

Please reply to:

Contact: Gill Hobbs
Service: Corporate Governance
Direct line: 01784 446405
Fax: 01784 446333
E-mail: g.hobbs@spelthorne.gov.uk
Our ref: GH/AUD
Date: 17 June 2009

NOTICE OF MEETING

AUDIT COMMITTEE

DATE: THURSDAY 25 JUNE, 2009

TIME: 7.30 P.M.

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

TO: ALL MEMBERS OF THE AUDIT COMMITTEE

D.L. McShane (Chairman)

M.L. Bouquet

H.R. Jaffer

L.E. Nichols

E. O'Hara

S.J. Rough

H.A. Thomson

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 Annual Governance Statement, 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.
- (h) To approve the annual Statement of Accounts.

MOBILE TECHNOLOGY – ACCEPTABLE USE

Use of mobile technology (mobiles, Blackberries, etc) in meetings can:

- Interfere with the PA and Induction Loop systems
- Distract other people
- Interrupt presentations and debates
- Mean that you miss a key part of the decision

PLEASE:

Either switch off your mobile phone/Blackberry OR turn off its wireless/transmitter connection for the duration of the meeting.

Thank you for your co-operation.

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 21 May 2009 (copy attached).

4. MATTERS ARISING FROM THE MINUTES DATED 26 MARCH 2009

To consider any matter arising from the Minutes of the meeting held on 26 March 2009. These minutes were approved at the meeting held on 21 May 2009. (copy attached)

If a Member wishes to raise an issue arising from the minutes of the meeting held on 26 March 2009, please notify the Chairman prior to the meeting.

5. ANNUAL GOVERNANCE STATEMENT 2008-09

To receive a report from the Chief Finance Officer (copy attached).

6. OUTTURN AND STATEMENT OF ACCOUNTS 2008-09

To receive a report from the Chief Finance Officer (Report attached. Draft Statement of Accounts to follow)

7. CORPORATE RISK MANAGEMENT

To receive a report from the Chief Finance Officer (copy attached).

8. AUDIT SERVICES ANNUAL REPORT

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

9. AUDIT SERVICES ANNUAL REVIEW

To receive a report from the Assistant Chief Executive (copy attached).

10. COMMITTEE WORK PROGRAMME 2009-10

The Committee is requested to consider and approve its work programme for 2009/10 (copy attached).

MINUTES OF THE AUDIT COMMITTEE

21 MAY 2009

Present:

Councillors:

M.L. Bouquet

L.E. Nichols

H.A. Thomson

D.L. McShane

E. O'Hara

Apologies: Councillors H.R. Jaffer and S.J. Rough

156/09 APPOINTMENT OF CHAIRMAN

RESOLVED that Councillor D.L. McShane be appointed Chairman of the Audit Committee for the Municipal Year 2009/2010.

157/09 MINUTES

The minutes of the meeting held on 26 March 2009 were approved as a correct record.

158/09 APPOINTMENT OF VICE-CHAIRMAN

RESOLVED that Councillor S.J. Rough be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2009/2010.

MINUTES OF THE AUDIT COMMITTEE

26 MARCH 2009

Present:

Councillor M.T. Royer (Chairman)

Councillors:

M.J. Collis

S.J. Rough

L.E. Nichols

H.A. Thomson

Apologies: Councillors M.L. Bouquet and E. O'Hara

In attendance

Miss S. Faulkner – Vice-Chairman of the Standards Committee

77/09 MINUTES

The minutes of the meeting held on 27 November 2008 were approved as a correct record, subject to the inclusion of the name of Councillor S.J. Rough in the list of attendance.

78/09 MATTERS ARISING FROM THE MINUTES

Min 352/08 relevant managers to be advised of the Committee's concern at outstanding high risk recommendations.

At its last meeting the Audit Committee expressed concern that there were as many as nine high risk recommendations outstanding and requested that their concern, and the need for outstanding issues to be addressed without further delay, be communicated to the relevant managers.

The Head of Audit Services reported that managers had been reminded of the Committee's concerns and all high and medium risk recommendations had been circulated to the Assistant Chief Executives for responses, in the last month and discussed at the last Management Team meeting. The remaining outstanding high risk recommendations mostly related to Business Continuity Plans and were being addressed.

Min 352/08 Head of Audit Services to report back to the Committee on the authorisation arrangements for procurement by officers.

At the last meeting of the Audit Committee, Members sought assurance, in response to the issue of officer compliance with Contract Standing Orders, that the Head of Audit Services was satisfied with the authorisation arrangements for procurement by officers.

The Auditor explained the procurement authorisation process which required managers to electronically authorise all purchases up to previously agreed limits set by the former directors. If a purchase was entered in the system beyond the limit of the buyer, authorisation would automatically be sent up the management levels. The Head of Audit Services confirmed that she was satisfied with these arrangements.

79/09 CORPORATE RISK MANAGEMENT

Parking Services Risk Assessment - update

The Head of Environment Services attended the meeting to update the Committee on action taken as a result of the findings from the Parking Services risk assessment, which had highlighted a number of issues of concern to Audit.

She reported that all the issues raised in relation to Parking Services had been addressed through a management action plan and detailed the action taken against each risk highlighted.

Risk Assessment of Contaminated Land - update

The Head of Environmental Health and Building Control Services and the Environmental Health Manager attended the Committee to provide an update on the issues surrounding risk assessments of contaminated land sites which had been outstanding for over a year awaiting government guidance on the review of soil guideline values.

The Environmental Health Manager reported that the government review of Soil Guideline Values was complete. Their position had been clarified as screening values. The Local Authority would use these to conduct site specific risk assessments which it was required to undertake to define its own contaminated land sites.

The Environmental Health team now hoped to work with the Audit team to progress the risk assessment of the Council's activities associated with land contamination work, between April and end of June 2009.

The Environmental Health Manager explained that DEFRA funding would be harder to obtain in future and there was no guarantee of funds being available year on year. She advised that the risk assessment would consider future funding issues.

Corporate Risk Register

The Senior Auditor reported that the Corporate Risk Register had undergone its quarterly review and update by the Corporate Risk Management Group to ensure actions were being taken on identified risks.

The revised register was considered to be an accurate reflection of the high level risks affecting the authority. Good progress had been made in a number of areas on actions proposed to address high risks and these were documented on the register. Further actions had been proposed in some areas to improve controls.

The Senior Auditor gave details of two new actions recently added to the register and those areas where risks had not yet been fully addressed. In relation to the outstanding penetration testing of IT systems to comply with mandatory requirements, she reported that the ICT Manager had recently appointed a company to carry out this exercise and it was anticipated that it would be completed by the end of April 2009. The Committee requested that

the ICT Manager report back to the next meeting, if the work had not been completed by then.

RESOLVED

1. that the contents of the Corporate Risk Register be noted and accepted;
2. to recommend Executive that the Corporate Risk Register be approved;
3. that the ICT Manager attend the next meeting of the Committee in the event that the Penetration Testing of IT systems has not been completed.

80/09 AUDIT SERVICES QUARTERLY REPORT

The Head of Audit Services presented her report which outlined the work undertaken by Audit Services during the period October 2008 – December 2008 and responded to questions from Members. She highlighted significant areas of work including: matters which had been raised with the Streetscene Operational Manager and already addressed; the completion of a large piece of unplanned work requested by the external Auditor and examples of the benefits gained through joint working under the internal audit partnership.

RESOLVED that the Audit Services' Report for the period October 2008 – December 2008 be noted and approved;

81/09 AUDIT SERVICES ANNUAL PLAN 2009/10

The Head of Audit Services presented the Annual Plan which showed the scope and summary of planned audit work for 2009/10. The Annual Plan demonstrated how the Council would fulfil the requirements of the Accounts and Audit Regulations 2003, in providing an effective internal audit service. The Plan was drawn up in accordance with the CIPFA Code of Practice for Internal Audit and was supported by risk assessments undertaken for each service during the year.

The Annual Plan also reflected the requirements imposed by external audit.

RESOLVED that the Audit Services Annual Plan 2009/10 as submitted be noted and approved.

82/09 ANTI-FRAUD AND CORRUPTION STRATEGY

The Head of Audit Services presented the Anti Fraud and Corruption Strategy for review by the Audit Committee. The Strategy formed part of the Council's overall Corporate Governance arrangements and was intended to assist in reducing the risk of fraud and corruption. The Executive had approved recent amendments to the Strategy, which had been updated to reflect current staffing structure and changes in names of Government departments.

RESOLVED that the Anti Fraud and Corruption Strategy be noted and approved.

83/09 ANNUAL AUDIT AND INSPECTION LETTER AND EXTERNAL AUDITORS' ANNUAL EXTERNAL AUDIT REPORT

The Chairman introduced Paul Chambers from the Audit Commission and Rebecca Pett from KPMG, the Council's External Auditors. Mr Chambers presented the Audit Commission's assessment of the Council, including the Direction of Travel report, which set out progress against corporate priorities and comparable performance for 2007/08. He highlighted the key audit messages for the Council and the action it needed to take.

Ms Pett presented the external auditors' annual external audit report, which informed part of the Audit Commission annual letter. She advised that there were no new messages since the report had come to the Audit Committee last September.

The Committee wished to place on record their compliments to officers throughout the Council for their work in achieving an overall score of 3 for Use of Resources.

RESOLVED that the Annual Audit and Inspection Letter 2007/2008 and the external auditors Annual External Audit Report be noted.

84/09 COMMITTEE WORK PROGRAMME 2009/10

The Committee considered its Work Programme for the 2009/10 Municipal year. Issues raised at this meeting would be incorporated into the programme.

RESOLVED that the Work Programme as submitted and amended be approved.

ANNUAL GOVERNANCE STATEMENT 2008-09

AUDIT COMMITTEE: 25 JUNE 2009

Report of the Chief Finance Officer

Resolution Required

Executive Summary

How does the contents of this report improve the quality of life of Borough Residents

The Annual Governance Statement provides assurance to the residents of the Borough that the Council has proper and effective governance arrangements in place to deliver its objectives.

Purpose of Report

The Accounts and Audit Regulations 2006 require the Council to consider and approve an Annual Governance Statement for inclusion within the Statement of Accounts. The Council has delegated the consideration of the Statement to the Audit Committee.

Key Issues

The Annual Governance Statement:

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

Financial Implications

None directly. The Statement reviews the financial management arrangements.

Corporate Priority:

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

Officer Recommendations

The Audit Committee is asked to approve the draft Annual Governance Statement and endorse the improvement actions identified in part 4 of the Statement.

Contact:

Deanna Harris Head of Audit Services (01784) 446207

Michael Graham Head of Corporate Governance (01784) 446227

Terry Collier Chief Finance Officer (01784) 446296

Cabinet Member:

Councillor Michel Bouquet

REPORT

1. BACKGROUND

- 1.1 The need to review arrangements for corporate governance and internal control and to produce the Annual Governance Statement (AGS), attached as Appendix 1, is given statutory backing by the Accounts and Audit Regulations 2006. The CIPFA/SOLACE governance framework 'Delivering Good Governance in Local Government' brings together an underlying set of legislative requirements, governance principles and management processes. Crucially, it states that good governance relates to the whole organisation.
- 1.2 CIPFA has assigned proper practice status to the governance framework. It outlines six core principles of governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and (where applicable) leads the community. The degree to which the authority follows these principles should be declared in its Annual Governance Statement. It is this statement that has the legal backing of Regulation 4 of the Accounts and Audit Regulations.
- 1.3 The Audit Commission has stated that the arrangements required for gathering assurances for the preparation of the annual governance statement provide an opportunity for authorities to consider the robustness of their governance arrangements. In doing so, authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. It is also important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required. This will also demonstrate to stakeholders what those arrangements are.
- 1.4 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 AGS 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 Annual Governance Statement is attached as an appendix to this report.
- 1.5 The Chartered Institute of Public Finance (CIPFA) and Society of Local Authority Chief Executives (SOLACE) published guidance to help authorities prepare the AGS. This statement constitutes "proper practice" under the 2006 Regulations. It is deliberately not prescriptive and authorities are encouraged to determine the exact form and content for much of the AGS for reporting with their accounts.

2 MAIN ISSUES

- 2.1 The Annual Governance Statement 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 AGS also identifies any areas of significant weakness in internal controls, and areas for improvement, and the actions taken to remedy these.

- 2.2 The Annual Governance Statement relates to the system of governance arrangements and internal control as it applied during the financial year in this case, the 2008/09 financial year.
- 2.3 The Audit Commission's Code of Audit Practice states that the AGS 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 AGS 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:
- 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.
- 2.5 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 Annual Governance Statement
 - h) Report to Committee
- 2.6 An officer working group of the Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources completed in 2007-08 a set of detailed matrices assessing the Council's position against criteria set out by CIPFA/SOLACE for each of the above stages (referred to as Objectives in the methodology). The working group reviewed constitutional arrangements, policies and procedures and obtained confirmation of arrangements from key officers. The officers have reviewed and updated for 2008-09 the supporting matrices.

2.8 The sources of assurance include:

- a) The review of governance arrangements undertaken in 2007-08 by the Code of Corporate Governance Task Group set up by the Performance Management and Review Committee
- b) Published documents (e.g. Constitution)
- c) Directors and managers throughout the organisation assigned with the ownership of risks and delivery of services
- d) Annual Review of Corporate Governance undertaken by Performance Management and Review Committee
- e) The Monitoring Officer
- f) The Responsible Financial Officer
- g) Internal Audit
- h) External Audit
- i) Review agencies and inspectorates

2.9 In undertaking the review and completing the Annual Governance Review 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 3 of the Statement relate to items identified in the Audit Services' Reports for 2008-09 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

3.1 There are none.

4 PROPOSALS

4.1 It is proposed that the Audit Committee approve the Annual Governance Statement for inclusion within the Statement of Accounts for 2008/09.

5 FINANCIAL IMPLICATIONS

5.1 There are none.

6 BENEFITS AND SUSTAINABILITY

6.1 Proper governance arrangements ensure that Councils do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.

7 LEGAL IMPLICATIONS / OTHER CONSIDERATIONS

7.1 The Accounts and Audit Regulations require the Statement of Accounts to include a signed off Annual Governance Statement, failure to do so could result in qualification of the accounts.

8 RISKS AND HOW THEY WILL BE MITIGATED

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

Report Authors:

Deanna Harris Head of Audit Services (1784) 446207

Michael Graham Head of Corporate Governance (01784) 446227

Terry Collier Head of Financial Services (01784) 446296

Background papers:

None

APPENDIX 1

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

Spelthorne Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at www.spelthorne.gov.uk or can be obtained from The Council Offices, Knowle Green, Staines TW18 1XB. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 the achievement of [the authority'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.

The governance framework has been in place at the Council for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements are summarised below:

Identifying and communicating our vision and outcomes for citizens and service users

- The Council publishes on an annual basis its Corporate Plan. The Council's current Corporate Plan 2006-09 is published on the website (http://www.spelthorne.gov.uk/12feb08_reporta_appendixa.doc). The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective.

Reviewing our vision and its implications for our governance arrangements

- The Council regularly reviews the authority's vision and its implications for the authority's governance arrangements. The Council reviewed and agreed in February 2008 a new set of Corporate priority themes. Progress towards the achievement of the objectives will be monitored through the performance management system and by the Performance Management and Review Committee.
- The Council engages with the public and translates the community's priorities into a Community Plan in conjunction with our partners

Established clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation

- Revised Communication and Consultation strategies are in place, together with an Equality and Diversity Strategy helping to ensure that all groups in our community have a voice, can be heard and are suitably consulted.
- The Council regularly undertakes consultation exercises and uses focus groups and a wide variety of other methods to obtain feedback from the community.

Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- Spelthorne Borough Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Council operates Executive arrangements with a Leader and Cabinet who recommend the major policies and strategies to the Council. The Executive is also responsible for most of the non-regulatory functions of the Council. The Executive is made up of the Leader and eight other cabinet

members, who are all appointed by the Council. Major decisions which affect significant proportions of the community are published in advance in the Executive's Forward Plan, and will always (unless there are exceptional circumstances) be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.

- There are two scrutiny committees Performance Management and Review Committee and Improvement and Development Committee which review decisions and actions taken by the Cabinet and other Council functions. A "call-in" procedure allows scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The scrutiny committees also review, monitor and scrutinise the performance of the Council in relation to its policy objectives, performance targets, action plans and relationships with external partnership bodies and organisations. Within its community leadership functions, the scrutiny powers have been exercised by the Council in relation to the work of other partner organisations which affect the whole of the Spelthorne Community.
- The Council has agreed a Local Code of Corporate Governance in accordance with the revised CIPFA/SOLACE Framework for Corporate Governance and in doing so has adopted the highest possible standards for the governance of the authority.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The standards of conduct and personal behaviour expected of members and officers of Spelthorne Borough Council, its partners and the community are defined and communicated through codes of conduct and protocols. These include:

- Member Code of Conduct and Standards Committee
- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- A fraud and corruption policy
- Member/officer protocols

Whistle-blowing and receiving and investigating complaints from the public

- Confidential reporting arrangements are in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.

- The Council has an effective complaints procedure. The Council will be reviewing its corporate complaints process in the coming year to ensure that it can respond to the ever increasing expectations of the public for excellent public and customer service.

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

- The Council regularly reviews and updates standing orders, standing financial instructions, its scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks. In the last two years both Financial Regulations and Contract Standing Orders have been revised in light of changing circumstances.

Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- Spelthorne Council has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution, which is published on the Council's website.
- Other documentation includes corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy, or new documentation following new legislation. Timely reminders are provided for staff on key policies which protect them and the public, for example the whistle-blowing policy and the Money Laundering Regulations.
- The Council has a designated Monitoring Officer who is the Head of Corporate Governance who is responsible for ensuring compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and the Chief Finance Officer, the Monitoring Officer will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No reports have been necessary in recent years.

Measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources

- The Council has good performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Performance Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.
- There is a programme of Business Improvement Reviews reviewing all service areas of the Council.

Financial Management

- The financial management of the Council is conducted in accordance with the financial rules set out in Part 4 of the Constitution, which includes the financial regulations. The Council has a designated officer who fulfils the role of the Section 151 Officer in accordance to the Local Government Act 1972. The Council has in place a medium term financial strategy.
- Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability. Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council.

In particular, the process in 2008/00 included:

- The setting of the outline budget framework and the detailed annual budget;
- Monitoring of actual income and expenditure against the annual budget;
- Setting of financial and performance targets, including the prudential code and associated indicators;
- Monthly reporting of the Council's financial position to corporate Management Team and quarterly to the Executive and the Performance Management and Review Committee;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.

Effectiveness of Internal Audit

- The Council maintains a internal audit section, which operates to the standards set out in the "Code of Practice for Internal Audit in Local Government in the UK
- The Council has an objective and professional relationship with External Audit and statutory inspectors. as evidenced in the Annual Audit Letter
- A review of the effectiveness of internal audit is undertaken annually and considered by the Audit Committee.

A Governance (Audit) Committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

- The Council has an Audit Committee which is responsible for considering the effectiveness of the Council's system of internal control. This Committee performs the core functions as set out in CIPFA guidance. Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

Performance and Risk Management

- The Council has good performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Performance Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.
- The Assistant Chief Executive is currently the authority's risk champion. Audit Services support the risk management process through the risk based audit approach and by assisting services in the review of annual risk assessments.. Risk management is built into the Council's corporate project methodology.
-
- The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- A fully resourced training and development plan is in place for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

Incorporating good governance arrangements in respect of partnerships and other group working

- The Council incorporates good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflects these in the authority's overall governance arrangements. The Head of Corporate Governance is currently reviewing the governance of partnerships.

The ethical conduct of members and officers of this Council

- The Council has under the Constitution established a Standards Committee and a Members Code of Conduct.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit Services' annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Performance Management and Review Committee set up a Code of Corporate Governance Task Group to review the Council's governance arrangements and to assess them against the six CIPFA/SOLACE core principles underpinning the new Code of Corporate Governance framework issued by CIPFA/SOLACE. The six principles are:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust accountability

An officer working group consisting of Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources have completed a detailed assessment of the Council's position against the criteria set out in the eight

objectives underpinning the Code of Governance framework. The eight objectives are:

- Establish principal statutory obligations and organisational objectives
- Identify principal risks to achievement of objectives
- Identify and evaluate key controls to manage principal risks
- Obtain assurances on effectiveness of key controls
- Evaluate assurances and identify gaps in control/assurances
- Action plan to address weaknesses and ensure continuous improvement of the system of Corporate Governance
- Produce the Annual Governance Statement
- Report to Audit Committee

The review included reviewing the constitution, procedures and obtaining confirmation of arrangements from key officers to ensure that there was sufficient and relevant evidence to provide assurance that there are appropriate controls in place.

The officers' review of arrangements against the six principles included considering the arrangements in place for:

- The authority
- The executive
- The audit committee and scrutiny committees
- The standards committee
- Internal audit
- Other explicit review/assurance mechanisms.

Significant governance issues

The overall opinion of the Head of Audit Services is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit Services during 2008-09. Any shortcomings identified during the year with a significant level of risk attached have been reported to the Audit Committee and residual corporate risks are summarised below:

- MAT / Councillors should continue to review the Council's Corporate Risk Register and monitor ongoing actions. To reinforce this the Corporate Risk Register in addition to being reported quarterly to the Audit Committee will be reported twice yearly to Cabinet.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

The issues reported in last year's Annual Governance Statement with respect to project management, service planning, business continuity plans and partnership work have been addressed by management but will be kept under review

.....
John Packman
Leader of the Council

.....
Roberto Tambini
Chief Executive

OUTTURN AND STATEMENT OF ACCOUNTS 2008/2009

Audit Committee: 25 June 2009

Resolution Required

Report of the Chief Finance Officer

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 2008/09 has been completed and the audit is due to commence in August 2009. The Accounts and Audit Regulations require the accounts for 2008/09 to be completed and approved by the Audit Committee by 30 June 2009, and signed by the Leader and the Chief Financial Officer. Any issues arising from the audit that require the Audit Committee'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

Net use of reserves £736k more than original estimate.

CORPORATE PRIORITY

All 12 priorities

Officer Recommendations

The Audit Committee is asked to approve the draft Statement of Accounts for 2008/2009

Contact: Terry Collier, Chief Financial Officer (01784 446296)

Cabinet Member: Councillor Michel Bouquet

1. BACKGROUND

- 1.1. To consider the Council's Outturn for 2008/09 and Financial Statement of Accounts for 2008/09.

2. KEY ISSUES

- 2.1. Under the Accounts and Audit Regulations 2006 the Council is required to formally approve the Statement of Accounts for the financial year ending 31st March 2009 by 30th June 2009.
- 2.2. The Committee is asked to consider these accounts and to formally approve them. **A copy of the draft Statements [green cover] will follow under separate cover.**
- 2.3. The External Audit of the Council's accounts will commence in August 2009. The Auditors opinion on the Accounts will be reported once the audit has been completed.
- 2.4. The Financial Review by the Chief Finance Officer 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 Annual Governance Statement, 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 Chief Finance Officer and the Leader of the Council, and the Income and Expenditure statement and Balance Sheet signed by the Chief Finance Officer. Following approval the Accounts will be available for public inspection during August 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. The actual outturn on the revenue account for 2008-09 compared to the outturn for 2007-08 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. The income and expenditure statement needs to be read together with the Statement on the Movement on the General Fund to see the underlying movement on the General Fund reserve balance after statutory accounting adjustments.

2.8. The Council's original revenue budget was set as follows:

	£
Total Service Expenditure	14,080,800
Less contribution required from General Reserves	(1,047,133)
Less interest on balances	<u>(1,880,000)</u>
Original Budget Requirement	11,877,667

2.9. After the 2007-08 outturn was known, £199k of carry forward of expenditure from 2007-08 into 2008-09 was approved. This was subsequent to the original budget and council tax being set for 2008-09 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 2007-08 the final underlying over spend for the year against the revised budget was £537k (4.1%). This was due to reduced investment income of £1,506k being received which was £374k below budget. The underlying revenue over spend of £163k (1.2%) was within the target of plus or minus 1.5%.

Table 1: Underlying Under spend against Original Budget

	£000
Net (after interest income) Expenditure	13,662
Original Budget (net in of investment income)	12,926
Variance against original budget	736
Less Carry forward provision (from 07/08)	(199)
Difference against Revised Budget	537

2.10 In response to the above underlying over spend additional appropriations (contributions) from reserves have been made as follows:

- Reduced carry forward of revenue expenditure from 2008/09 to 2009/10 of £50,000 (total carry forward being £150,000).
- Interest Equalisation Reserve transfer of £300k to offset reduced income from investments

2.11 After making the additional appropriations from reserves, to provide for specific anticipated future demands on expenditure, and transfers from specific reserves, the overall transfer deficit from the General Fund spend is **£146k**. Total net use of reserves is £1,784k compared to a budgeted £1,048k and therefore there is a lower net level of revenue reserves at the end of 2008-09 than had originally been anticipated.

2.12 The final outturn for the year was **£11.616m** with a net contribution from general reserves of **£1,784k** (compared to estimate of £1,048k) required, as per [Appendix A](#).

2.13 The use of reserves to support the revenue account is reflected in the level of reserves available to the Council at the end of 2008-09 as shown in the Balance Sheet.

ANALYSIS OF VARIANCE

2.14 A summary of the major differences between the final outturn and the Original budget is attached at [Appendix B](#).

CHANGES IN ACCOUNTING FOR PENSIONS – FRS17

2.15 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.

2.16 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 £465k less than the value of contributions made during 2008/09.

2.17 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.

- 2.18 The FRS17 analysis identifies a net pension liability on the Consolidated Balance Sheet of £22.1m. 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.

Capital Outturn

- 2.19 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 gross expenditure (figures previously reported to Performance Management and Review Committee)

Actual capital expenditure in 2008-2009 totalled £2.792m and the table below shows how this was financed.

	£'000
Total Capital Expenditure	2,792
Financed by:	
Capital Grant	252
Capital Receipts	2,381
Contributions from external organisations	53
Revenue Resources & Reserves	106
Total	2,792

- 2.20 The revised approved capital programme (net of grants and contributions) for 2008-09 totalled £3.976 million. With net actual expenditure of £2.792 million there was therefore slippage/under spending of £1.047million. There were several areas of slippage of which the most significant were: Requests for £486,000 worth of carry forwards have been submitted to the Corporate Services Cabinet Member for approval.
- 2.21 Major variations to the capital programme budget are identified on **Appendix C**
- 2.22 Officers will be putting in place during 2009-10 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 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 £1,784k.

7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS

- 7.1. The variations set out in **Appendix B** with ongoing effects will be included in future budget forecasts and reported to the Cabinet when considering the Outline Budget for 2010/11.

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 30th June 2009 and signed off by the Council's external auditors (KPMG) by 30th September 2009

Background Papers:

There are none.

Agenda Item: 6

CORPORATE RISK MANAGEMENT

AUDIT COMMITTEE - 25 JUNE 2009

Report of the Chief Finance Officer

Resolution Required

EXECUTIVE SUMMARY

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

Regular review of the corporate risk register helps to improve overall risk management arrangements, which supports all corporate priorities.

Purpose of Report

This report provides MAT and the Audit Committee with an opportunity to review the revised Corporate Risk Register and proposed actions for improvement.

Key Issues

- The Corporate Risk Register has been reviewed and updated.
- Progress on actions proposed at the last/prior review has been documented on the register.
- Further actions have been proposed in the register to mitigate risks as far as possible.

Financial Implications

Staff time to implement actions proposed should be contained within existing budgets.

Corporate Priority

All corporate priority themes.

Officer Recommendations

The Audit Committee is asked to note and accept the contents of the Corporate Risk Register, and recommend it to Cabinet for approval.

Contact: Deanna Harris, Head of Audit Services, 01784 446207.

Lead Member: Councillor David McShane

Portfolio Holder: Councillor Michel Bouquet

MAIN REPORT

1. BACKGROUND

- 1.1 The Council's Risk Management Policy/Strategy was approved by the Executive in 2002.
- 1.2 The policy/strategy, flowchart of responsibilities and Corporate Risk Register can be found on Spelnet, and the Service risk registers can be found on global public folders.
- 1.3 The Audit Committee is responsible for considering the effectiveness of the authority's risk management arrangements, and receives regular reports on risk issues.
- 1.4 This report provides the Audit Committee with an opportunity to review the revised Corporate Risk Register, assess progress on actions previously recommended, and review new actions proposed for improvement.

2. KEY ISSUES

- 2.1 The Corporate Risk Management Group have revised the Corporate Risk Register ([Appendix 1](#)). Actions required to reduce risks are shown together with officers responsible for implementing recommendations and deadlines.
- 2.2 Progress on actions proposed at the last review has been documented on the attached register (please refer to columns titled control/action and progress). Progress has been made in areas such as IT Security (penetration) testing in order to comply with mandatory requirements; updating service business continuity plans with a further corporate training (desk top test) exercise being organised; completion of flood and draft flu plans as part of the borough's emergency planning function; review of partnership governance arrangements and liaison with a neighbouring authority to share best practice on the application of a partnership framework at SBC; the setting up of a delivery board to monitor implementation of sustainability strategy and delivery of National Indicator 188 (Climate Change).
- 2.3 The following areas have not been fully addressed:
 - (a) Service plans outstanding for Environmental Health and Building Control areas (Technology/Infrastructure/Operations risk). Please see part 1 of the detailed risk register.
 - (b) Risk assessment for contaminated land (Environment risk). Please see part 7 of the detailed register. The Head of Environmental Health and Building Control attended the audit committee on 26th March to provide an update, and Audit Services will be assisting the Environmental Health team in drawing up a risk assessment.
 - (c) Procedure document to clarify health and safety responsibilities where assets leased(regulatory/legal risk). Please see part 8 of the detailed register.
 - (d) Corporate training on contract management (Partner/contractor/commercial risk). Please see part 10, action 3 of the detailed register. The Procurement Board will shortly be finalising the training programme, and it is envisaged that timescales for training may differ dependant on when officers have access to the new e-tendering system.

- 2.4 The Head of Asset Management attended the Audit Committee 24 June 2008 to advise Members of progress in drawing up a procedure document to clarify health and safety responsibilities for leased assets, and set out timescales for this project, with a proposed completion date of June 2009. It should be noted that the original target date for implementing this action point was January 2008. It is now understood that the project is significantly behind schedule (estimated completion date of May 2011).
- 2.5 Potential risks relating to failing to comply with the adaptation to climate change strategy and National Indicator 188 have also been added to the register (see Environment risk category 12).
- 2.6 It should be noted that the new corporate priority themes have been used for the purpose of relating specific risks to priorities.

3. OPTIONS ANALYSIS

Either:

1. To accept the Corporate Risk Register as drafted and proposals for improving overall risk management arrangements. (Preferred option) The revised register is considered to be an accurate reflection of the high level risks affecting the authority, as well as the progress made on actions previously proposed, based on our assessment of risk and controls in operation.

Or:

2. To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

4. PROPOSALS

- 4.1 The Audit Committee is asked to note and accept the contents of the Corporate Risk Register, and recommend it to Cabinet for approval.

5. BENEFITS AND SUSTAINABILITY

- 5.1 Proposals set out in the Corporate Risk Register should improve overall risk management arrangements across the authority, which supports all corporate priorities.

6. FINANCIAL IMPLICATIONS

- 6.1 Resources required (staff time) to implement actions proposed in the Corporate Risk Register should be contained within existing budgets

7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS

- 7.1 Risk register outlines circumstances where the authority may well be at risk of unacceptable outcomes; risks to health and safety; risks to the finances of the council etc. Should these risks not be addressed adequately then it follows that there may well be undesirable legal consequences arising. The purpose of the risk register is in part to avoid such consequences.

8. RISKS AND HOW THEY WILL BE MITIGATED

- 8.1 If actions outlined in the Corporate Risk Register are endorsed by Members and implemented by relevant officers, this should improve the council's overall risk management arrangements.

9. TIMETABLE FOR IMPLEMENTATION

- 9.1 The Corporate Risk Register shows officers responsible for progressing actions, together with timescales for implementation.
- 9.2 The revised Corporate Risk Register will be placed on Spelnet and actions will be monitored by the Corporate Risk Management Group.

Report Author: Punita Talwar/Deanna Harris, Head of Audit Services, 01784 446207.

Background Papers: There Are None.

AUDIT SERVICES ANNUAL REPORT

AUDIT COMMITTEE: 25 JUNE 2009 **Report of the Head of Audit Services** **Resolution Required**

EXECUTIVE SUMMARY

How does the content 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 summarises work undertaken by Audit Services during the period April 2008 – March 2009 and provides an opinion of the level of assurance required to support the Annual Governance Statement.

- Internal audit OPINION
- Annual Audit Report – 2008/9 including an update on work completed to year end.

Financial Implications

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 note and approve the Audit Services' Report for the period April 2008 – March 2009, and the overall opinion on the Council's systems of internal control.

Contact: Deanna Harris, Head of Audit Services, 01784 446207
Portfolio Holder: Councillor Michel 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 on the adequacy of those controls.

2. KEY ISSUES

2.1 Opinion

The overall opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit Services during 2008/9 which is summarised below.

Any shortcomings identified with a significant level of risk attached have been reported to the Audit Committee during the year and residual recommendations relating to corporate risks are summarised below:

- (a) ***MAT / Councillors should continue to review the Council's Corporate Risk Register and monitor ongoing/outstanding actions. The issues reported in last year's Opinion Statement with respect to project management, service planning, business continuity plans and partnership work have been addressed by management and will be kept under review.***

2.2 Audit Recommendations

A recommendation database has been implemented to improve the monitoring of outstanding issues. At a previous Audit Committee meeting members requested statistics relating to recommendations issued, implemented and outstanding. Full details of all outstanding recommendations have been supplied to members of the Council's Management Team. It is important to acknowledge that audit work is not measured by the number of recommendations issued and minor/low risk issues are not included in statistics. These details include a number of audits issued in draft where management responses are awaited.

Status	Total	High	Medium
Implemented	107	11	96
Outstanding	46	9	37
Rejected	2		2

2.3 Financial Systems

All of the Council's financial systems have been reviewed and tested. This work has been reviewed by external audit. Generally system controls are operating effectively and risks are being properly managed. Medium/High risk related recommendations are detailed below.

Council Tax & NNDR

- Audit recommended improvements in the management of suppressed accounts and a review of the Write off Policy.
- Monthly reconciliations should be performed in a timely manner and contingency arrangements put in place to ensure these are carried out in the event of long term staff absence.
- Following the audit, staff have been reminded of the need to adhere to policies. Any exceptions will be approved and recorded.

Main Accounting

- Job descriptions for all budget managers should clarify budget responsibilities.
- Finance could improve liaison with Service Heads in order to identify/manage expected capital sums due.
- A report should be run retrospectively to list all one sided journals and approval obtained. It is acknowledged that there have only been five recorded instances of one sided journals and therefore the recommendation addresses a potential risk of accounting error.
- The Systems Accountant should consider periodically reconciling the HR Leavers Report to the Integra Report which would ensure that any leavers with potential access to the system are identified and removed.

Debtors

- A corporate approach to debt should be established and a corporate policy drafted with associated guidelines.
- Productive, timely and cost effective recovery procedures should be applied in a consistent manner for all debts referred to legal.
- Write offs should be accompanied by the existing request forms, the age of the debt and a reason for write off.
- The corporate debt management reports could be made more effective by annotating the information with comparison data and reasons, and recovery action taken.

Creditors

- The Integra system should reflect the authority limit set on the Authorised signatory list and this should be updated to reflect the new Management structure in place

Treasury Management

- The ledger control account should be updated promptly when notified of loan / investment transfers.

- The reconciliation of the Register of Loans and Investments to the general ledger and resolution of discrepancies should be undertaken on a timely basis.
- The Principal Accountant should review and produce investment monitoring reports throughout the year.
- The Principal Accountant should consider producing minutes to evidence meetings held with Sector Treasury, highlighting any key advice provided on investment management.
- All cash book/cheque reconciliations should be performed within a month of month's end, to ensure any differences are identified and resolved promptly.
- Arrangements should be in place to ensure that the Cash Management System to General Ledger reconciliation is performed when the Accountancy Assistant is absent.

Housing Benefit

- An exception report of potential duplicate payments should be reviewed by management.
- Standing data on Local Housing Allowances should be entered by one officer and checked by another officer prior to going live.
- HB should investigate whether or not to use the student loan/grant facility on Academy rather than current practice of manual calculations.
- All unreported write offs over £3k should be approved retrospectively by Cabinet.

Payroll

- Evidence of qualifications should be sought where considered essential for the post.
- Human Resources should seek two written references for all Council posts.

Cash and Bank

- The Financial Support Services Manager should liaise with other local authorities to consider alternative cashless systems for taxi licences and miscellaneous income sources.

IT Controls

A risk assessment for the IT Service has been completed and testing will be finalised by the end of June 2009. Findings will be reported to the next Audit Committee meeting.

Capital Accounting

This work relates to end of year transactions and will be completed 2009/10.

2.4 Other Audit Work - April 2008 – December 2008

Audit findings for the period April 2008 – December 2008 have been reported previously to Audit Committee meetings (4 September, 27 November and 26 March)

2.5 Other Audit Work - January 2009 – March 2009

2.6 **Housing Options**

Generally controls in this area were satisfactory. The following recommendations were made to improve control/reduce risks:

- All outstanding bed and breakfast debt arrears should be assessed and actioned accordingly. This recommendation was made to address the significant level of arrears and lack of ongoing action to recover arrears.
- All outstanding bed and breakfast debts deemed to be irrecoverable should be approved by management/members for write-off in accordance with the Write Off policy.
- The Council should ensure that the Child Protection and Vulnerable Adults Policies are kept up to date and that all relevant staff are trained. A formal process should be implemented to ensure this is undertaken. Corporate action is being taken which will address this recommendation.
- As there is some uncertainty over contingency arrangements in the event of staff/building loss, various service disruptions should be considered. All staff should be made aware of contingency arrangements. The Heads of Housing have confirmed this recommendation has been addressed.
- Management should review the 'golden thread' from Corporate targets relating to this service to service planning and personal targets, particularly in relation to day to day service performance rather than project related targets.
- Consideration should be given to the re-introduction of a service target to ensure performance of service relating to promptness of Housing registration.
- Consideration should be given to the implementation of customer surveys in accordance with best practice.
- The Housing Options Manager should produce a manual and disseminate information relating to the new housing system. This recommendation was made to reduce risks associated with reliance on the Housing Options Manager who has implemented the new housing system including bespoke elements which only he has knowledge of. The Heads of Housing are intending to formalise a partnership arrangement with another Council which is using similar software.

2.7 **Choice Based Lettings**

Assistance has been provided in the selection of software to be purchased by the partnership and project management arrangements are currently under review.

2.8 **Consultants**

Recommendations arising from a review of consultants have been considered by the Council's Management Team and are set out below:

- A business case should be prepared for each proposed use of consultants that includes details of why the work cannot be done using existing in-house resources. Service Heads have recently been reminded of the documentation required to support the appointment of consultants.
- Specifications should be written by officers and not consultants. Management agreed that specifications completed by consultants were acceptable providing officers reviewed their suitability.
- Alternative quotes for consultancy work should be sought except in the most exceptional circumstances with any such cases being robustly scrutinised by management.
- The Consultants Pro-forma should be amended to require work already conducted by the consultant to be detailed so that cases of the same consultant being used for a variety of different projects are highlighted.
- All appropriate staff should be reminded that consultants should be appointed using the Spelthorne's standard terms and conditions available from the intranet unless otherwise agreed by Legal.
- In view of the substantial and largely unreported/uncontrolled costs involved to date on the Land and Property database system (CAPS/Uniform) data capture project it is recommended:
 1. In future estimated expenditure on projects/consultants of this size (circa £400k to date) should be approved by members.
 2. Responsibility for managing costs should be clearly identified.
 3. Options for data capture eg use of consultants versus directly employed staff/casuals should be properly evaluated.
 4. The costs of the CAPS data capture to date should be examined and reported to members.

A report has been prepared by the Assistant Chief Executive and approval obtained to the employment of a member of staff to complete data capture rather than use of temporary staff.

2.9 Insurance

Generally testing identified that controls in this area were satisfactory. The following recommendations were made to improve control/reduce risks:

- Direct Services and Car Parks should pursue advice provided by the Insurance Officer to help reduce the risk of claims in their areas.
- Insurance claims should be analysed by the Corporate Risk Management Group (CRMG) to identify any trends or patterns which may help to minimise the recurrence of incidents. The Insurance Officer should have some input into providing meaningful analysis of the insurance statistics provided to the CRMG and conduct an annual trend analysis exercise. The CRMG should facilitate risk reduction strategies and promote the

implementation of procedures that will that will reduce the risk of incidents occurring.

- Procedure notes regarding the processing of insurance claims should be produced and kept updated which could be referred to by other officers as necessary.

2.10 Community Safety and Elections

Risk assessments were completed for these areas and testing is due to be carried out shortly on Elections.

2.11 Town Centre

Audit has produced a draft report regarding the project management of the Elmsleigh Town Centre project recommending a group of all interested parties is set up to discuss this project, the council's objectives are clearly set out, project management methodology and corporate IT system is used, and the group of projects concerning Staines Town Centre are pulled together into a programme of projects.

2.12 Human Resources

Risk assessment completed for this area and testing carried out and substantial assurance given.

2.13 Information Management

Audit assisted in the review of information management with the previous Head of E-Government Services. Responsibility for actioning recommendations has been transferred to the Assistant Chief Executive (BC) and Audit will be monitoring progress during 2009/10.

2.14 Use of Resources

In addition to work already reported Audit provided advice on the new arrangements being implemented in 2009.

2.15 Internal audit partnership

The Head of Audit Services manages Spelthorne, Elmbridge (EBC) and Surrey Heath (SHBC) audit teams under a partnership arrangement. In addition to financial savings (£90k over 3 authorities) a number of wider benefits from joint working are shown below:

- A joint Audit Manual has been prepared in the Chartered Institute of Public Finance (CIPFA) Code.
- Service plans have been aligned
- Teams have shared best practice in a number of areas including performance management, partnership governance, consultants, revenues, rent deposit schemes.
- Choice Based Lettings – Spelthorne led the audit of Choice Based Lettings partnership arrangements on behalf of SBC and EBC. The Senior Auditor from SHBC advised on ICT system acquisition. This worked well, particularly the introduction of an 'independent' auditor (as Surrey Heath is not involved in CBL partnership).
- ICT audit – Senior auditor at SBC provided support to SHBC and is planning work at EBC in 2009/10.

- Procurement – SBC team leader managed audits at SBC and SHBC. Development of Procurement Service at EBC will be used to inform audit work in 2009/10.
- Risk Based Audit - Senior auditor at SBC has assisted SHBC with introduction of risk based approach. This is now being developed at EBC.
- Corporate Risk Management – Senior Auditor at EBC has risk management experience and therefore his knowledge will be used in review of risk management at SBC and SHBC.
- Testing for external audit – Auditor has provided SHBC and SBC with considerable support on testing of financial systems. There will be further sharing of resources in this area and across all three boroughs in 2009/10.
- Three joint meetings have taken place with all 3 authorities represented to discuss joint approaches, standard documentation, learning points from training courses, fraud awareness etc.
- The Audit Charters for each of the three authorities have been approved and are based on same model.
- Further benefits will emerge through the 2009/10 audit plan with joint projects.
- There is improved resilience as cover for annual leave etc is available from within the partnership and auditors may provide back up for the other authorities as in the case of CBL above.
- Staff have been given development opportunities ie corporate responsibilities, management of staff and reporting to members. Joint team events have provided an opportunity for staff to share learning points from training events. Joint audit work will involve senior auditors taking responsibility for 'leading' audits and development of project management skills.

The partnership is currently under review following a number of organisational changes at Surrey Heath and assessment of the impact of the extension of the arrangement to Elmbridge.

- 2.16 **Audit Committee** – Training for members, preparation of reports and various correspondence.
- 2.17 **Corporate Risk Management** – see separate risk report. Audit attends the Corporate Risk Management Group.
- 2.18 **Advice** - Advice has been requested from all directorates on various risk and control issues including partnering, data security, Use of Resources, income collection, RIPA (Regulation of Investigatory Powers Act) and various other risk /control related issues.
- 2.19 **Miscellaneous** – Meetings (one-to-ones, staff performance clinics/team (SBC and joint)/ departmental/ manager's briefings, Assistant Chief Executive), training, liaison with external audit, budget monitoring, processing contract payment certificates, Service Planning, work planning, Emergency Planning/Business Continuity and various other tasks.

3. **OPTIONS ANALYSIS**

3.1 There are none.

4. **PROPOSALS**

4.1 There are none

5. BENEFITS AND SUSTAINABILITY

5.1 N/A.

6. FINANCIAL IMPLICATIONS

6.1 N/A

7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS

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

8. RISKS AND HOW THEY WILL BE MITIGATED

8.1 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.

9. TIMETABLE FOR IMPLEMENTATION

9.1 N/A

Report Author: Deanna Harris, Head of Audit Services 01784 446207

Background Papers: There are none

AUDIT SERVICES ANNUAL REVIEW

AUDIT COMMITTEE: 25 JUNE 2009

Report of the Assistant Chief Executive

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
- Adding value and assisting the organisation in achieving its objectives
- Achievements during 2008/9
- Improvement plan

Financial Implications

No financial implications.

Corporate Priority

All corporate priorities

Officer Recommendation:

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 and objectives are set out in the Service Plan but these are largely focussed on fulfilling statutory requirements and compliance with Cipfa's Code of Practice for Internal Audit (see 2.2 below). The Audit Plan sets out proposed work for the year and actual work has been reported to the Audit Committee quarterly.
- 2.2 Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2006
- 2.3 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.
- 2.4 The checklist appended to the Code of Practice has been used to confirm overall compliance with the Code.
- 2.5 During the year a new audit manual has been prepared which ensures all practices are aligned to the Code of Practice.
- 2.6 External audit assessment/ reliance on internal audit
- 2.7 External audit assessment of audit is 'good' and they continue to place reliance on the work of internal audit to support their opinions.
- 2.8 Adding value and assisting the organisation in achieving its objectives

2.9 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/Assistant Chief Executives
 - Audit Plan relating to corporate objectives and other key projects
- (b) Audit has an understanding of its position with respect to the organisation's other sources of assurance through:
- Working closely with external audit, Head of Corporate Governance and Assistant Chief Executive (TC).
 - Contribution to Annual Governance Statement, 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 risk management, information security, business improvement
 - 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 Assistant Chief Executive (TC) etc.
 - All senior managers are consulted regarding the audit plan
 - All key issues are incorporated within plan and risk assessments

- (f) Auditors are innovative and challenging
 - Risk based audit approach introduced
 - New reporting summary introduced
 - Partnering initiative and expansion of the internal audit partnership to Elmbridge
 - See Annual Report for detail of audit work undertaken

- (g) Audit helps shape ethics and standards of the organisation
 - Contribution to Code of Corporate Governance
 - Close working with Head of Corporate Governance/Assistant Chief Executive
 - 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
 - Sharing of training knowledge through joint team meetings with colleagues from Elmbridge and Surrey Heath.

- (i) Audit share best practice with other auditors through:
 - Partnership in place
 - Close working with others through contacts in Surrey Audit Group
 - Reference to Cipfa on-line technical service which refers to best practice models

- (j) Seek opportunity for joint working with other organisations
 - Partnership in place with Surrey Heath and Elmbridge.

3. ACHIEVEMENTS 2008/9

- 3.1 The Annual Audit report (separate report on agenda) sets out the achievements of the team in terms of audit work undertaken.
- 3.2 Continued to operate innovative risk based approach to audit work and to manage the Council's risk management process which included regular updating

of the corporate risk register, reporting to members of Audit Committee and Executive.

- 3.3 Continued to develop internal audit partnership working and initiated a number of joint audit projects eg IT security, Asset Management, procurement and managed audits.
- 3.4 Completed all external audit testing and complied with requirements of new external auditors, KPMG.
- 3.5 Reported to Audit Committee and assisted in development of their role by running an evening seminar.
- 3.6 Contribution to Use of Resources assessment and review of the Council's corporate governance arrangements following the publication of new CIPFA/SOLACE guidelines.
- 3.7 Operation of new audit recommendation monitoring system.
- 3.8 Successful completion of Institute of Internal Auditors examinations by member of Audit Services.

4. IMPROVEMENT PLAN 2009/10

- 4.1 The continuation of expanded audit partnership together with the need to complete all planned audit work across all three authorities to the required standards will continue to be a challenge for the team.
- 4.2 The Head of Audit Services will meet with Assistant/Deputy Chief Executives to identify and discuss emerging issues relating to the Audit Service or significant risks.
- 4.3 A database system will be introduced for improving management information on outstanding audit work including progress with the plan, adherence to deadlines/ time allocations and completion of audit reports.

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 Failure to operate an effective internal audit service could reduce the level of assurance provided to management and members regarding risk management processes, control systems, accounting records and governance arrangements.

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

**Background Papers:
There are none**

WORK PROGRAMME 2009 – 2010

AUDIT COMMITTEE - 25 JUNE 2009

Resolution Required

1. Work Programme

- 1.1 This report covers the Work Programme for the 2009/10 municipal year.
- 1.2 The Committee's terms of reference are set out at the front of the agenda.

2. Current Work Programme

- 2.1 The remaining three meetings of this Committee have been scheduled in the Council's Diary for 2009 -10 on the following dates:-
 - 24 September 2009
 - 14 December 2009
 - 25 March 2010
- 2.2 Any topics identified during consideration of the business at this meeting, will need to be included in the Work Programme.
- 2.3 Other issues Members wish to raise for consideration at the next or any future meeting and agreed by the Committee may be included in the Work Programme.
- 2.4 External audit may have one or two reports that arise from time to time which are not possible to predict in advance but will be incorporated into the Work Programme or appear on the agenda as appropriate.
- 2.5 The Committee may require a Head of Service to attend the next meeting of the Committee, where the Head of Audit Services has identified a risk but the target for controls to be put in place remains outstanding. This may be agreed either at the request of the Committee or if the matter is considered urgent, by the Chairman in consultation with the Chief Finance Officer.
- 2.6 Details of the currently identified items in the Work Programme are as follows:

24 September 2009		
External Audit report on 2008-09 Audit and Statement of Accounts	External Audit	Report
External Audit Interim Audit Report	External Audit	Report
Audit Services Quarterly Report	Head of Audit Services	Report for period April 09 to July 09
Corporate Risk Register	Chief Finance Officer	Review
Corporate Risk Register (<i>provisional</i>)	Head of Service - as appropriate	Updates on target dates missed
Committee's Work programme	Head of Audit Services/ Chief Finance Officer/Audit Committee	Report

AGENDA ITEM: 10

14 December 2009		
Audit Services Quarterly Report	Head of Audit Services	Report for period August 09 to October 09
Corporate Risk Register	Chief Finance Officer	Review
Corporate Risk Register (<i>provisional</i>)	Head of Service - as appropriate	Updates on target dates missed
Confidential Reporting Code (Whistleblowing Policy)	Assistant Chief Executive	Review
Committee's Work programme	Head of Audit Services/ Chief Finance Officer/Audit Committee	Report
25 March 2010		
Annual Audit and Inspection Letter	External Audit and Audit Commission	
Audit Services Quarterly Report	Head of Audit Services	Report for period November 09 to Feb 10
Corporate Risk Register	Chief Finance Officer	Review
Corporate Risk Register (<i>provisional</i>)	Head of Service - as appropriate	Updates on target dates missed
Anti Fraud and Corruption Policy	Assistant Chief Executive	Review
Annual Audit Plan	Head of Audit Services	Report
Committee's Work programme	Head of Audit Services/ Chief Finance Officer /Audit Committee	Report

3. Resolution

The Audit Committee is asked to consider and approve the Work Programme as submitted and/or amended at the meeting.

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

Report Author: Gillian Hobbs, Committee Manager (01784) 446405