit Committee.

4.6 Development of our risk based approach to audit has also progressed. 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 statements of internal control. It also reflects professional best practice as required by the CIPFA Code of Practice for Internal Audit in Local Government (2003). 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 report for the year ending 31 March 2006 summarises audit work carried out during the period, bringing together under 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 2005-06 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. Additionally 2005-06 was the first year the auditors assessed the Council against the Audit Commission's Use of Resources Key Lines of Enquiry Criteria. 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 for Internal Control suggested that internal controls could be further improved by:
- The Authority should submit dedicated quarterly reports to Members on corporate risk management
  - Standing orders and financial regulations should be subject to formal review annually.
  - The Audit Committee should look to be able to demonstrate:
    - Effective challenge
    - Independent assurance on the Authority's risk management framework and internal control environment
    - Over time, the impact of its work
- 4.12 As stated the external auditors assessed the Council as have 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 by September 2006.
- 5.2 As part of the Annual Review of Corporate Governance the Performance and Review Committee has 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 is to be reported back to the Performance and Review Committee by 1 June 2006.
- 5.3 As part of the Annual Review of Corporate Governance the Performance and Review Committee has asked the Head of Audit Services and the Head of Corporate Governance to action any points arising from the Use of Resources Assessment and to incorporate such information in the next review of the Local Code of Corporate Governance. Relevant officers will be involved in producing an improvement plan.
- 5.4 Internal Audit reported on controls required to reduce risks associated with Contract audit 2004/5 planned maintenance contract. Audit recommended: improvements in budgetary control over individual contracts; retention of evidence confirming proper management of contracts, selection of contractors, approval of additional work and alternative quotes. Audit acknowledged capacity issues within the service and consultants have been commissioned to address the matters raised. Senior management is currently considering the consultant's report.
- 5.5 Internal Audit followed up on previous work on use of consultants and made recommendations with regard to evidence to support approval of consultants, selection criteria, specifications/briefs and alternative quotes. Internal Audit recommended improvements in budgetary control used for asset management work. Improved budget monitoring of the asset management programme will be implemented during 2006-07 with monitoring information being provided to the Asset Management Group.
- 5.6 Internal Audit recommended that purchase orders should be raised for all transactions, except those specifically exempted, in order to improve budgetary control. This is being addressed by the training to be provided to staff as part of the roll out during 2006-07 of the new purchase ordering system.
- 5.7 Internal Audit undertook jointly with IT security auditors from Baker Tilly a review of IT security arrangements. Recommendations were made

regarding security policies and procedures, anti-virus systems, security patch management, security monitoring, remote access and modems. Following the final report, the recommendations will be acted upon by the Head of Customer and e-Govt Services.

- 5.8 Internal Audit recommended that with regard to accounting systems that there is a need for up to date contingency plans and procedure notes. The new Head of Finance has commenced updating the current contingency plans and during the summer of 2006 the plans and procedure notes will be updated and improved.
- 5.9 The need to improve budget monitoring to increase the effectiveness of budgetary control has been identified. This has been reinforced by the improvement opportunities identified by the Use of Resources assessment. A new approach to budget monitoring to improve its effectiveness will be implemented during the summer of 2006.
- 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 G Ceaser**  
**Leader of the Council**

**Date:**.....

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

**Date:** .....



**AUDIT SERVICES ANNUAL REPORT  
FOR THE PERIOD APRIL 2005 – MARCH 2006**

**Audit Committee – 23 May 2006  
Report of Strategic Director (Support)**

## **Executive Summary**

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 and provides details of work undertaken by Audit Services during the period April 2005 – March 2006.

### **Main Issues**

- Risk Management
- Staines Town Centre
- Independent living
- Customer Services
- Contract Audit
- Managed Audit
- Building Control
- Consultants
- Use of Resources

### **Options**

There are none.

### **Corporate Priority:**

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

### **Officer Recommendations**

**The Audit Committee is asked to:**

- 1. Note the contents of Audit Services' Annual Report.**

## 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.
- 1.2 A separate report detailing the work planned for 2006/7 has been submitted to the Audit Committee for consideration.

### 2. MAIN ISSUES

#### 2.1 Risk Management

A presentation at the last Audit Committee meeting highlighted the authority's approach to risk management. Reference was made to the Council's Risk Management Policy and Strategy, Member/Corporate/Service risk registers and a flowchart circulated to show how the overall process operates at Spelthorne.

- Audit supported the Council's corporate risk management process (submitted revised Corporate Risk Register to members, updated corporate risk information on Spelnet, attended Corporate Risk Management Group and assisted managers with review of service risk registers).
- Further work to improve management of risks is in progress and further recommendations made in the Use of Resources assessment are currently being considered.

#### 2.2 Staines Town Centre Developments

- Advice was given regarding potential risks associated with developments and on the appointment of consultants.
- Recommendations to improve project management have been addressed.

#### 2.3 Independent Living

- Recommendations were made to improve control over income from day centres and possible economies through bulk purchasing of food identified.
- Advice was given to senior management regarding risks associated with the re-configuring of elderly services.

#### 2.4 Customer Services

- Advice was given to reduce risks following recent thefts of equipment from Council offices.
- Previous audit recommendations were repeated regarding the implementation of new systems, the need to ensure hirers of Council facilities have public liability cover and review of service contingency plans.
- Recommendations were also made for improving control over income systems.

#### 2.5 Contract audit –2004/5 planned maintenance contract

Audit recommended:

- Improvements in budgetary control over individual contracts.

- Retention of evidence confirming proper management of contracts, selection of contractors, approval of additional work and alternative quotes.
- Audit acknowledged capacity issues within the service and consultants have been commissioned to address the matters raised. Senior management is currently considering the consultant's report.

2.6 **Managed Audit** - main financial systems reviews were undertaken on behalf of external audit. This represents a significant proportion of time available to Audit Services:

**NNDR**

- Recommended that management should independently examine cases where recovery action has been suppressed to improve internal control. Audit testing revealed no discrepancies.

**Council Tax**

- Recommended consideration should be given to checks on the validity of single person discounts.

**Payments**

- Identified significant number of purchases made without supporting purchase orders. This increases risk of poor budgetary control, duplicate payments and disputes due to lack of formal agreement with suppliers.

**Cash and Bank**

- Recommended that procedure notes should be prepared for cashbook reconciliation procedures and general cashiering functions. This reduces the risk of error or failure of systems in the absence of critical staff.

**Loans and Investments**

- Recommended that Financial Services should routinely check the type of institutions that Fund Managers use and the investment instruments used to ensure independent compliance with the Council's investment strategy.

**Main Accounting Systems**

- Recommendations made regarding system security, need for up to date contingency plans and procedure notes.

**Payroll**

- Recommended independent management checks over the payroll function should be implemented immediately.

**Debtors and Housing Benefits** – Systems satisfactory.

Recommendations were followed up during the year and progress reported to management. This years testing of main financial systems is currently taking place and findings will be reported in due course.

2.7 **Building Control**

- Provided support to the consultant employed to review the service.

- Recommended partnering should be pursued, non-fee earning work reviewed and suggested that staff could be better utilised by assisting Asset Management. This has been implemented and has generated a saving on the consultancy budget.

## 2.8 **Consultants (follow up)**

- Repeated recommendations regarding evidence to support approval to use of consultants, selection criteria, specifications/briefs and alternative quotes.
- Recommended improvements in budgetary control over consultants used for asset management work.
- The report has been discussed by MAT and recommendations agreed.

## 2.9 **Use of Resources**

- The Head of Audit Services collated evidence to support the Use of Resources Assessment by external audit.

## 3. **OTHER AUDIT WORK**

- 3.1 Risk Assessments/systems audits completed for Human Resources, Planning, Environmental Health, Direct Services. Housing is in progress.
- 3.2 Code of Corporate Governance – Reviewed Code with Head of Corporate Governance (reported to Performance Management and Review Committee 6 December 2005)
- 3.3 Payments – Advice given on need for separation of duties in the ordering/invoicing system and reduction in number of orders raised without official purchase order. Assistance was given to consultants undertaking Business Process Re-engineering of payment systems. Computer audit tool used to test data on main financial systems for possible duplicate payments – none were identified.
- 3.4 IT Security – This work was undertaken jointly with IT security auditors from Baker Tilly. Recommendations were made regarding security policies and procedures, anti-virus systems, security patch management, security monitoring, remote access and modems. Recommendations are currently being followed up and will be reported shortly.
- 3.5 Leisure Centre Procurement – Audit advised on initial tendering arrangements and the appointment of legal advisor. Advice has been given on potential risks associated with the new contract and ongoing management of the leisure centre contract.
- 3.6 Land Charges – Follow up of previous recommendations confirmed corporate income procedures for handling cheques has not been implemented. The Head of Corporate Governance intends to re-consider in due course.
- 3.7 Car Parks – Considerable time was taken investigating compliance with financial procedures and subsequent advice to management. Audit also recommended procedures should be documented as soon as possible. This is currently in progress.
- 3.8 Credit Cards – Advised on risks/controls relating to credit card purchases.

- 3.9 Procurement – The Head of Audit Services co-ordinated corporate procurement arrangements in the early period. Responsibility for procurement has now been transferred to Financial Services. Advice has been given on various aspects of procurement and assistance given in analysing purchasing data.
- 3.10 Licensing – Review of new arrangements undertaken and advice given to improve control.
- 3.11 Proceeds of Crime and Anti-Money Laundering policy and procedures - Reported implications for the authority and prepared policy document.
- 3.12 Mileage, overtime and other casual payments – Audit found that some mileage claims were not being submitted promptly and therefore management were unable to verify the accuracy of claims. Audit recommended claims should be submitted within 3 months in future.
- 3.13 Business Process Re-engineering/Business Improvement Programme – Advice given regarding the objectives/co-ordination of various projects taking place, the resources available and project management arrangements.
- 3.14 Audit Advice –Given on a variety of systems and procedures, Contract Standing Orders, security of equipment/assets following recent thefts from offices, e-tendering procedures, Internet use, reconciliation of automatic toilet income, Procurement Board terms of reference, terms and conditions for consultant appointments, advice to Asset Management Group, Statement of Internal Control, housing system, Council Tax, NNDR policies, contaminated land, insurance, project management, neighbourhood grants, CAPS user group, Construction Line etc.
- 3.15 General administration – Meetings (team, staff, departmental management, managers’ briefings) – budget preparation/control – various staffing issues including temporary contracts, performance clinics/appraisals, health and safety assessments - Annual and quarterly reports for Management Team and Members – Induction for new starters – benchmarking and other office administration.
- 3.16 Audit Committee / Performance Management and Review Committee / Improvement and Development Committee – Reported to scrutiny committees with Audit Plan and Annual Report. Researched and reported on the establishment of an Audit Committee, prepared terms of reference and reviewed CIPFA advice. Reported to Audit Committee on their role, risk management and work of Audit Services.
- 3.17 Partnering with other local authorities – An outline report on partnering, flowchart and checklist of issues drafted for further use by the Strategic Director. Meetings have taken place with Breckland/Forest Heath and Woking Boroughs regarding Revenue/Benefit partnerships. Plans to partner with Elmbridge internal audit could not be finalised but an alternative partnership with Surrey Heath has been developed resulting in savings for Spelthorne.



5.5 Other – The Internal Audit Manual was revised and compliance with the CIPFA Code of Practice reviewed. A new customer satisfaction form has been prepared and will be issued shortly. Annual Plan 2006/7 prepared.

**4. Contract Audit**

4.1 Planned Maintenance contract – reported above.

4.2 Old Town Hall Final Account and Leisure Centre Filtration Contract – Advised management on the requirement for Executive approval to major variations and overspends.

**5. Other Work**

5.1 Monitoring Officer (MO) responsibilities – The Head of Audit undertook the responsibilities of MO during the early period and was required to deal with a number of complaints.

**6. SPECIAL INVESTIGATIONS**

6.1 During the period two investigations were undertaken. The Head of Audit Services will report verbally at the committee meeting.

**7. OPTIONS**

There are none.

**8. PROPOSALS**

There are none.

**9. FINANCIAL IMPLICATIONS**

There are none.

**10. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

Completion of the Audit Plan demonstrates compliance with Local Government Act 1972 and Accounts and Audit Regulations 2003.

**11. RISKS**

All audit work is supported by detailed risk assessment. Significant risks associated with individual audits are reported in this report. Failure to implement audit recommendations will result in increased risks for the authority. The Audit Committee is responsible for reviewing summary internal audit reports and seeking assurance that action has been taken by management where necessary. In future, outstanding recommendations with medium/high risks attached will be reported to the Audit Committee.

**12. SUPPORT FOR CORPORATE PRIORITIES**

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

**13. OFFICER RECOMMENDATIONS**

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

**Contact:**

Deanna Harris, Head of Audit Services (01784) 446207

**Report Author:**

Deanna Harris, Head of Audit Services (01784) 446207

**Portfolio Holder:**

Councillor Ed Searancke

**Background papers:**

Relevant audit reports

**AUDIT AND INSPECTION PLAN 2006-07**  
**Audit Committee – 23 May 2006**  
**Report of Strategic Director (Support)**

**Executive Summary**

The plan sets out the audit and inspection work that Baker Tilly, the Council's external auditors, propose to undertake in 2006/07. The plan has been drawn up from their risk-based approach to audit planning and the requirements of the new "Comprehensive Performance Assessment CPA – the Harder Test" guidance. It reflects:

- auditor responsibilities under the Code of Audit Practice;
- audit and inspection work specified by the Audit Commission for 2006/07;
- the auditors assessment of local risks and improvement priorities; and current national risks relevant to the Council's local circumstances

The plan summarises the anticipated fees which will be charged for the audit and inspection work.

**Main Issues**

Baker Tilly's partner Henry Arthurs will be present to summarise the key issues.

The Audit and Inspection Plan 2006-07 is appended.

***Options***

There are none.

**Corporate Priority:**

All corporate priorities.

***Officer Recommendations***

**The Audit Committee is asked to:**

To note the Audit and Inspection Plan for 2006-07.

**Portfolio Holder:**

Councillor Ed Searancke

**AUDIT SERVICES – ANNUAL PLAN 2006/7**

**AUDIT COMMITTEE – 23 May 2006**

**Resolution required**

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

## **Executive Summary**

This report summarises the work planned by Audit Services during 2006/7.

### **Main Issues**

- A copy of the Annual Audit Plan for 2006/7 is attached (Appendix 1).
- Appendix 1 shows type of work undertaken by Audit Services and the actual work planned for the year including a number of corporate projects.

### **Options – No Options**

#### **Corporate Priority:**

The work of Audit Services supports all corporate priorities.

#### **Officer Recommendations**

**The Audit Committee is asked to note the work plan (2006/7) for Audit Services.**

## **REPORT**

### **1. BACKGROUND**

- 1.1 The Accounts and Audit Regulations 2003 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 Annual Plan is finalised after consultation with senior management and reflects the requirements imposed by external audit through their managed audit initiative.
- 1.3 The plan is a working document which 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.
- 1.4 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.

### **2. MAIN ISSUES**

- 2.1 A copy of the Annual Audit Plan (2006/7) is attached ([Appendix 1](#)).
- 2.2 Part 1 of the document shows the type of projects undertaken ie service risk assessment (including testing), work completed on behalf of external audit, contract 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 Registers 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 Change Management Programme' and business process re-engineering projects, Use of Resources Assessment, partnering, Asset Management review, corporate risk management and IT penetration testing.
- 2.5 More officer time will be taken reporting to the new Audit Committee.

### **3. OPTIONS – There are no options**

### **4. PROPOSALS – There are no proposals**

### **5. FINANCIAL IMPLICATIONS – There are no financial implications**

**6. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

6.1 The Annual Plan demonstrates how the authority will fulfil requirements of the Accounts and Audit Regulations 2003 as set out above.

**7. SUPPORT FOR CORPORATE PRIORITIES**

7.1 The work of Audit Services supports all corporate priorities.

**8. OFFICER RECOMMENDATIONS**

8.1 It is recommended that the Audit Plan (2006/7) for Audit Services be noted.

**Contact:**

Deanna Harris (Head of Audit Services) 01784 446207

**Report Author:**

Deanna Harris (Head of Audit Services)

**Portfolio Holder: Ed Searancke**

**Background papers:**

There are none.

**AUDIT COMMITTEE**

**DRAFT WORK PROGRAMME 2006 - 2007**

<b>Matters to be considered</b>	<b>Lead Officers</b>	<b>Activity</b>
<b>23 May 2006</b>		
Annual Report on Internal Audit	Head of Audit Services	Report for the financial year April 2005 – March 2006
Draft Internal Audit Plan	Head of Audit Services	Plan for year April 2006 – March 2007
External Audit Plan	External Audit	Plan for year April 2006 – March 2007
Statement on Internal Control	Head of Financial Services	Approval
<b>18 July 2006</b>		
Quarterly Audit Report	Head of Audit Services	Report for period April – June 2006
Risk Management	Head of Audit Services	
Anti Fraud and Corruption Policy	Head of Audit Services	Review
External Audit Interim Report including Key Financial Systems	External Audit	
<b>17 October 2006</b>		
Quarterly Audit Report	Head of Audit Services	Report for period July – September 2006
Risk Management	Head of Audit Services	
Statement on Internal Control	Head of Financial Services	Review
<b>16 January 2007</b>		
Quarterly Audit Report	Head of Audit Services	Report for period October – December 2006
Risk Management	Head of Audit Services	
Confidential (Whistleblowing) Policy	Head of Audit Services	Review
Interim Annual Audit Letter and External Audit report	External Audit	
<b>May 2007</b>		
Annual Report on Internal Audit	Head of Audit Services	Report for the financial year April 2005 – March 2006
Draft Internal Audit Plan	Head of Audit Services	Plan for year April 2006 – March 2007
Risk Management	Head of Audit Services	
Annual Audit and Inspection Letter	External Audit	
External Audit Plan	External Audit	Plan for year April 2006 – March 2007
Statement on Internal Control	Head of Financial Services	Approval

## APPENDIX A