

*Please reply to:*

Contact: Gill Hobbs  
Service: Corporate Governance  
Direct line: 01784 444243  
E-mail: g.hobbs@spelthorne.gov.uk  
Date: 21 March 2012

## **Notice of meeting**

### **Audit Committee**

**Date:** Thursday 29 March 2012

**Time:** 7.30 pm

**Place:** Goddard Room, Council Offices, Knowle Green, Staines

#### **To the members of the Audit Committee**

Councillors:

Mrs M.J. Madams (Chairman)  
Mrs D.L. Grant (Vice-Chairman)

A. Ayub  
A.E. Friday  
Ms D. Patel

A.C. Patterson  
C.V. Strong

## 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.

# AGENDA

## **1. Apologies**

To receive any apologies for non-attendance.

## **2. Minutes**

To confirm the minutes of the meeting held on 8 December 2011 (copy attached) 1 - 2

## **3. Disclosures of Interest**

To receive any disclosures of interest from members in accordance with the Council's Code of Conduct for members.

## **4. External Audit Plan**

To receive a report from the Assistant Chief Executive (copy attached) 3 - 28

## **5. External Auditors Certification of Grants and Returns 2010-2011**

To note the external Auditors certification of grants and returns 2010-2011 (copy attached). 29 - 33

## **6. Corporate Risk Management**

To receive a report from the Assistant Chief Executive (copy attached). 34 - 49

## **7. Annual Audit Services Plan**

To receive a report from the Head of Audit Services (copy attached). 50 - 55

## **8. Committee Work Programme 2012-13**

The Committee is requested to consider and approve its work programme for the Municipal Year 2012/13 (copy attached). 56 - 57



**MINUTES OF THE AUDIT COMMITTEE**  
**8 DECEMBER 2011**

**Present:**

Councillor Mrs M.J. Madams (Chairman)  
Councillor Mrs D.L Grant (Vice-Chairman)

Councillors:

|             |                |
|-------------|----------------|
| A. Ayub     | D. Patel       |
| A.E. Friday | A.C. Patterson |

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

**304/11 Minutes**

The minutes of the meeting held on 22 September 2011 were approved as a correct record.

**305/11 External Audit Annual Audit Letter**

The Committee considered the external auditors' annual audit letter which summarised the key findings from KPMG's 2010/11 audit of the Council. This included the audit of the Council's 2010/11 financial statements and the 2010/11 Value for Money (VFM) conclusion, on both of which KPMG issued an unqualified opinion .

**Resolved** that the external audit annual audit letter be noted.

**306/11 Corporate Risk Management**

The Senior Auditor reported that the Corporate Risk Register had undergone its regular quarterly review and update by the Corporate Risk Management Group to ensure that actions were being taken to deal with the identified risks. The revised Register was 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 assessment of risk and controls in operation.

She highlighted one area which had not been fully addressed relating to business continuity planning.

**Resolved** that the contents of the Corporate Risk Register be noted and accepted and recommended to Cabinet for approval.

**307/11 Audit Services Interim Report**

The Head of Audit Services presented her report which summarised the work undertaken by Audit Services during the period April 2011 to November 2011 and provided the Council with assurance on the adequacy of its internal audit systems of control. She gave verbal updates on the audit of the remote working pilot, on which work had recently commenced and the possible overpayment in relation to the waste contract which had been referred to the Legal section.

**RESOLVED** that the audit services interim report for the period April 2011 to November 2011 be noted and approved.

**308/11 Confidential Reporting Code (Whistleblowing Policy)**

The Head of Audit Services submitted the Confidential Reporting Code (Whistleblowing Policy) which formed part of the Council's Constitution for review. The Code sets out how to raise serious concerns about any aspect of the Council's work, who to raise them with and how they should be dealt with.

The Code was available on the Council's intranet; a bright orange leaflet was posted on every internal notice board and regular reminders were given to staff of its existence.

**Resolved** to note and approve, without amendment, the Confidential Reporting Code (Whistleblowing Policy) as submitted

**309/11 Committee Work Programme 2011/12**

The Committee considered its Work Programme for the remainder of the 2011/2012 municipal year.

**Resolved** that the Committee Work Programme for the remainder of the 2011/2012 municipal year be noted.

## **EXTERNAL AUDIT PLAN**

**Audit Committee: 29 March 2012**

**Report of the Chief Finance Office**

### **Report Summary**

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

Having our financial accounts subject to independent external audit provides reassurance to our residents and other external stakeholders as to what the Council's funds have been spent on and that financial resources have been appropriately managed.

#### **Purpose of Report**

This report summarises the work planned by KPMG in order to review the statutory financial accounts produced by the Council and to issue a value for money conclusion.

#### **Key Issues**

KMPG's External Audit Plan is attached (Appendix 1).

#### **Financial Implications**

A £10k reduction in planned audit fees

#### **Corporate Priority**

All

#### **Officer Recommendations**

The Cabinet is asked to note the External Audit Plan.

**Report Author: Terry Collier Chief Financial Officer 01784 446296**

**Area of Responsibility: Terry Collier**

**Cabinet member: Councillor Tim Evans**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 The Audit Commission's *Code of Audit Practice* summarises the responsibilities of external auditors into two objectives, requiring them to review the Council's
- financial statements (including the Annual Governance Statement): providing an opinion on our accounts; and
  - *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in our use of resources (the value for money conclusion).

### 2. KEY ISSUES

- 2.1 A copy of the External Audit Plan is attached (Appendix 1).
- 2.2 The plan summarises (section 1) the key issues the External Auditors have identified and sets out their approach (section 2) to auditing the financial statements.
- 2.3 Section 4 sets out the key audit risks the auditors have identified.
- 2.4 Section 5 sets out the auditors approach to undertaking their value for money work.
- 2.5 Note whilst we will have the same manager leading the team, the Director we will be liaising with has changed as Andy Sayers has moved on to new challenges and we will now be liaising with Tamas Wood (see page 15).
- 2.6 KPMG will not be attending the Committee meeting, however officers will be happy to relay to KPMG any comments or questions raised by the Committee.

### 3. OPTIONS ANALYSIS

- 3.1 Not applicable

### 4. PROPOSALS

- 4.1 That the External Audit Plan be noted.

### 5. BENEFITS AND SUSTAINABILITY

- 5.1 Not applicable

### 6. FINANCIAL IMPLICATIONS

- 6.1 Page 18 sets out the proposed audit fees and the Committee will note that the proposed fee for 2011/12 is reducing by approximately £10k compared to the charge for 2010/11.

### 7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS

8. The statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*

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

- 9.1 Officers have produced a detailed close of accounts project plan and have held initial discussions with KPMG to address any key issues.



**10. TIMETABLE FOR IMPLEMENTATION**

As set out in the plan (page 4 and page 17).

**Report Author: Terry Collier, 01784 446296**

**Background Papers:  
There are none**



cutting through complexity™

# External Audit Plan 2011/12

Spelthorne Borough Council

DRAFT 23 February 2012



**The contacts at KPMG in connection with this report are:**

**Tamas Wood**

*Director*  
 KPMG LLP (UK)  
 Tel: + 44 (0) 20 7311 6458  
[tamas.wood@kpmg.co.uk](mailto:tamas.wood@kpmg.co.uk)

**Richard Irish**

*Manager*  
 KPMG LLP (UK)  
 Tel: +44 (0) 20 7311 8440  
[richard.irish@kpmg.co.uk](mailto:richard.irish@kpmg.co.uk)

**Jamie Schartner**

*Assistant Manager*  
 KPMG LLP (UK)  
 Tel: + 44 (0) 20 7311 3851  
[jamie.schartner@kpmg.co.uk](mailto:jamie.schartner@kpmg.co.uk)

**Report sections**

|   | <b>Page</b> |
|---|-------------|
| ■ Introduction                                | 2           |
| ■ Headlines                                   | 3           |
| ■ Financial statements audit approach         | 4           |
| ■ Key financial statements audit risks        | 9           |
| ■ VFM audit approach                          | 11          |
| ■ Audit team, deliverables, timeline and fees | 15          |

**Appendices**

|   |    |
|---|----|
| 1. Balance of internal controls and substantive testing | 19 |
| 2. Independence and objectivity requirements            | 20 |
| 3. Quality assurance and technical capacity             | 21 |

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tamas Wood, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document describes how we will deliver our audit work for Spelthorne Borough Council.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

### Scope of this report

This document describes how we will deliver our financial statements audit work for Spelthorne Borough Council. It supplements our *Audit Fee Letter 2011/12* presented to you in March 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 to 10.

The remainder of this document provides information on our:

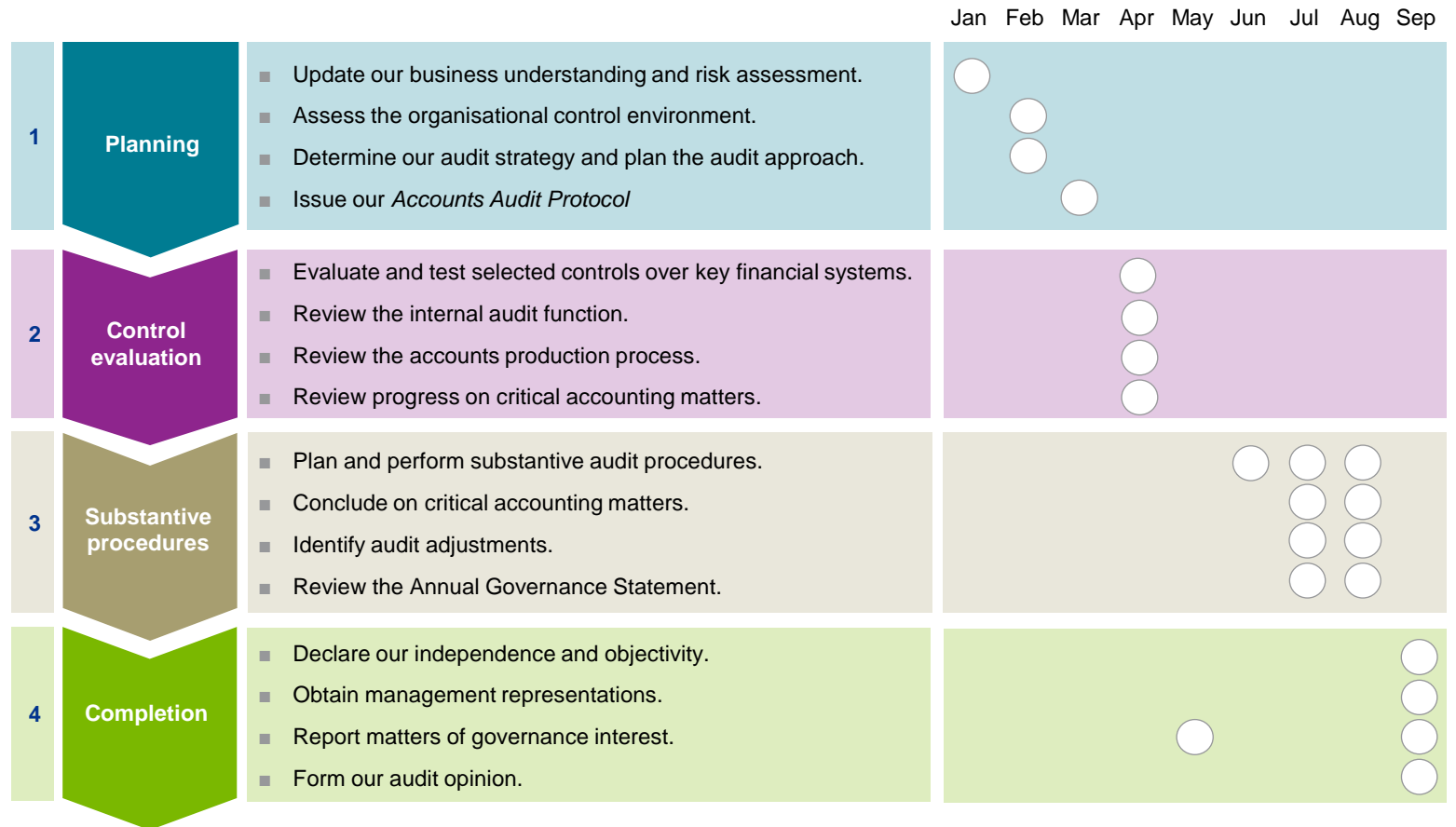
- Approach to the audit of the financial statements;
- Approach to VFM work; and
- Audit team, proposed deliverables, timescales and fees for our work.

| Area                 | Risk  | Audit work  |
|----------------------|---|---|
| <b>Savings plans</b> | <p>The Authority currently estimates that it will need to deliver £1.2m in savings during 2012/13 to address further reductions to local authority funding and continued cost pressures.</p> <p>The Authority will need to establish and manage its savings plans as to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2011/12 financial statements as appropriate.</p> | In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans. We will also review the Authority's assessment of potential liabilities and any provisions in its 2011/12 financial statement. |
| <b>Code changes</b>  | The Authority will need to review and appropriately address the changes introduced by the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the Code')</i> . These include a new requirement to obtain valuations for certain 'heritage assets'.  | We will discuss and review the Authority's proposed accounting treatments in the affected areas.  |

We undertake our work on your financial statements in four key stages during 2012:

- **Planning** (January to February).
- **Control Evaluation** (April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February we complete our planning work.

We assess the key risks affecting the Authority's financial statements based on our historical and sector knowledge.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January and February 2012. This involves the following aspects:

### Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

### Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We liaise regularly with the finance team to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

### Audit strategy and approach

The Engagement Director sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Director.

### Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We previously discussed mutual learning points from the 2010/11 audit with the Chief Finance Officer. These will be incorporated into our work plan for 2011/12. We revisit progress against areas identified for development in our discussions with the finance team.

During April we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

Our interim visit on site will be completed during 2 April to 13 April 2012. During this time we will complete work in the following areas:

### Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

### Controls over key financial systems

We update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Authority's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and will meet with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2011/12.

### Review of internal audit

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

### Accounts production process

We raised a number of recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* relating to the accounts production process. The most significant of these were to:

- Implement secondary review of large invoices by a separate officer;
- Authorise all journals over £20k prior to posting to the General Ledger; and
- Implement authorisation procedures for journals below £20k.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

### Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit we will meet with the Chief Finance Officer to discuss the findings of our planning and interim work.



During July to August we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee* in September.

Our final accounts visit on site has been provisionally scheduled for the period week commencing 3 July 2012 to 6 August 2012. During this time, we will complete the following work:

### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.
- Review the Annual Governance Statement.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Director based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

### Audit adjustments

During our on site work, we will meet with the Chief Accountant , and where appropriate, the Chief Finance Officer on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*.

**In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.**

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

**We will communicate with you throughout the year, both formally and informally.**

**Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.**

**We confirm our audit team's independence and objectivity is not impaired.**

### Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

### Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with Chief Finance Officer, Chief Accountant and the Audit Committee. Our deliverables are included on page 21.

### Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit Engagement Director and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

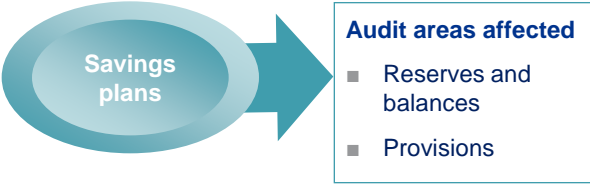
KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

### Confirmation statement

We confirm that as of 23 February 2012 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

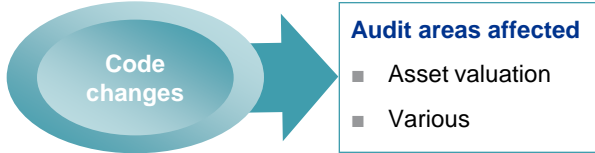
For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *ISA260 Report to those charged with governance*.

| Key audit risks  | Impact on audit  |
|--|--|
|  | <p><b>Risk</b></p> <p>As at December 2011, the Authority is forecasting an underlying adverse variance of £0.2 million against its 2011/12 budget.</p> <p>The Authority currently estimates that another £1.2 million in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of underlying grant cuts and continued demand pressures in areas such as benefits, revenues and housing options it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2011/12 financial statements as appropriate</p> <p><b>Our audit work</b></p> <p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the <i>Code</i>. If applicable, we will review the Authority's provision, including the methodology, assumptions and calculations.</p> |

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *ISA260 Report to those charged with governance*.

| Key audit risks  | Impact on audit  |
|--|--|
|  | <p><b>Risk</b></p> <p>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry ‘heritage assets’ at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>. For example, that the fair value of surplus assets should be based on existing use value of the asset in its last operational use and that the adaptations of IAS 20 <i>Government Grants</i> apply equally to capital and revenue grants.</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p><b>Our audit work</b></p> <p>As part of our interim work we will review the Authority’s approach to addressing the <i>Code</i> changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p> |

Our approach to VFM work follows guidance provided by the Audit Commission.

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

| Specified criteria for VFM conclusion  | Focus of the criteria  | Sub-sections  |
|--|--|---|
| The organisation has proper arrangements in place for securing <b>financial resilience</b> .                           | The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul> | <ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul> |
| The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> . | The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>         |

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

### Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

| VFM audit stage                  | Audit approach  |
|----------------------------------|---|
| <b>VFM audit risk assessment</b> | <p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ information from the Audit Commission's VFM profile tool and financial ratios tool;</li> <li>■ evidence gained from previous audit work, including the response to that work; and</li> <li>■ the work of the Audit Commission, other inspectorates and review agencies.</li> </ul> |

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify the areas where more detailed VFM audit work is required.

| VFM audit stage   | Audit approach   |
|---|--|
| Linkages with financial statements and other audit work | <p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>   |
| Assessment of residual audit risk                       | <p>It is likely that further audit work will be necessary in some areas to ensure comprehensive coverage of the two VFM criteria.</p> <p>This work will involve a range of interviews with relevant officers, and review of documents such as policies, plans and minutes. We will also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted.</p> |
| Identification of specific VFM audit work               | <p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>   |

Where relevant, we draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *ISA260 Report to those charged with governance*.

| VFM audit stage                   | Audit approach   |
|-----------------------------------|--|
| Delivery of local risk based work | <p>Depending on the nature of the residual audit risk identified, we will be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p> |
| Concluding on VFM arrangements    | <p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>  |
| Reporting                         | <p>We will report on the results of the VFM audit through our <i>ISA 260 Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p> <p>If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.</p>   |



Contact details for the audit team are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Tamas Wood  
**Director**

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Chief Executive.”



Richard Irish  
**Manager**

“I will direct and coordinate the audit and provide strategic direction to the audit team. I will work closely with Tamas to ensure we add value. I will be the main contact for the Chief Finance Officer and other Executive Directors. “



Jamie Schartner  
**Assistant  
Manager**

“I will be your day to day contact and responsible for the on-site delivery of our work. I will work closely with Richard and will supervise the work of our audit assistants to deliver a coordinated and efficient audit.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Authority's officers prior to publication.

| Deliverable   | Purpose   | Committee dates       |
|---|---|-----------------------|
| <b>Planning</b>   |   |                       |
| <b>Financial Statements Audit Plan</b>                          | <ul style="list-style-type: none"> <li>■ Outline audit approach.</li> <li>■ Identify areas of audit focus and planned procedures.</li> </ul>  | <b>March 2012</b>     |
| <b>Substantive procedures</b>                                   |   |                       |
| <b>Report to Those Charged with Governance (ISA 260 Report)</b> | <ul style="list-style-type: none"> <li>■ Details the resolution of key audit issues.</li> <li>■ Communication of adjusted and unadjusted audit differences.</li> <li>■ Performance improvement recommendations identified during our audit.</li> <li>■ Commentary on the Authority's value for money arrangements.</li> </ul> | <b>September 2012</b> |
| <b>Completion</b>   |   |                       |
| <b>Auditor's report</b>   | <ul style="list-style-type: none"> <li>■ Providing an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>                                   | <b>September 2012</b> |
| <b>Annual Audit Letter</b>                                      | <ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>  | <b>November 2012</b>  |

We will be in continuous dialogue with you throughout the audit.

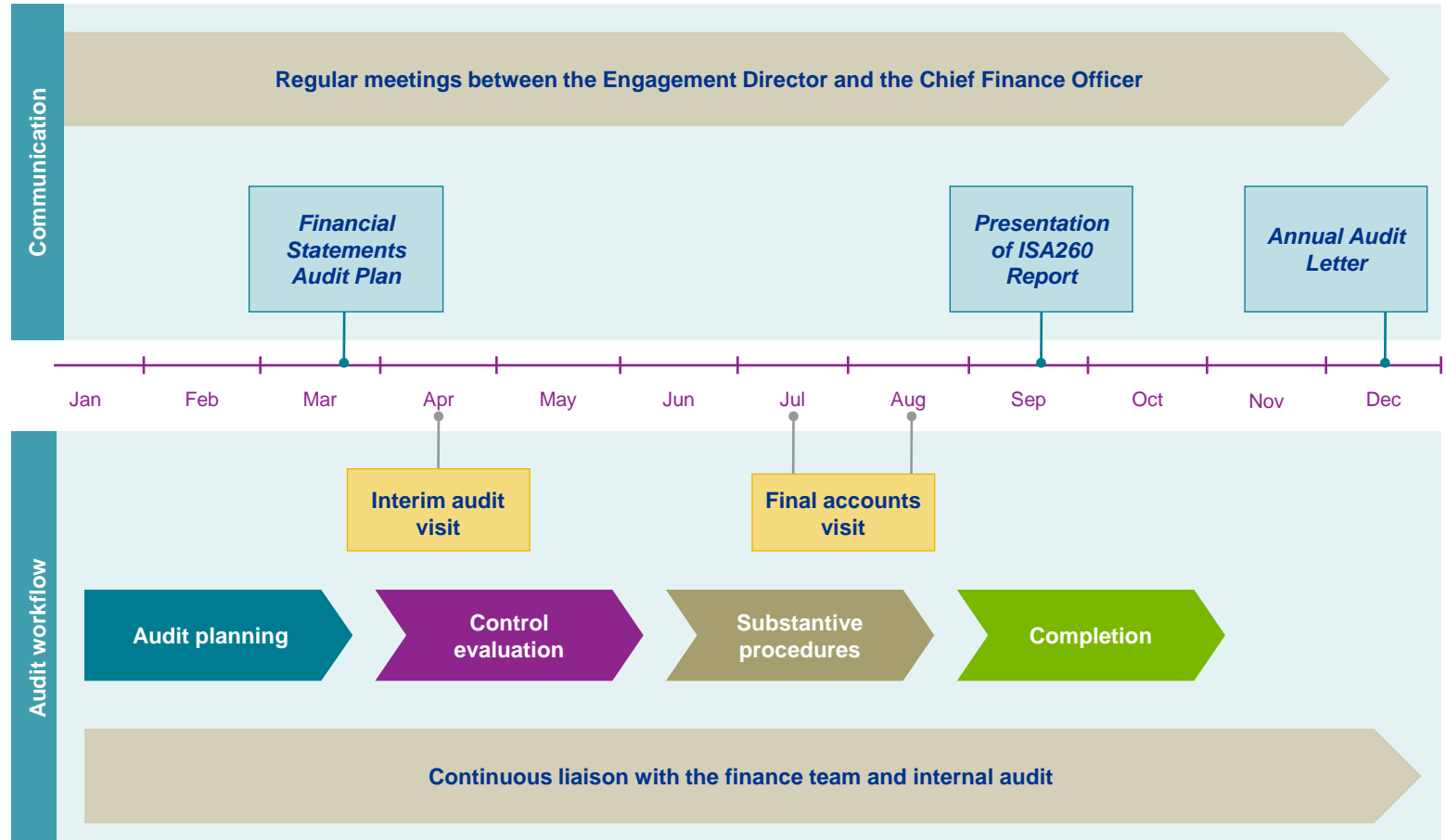
Key formal interactions with the Audit Committee are:

- March – Financial Statements Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during April.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The main fee for 2011/12 audit of the Authority is £105,450. The fee has not changed from that set out in our *Audit Fee Letter 2011/12* issued in March 2011.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

The fee for our grants work will be confirmed through our *summary report on the certification of grants and returns* which will be issued in February 2012.

#### Audit fee

Our *Audit Fee Letter 2011/12* presented to you in March 2011 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees.

| Element of the audit          | 2011/12<br>(planned) | 2010/11<br>(actual) |
|-------------------------------|----------------------|---------------------|
| Gross audit fee               | £105,450             | £114,915            |
| Less: Audit Commission rebate | -£8,436              | -£8,089             |
| <b>Total</b>                  | <b>£97,014</b>       | <b>£106,826</b>     |

The main fee for 2011/12 audit is £105,450, which includes our work on the VFM conclusion and our audit of the Authority's financial statements. The Audit Commission continues to issue rebates to local authorities and the rebate for 2011/12 is £8,436.

#### Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12* within your 2011/12 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority maintains an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

#### Changes to the audit plan

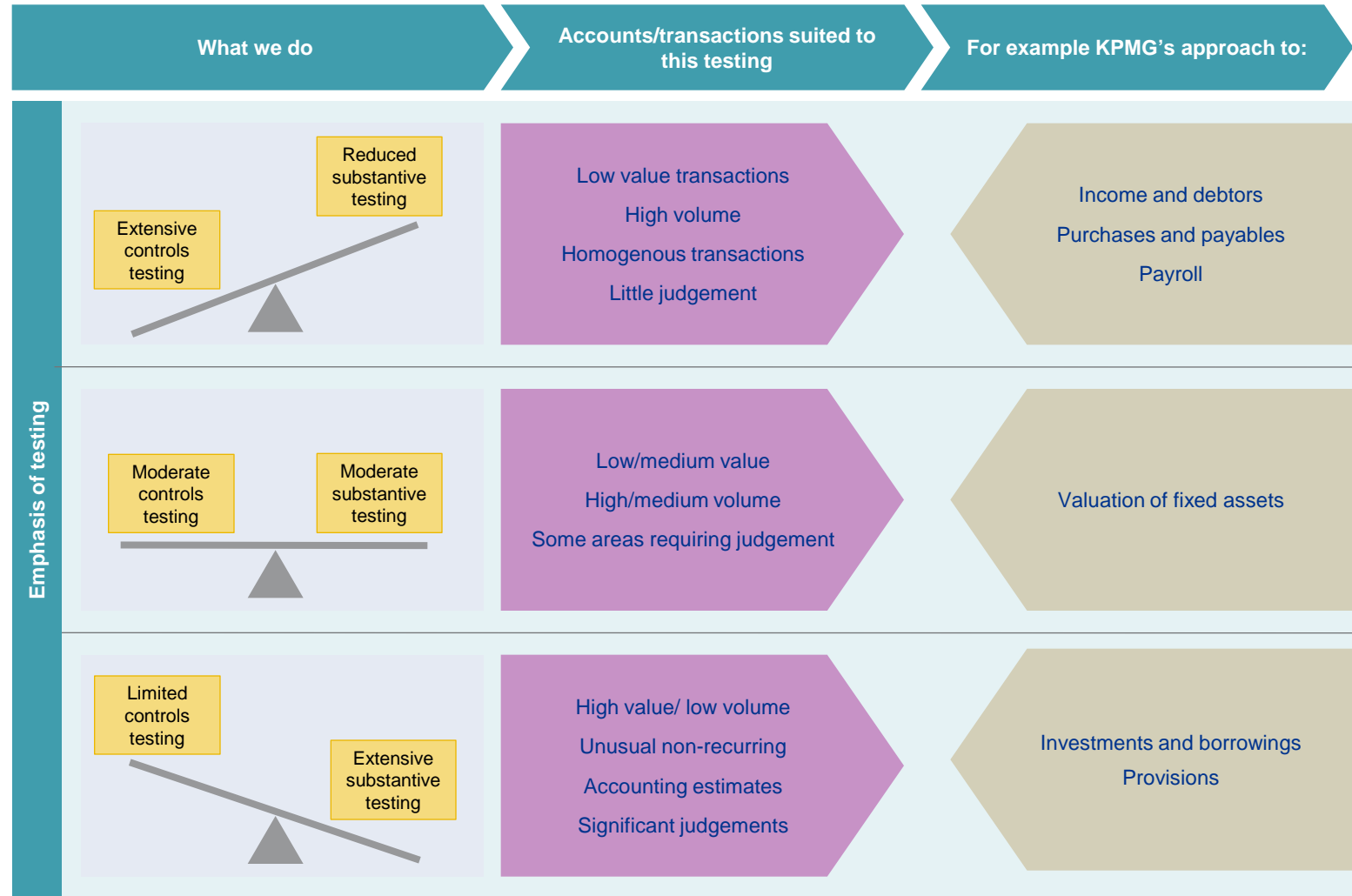
Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Chief Finance Officer.

# Appendix 1: Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

## Appendix 3: Quality assurance and technical capacity

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

The diagram summarises our approach and each level is expanded upon.

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

### Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year ([www.audit-commission.gov.uk/reports](http://www.audit-commission.gov.uk/reports)). The latest report dated October 2011 showed that we performed highly against all the Commission's criteria.



### Resolving accounting and financial reporting issues

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

When dealing with the Audit Commission, as you would expect, we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our local authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



*cutting through complexity™*

© 2012 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).





*cutting through complexity™*

# Certification of grants and returns 2010/11

Spelthorne Borough Council

February 2012

**The contacts at KPMG in connection with this report are:**

**Andy Sayers**

*Partner*

*KPMG LLP (UK)*

Tel: 020 7694 8981

[andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)

**Richard Irish**

*Manager*

*KPMG LLP (UK)*

Tel: 020 7694 8440

[richard.irish@kpmg.co.uk](mailto:richard.irish@kpmg.co.uk)

|   | <b>Page</b> |
|---|-------------|
| ■ Headlines                                       | 2           |
| ■ Summary of certification work outcomes and fees | 3           |

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, who is the engagement leader to the Authority (telephone 020 7694 8981, e-mail [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

|                                    |   |                      |
|------------------------------------|---|----------------------|
| <b>Introduction and background</b> | <p><b>This report summarises the results of work on the certification of the Council's 2010/11 grant claims and returns.</b></p> <ul style="list-style-type: none"> <li>■ For 2010/11 we certified:             <ul style="list-style-type: none"> <li>– 2 grant with a total value of £34.2m; and</li> <li>– 1 return with a total value of £37.7m.</li> </ul> </li> </ul> | <p>-</p>             |
| <b>Certification results</b>       | <p><b>We issued unqualified certificates for all grants and returns.</b></p> <ul style="list-style-type: none"> <li>■ This is consistent with 2009/10 when we also issued unqualified certificates for all grants and returns</li> </ul>  | <p><b>Page 3</b></p> |
| <b>Audit adjustments</b>           | <p><b>No adjustments were necessary to the Council's grants and returns as a result of our certification work this year.</b></p> <ul style="list-style-type: none"> <li>■ This compares favourably to 2009/10 when one adjustment was required to the National Non-Domestic Rates Return.</li> </ul>  | <p><b>Page 3</b></p> |
| <b>The Council's arrangements</b>  | <p><b>The Council has adequate arrangements for preparing its grants and returns and supporting our certification work.</b></p> <ul style="list-style-type: none"> <li>■ We have not identified any significant errors, systems issues or non-compliance with grant scheme requirements that need to be addressed.</li> </ul>   | <p><b>Page 3</b></p> |
| <b>Fees</b>                        | <p><b>Our overall fee for the certification of grants and returns was £19,209.</b></p> <ul style="list-style-type: none"> <li>■ Our fee in 2010/11 was £19,209. This compares to our estimated fee of £22,000 and represents a decrease from £21,883 in 2009/10.</li> </ul>   | <p><b>Page 3</b></p> |

Overall, we certified 3 grants and returns:

- All were unqualified with no amendment

Our overall fee for the certification of grants and returns has been contained within the original estimate.

Our fee in 2010/11 was £19,209. This compares to our estimated fee of £22,000.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2010/11 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

|  | Qualified certificate | Significant adjustment | Minor adjustment | Unqualified certificate |
|--|-----------------------|------------------------|------------------|-------------------------|
| Housing and Council Tax Benefits Subsidy Claim |                       |                        |                  | ●                       |
| National Non-Domestic Rates Return             |                       |                        |                  | ●                       |
| Disabled Facilities Grant Claim                |                       |                        |                  | ●                       |

### Breakdown of certification fees 2010/11

| Breakdown of fee by grant/return |               |               |
|----------------------------------|---------------|---------------|
|                                  | 2010/11 (£)   | 2009/10 (£)   |
| Housing and Council Tax Benefits | 15,942        | 18,498        |
| NNDR Return                      | 2,272         | 2,390         |
| Disabled Facilities Grant        | 995           | 995           |
| <b>Total fee</b>                 | <b>19,209</b> | <b>21,883</b> |

Our initial estimated fees for certifying 2010/11 grants and returns was £22,000. The actual fee charged was lower than that estimate.



*cutting through complexity™*

© 2012 KPMG Audit Plc, a UK public limited company, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).



**Corporate Risk Management**  
**Audit Committee: 29<sup>th</sup> March 2012**  
**Resolution required**  
**Report of the Assistant Chief Executive**  
**REPORT 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 Management Team (MAT) and the Audit Committee with an opportunity to review the Corporate Risk Register and note outstanding actions.

**Key Issues**

- The Corporate Risk Register has been reviewed and updated.
- Progress on outstanding actions has been documented on the register.
- Further actions have been proposed in the register to mitigate risks.

**Financial Implications**

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

**Corporate Priority** All corporate priorities.

**Officer Recommendations**

The Audit Committee is asked to note and accept the contents of the Corporate Risk Register.

**Report Author: Punita Talwar, Audit Team Leader, 01784 446454. Deanna Harris, Head of Audit Partnership, 01784 446207**

**Area of Responsibility: Terry Collier, Assistant Chief Executive, 01784 446296**  
**Cabinet member: Councillor Tim Evans**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 Risk management is frequently defined as "*The identification, analysis and economic control of all threats to the achievement of the organisation's strategies and operational activities*".

Spelthorne provides a wide range of services to residents, local workers and visitors. The nature of these services presents a significant potential for loss (both financial and otherwise), disruption, damage and injury.

Although some risks will always exist and can never be fully eliminated, the adoption of a structured approach to identify, manage, monitor and review risks offers many potential benefits. It will help the Council achieve its corporate objectives and enhance the value of services it provides.

The Council's Risk Management policy/strategy, flowchart of responsibilities and Corporate Risk Register can be found on Spelnet.

- 1.2 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 has revised the Corporate Risk Register (Appendix 1).
- 2.2 Progress on actions has been documented on the attached register (see control/action and progress columns). Progress has been made in the following areas:

- **Service Plans** for 2012/13 are being prepared to incorporate new corporate priorities.
- **Project management** is being relaunched across the authority. The project register and associated project documents are being reviewed, together with procedures and templates. Meetings with Project Managers and training sessions are to be held in due course.
- **IT Security** – The authority successfully passed the security requirements of the government Code of Connection (COCO) submission in December 2011. Steria were requested to complete dual factor authentication and encryption on all laptops by the end of February 2012.
- The **Emergency plan** (strategic approach) has been updated, to be approved by Management team. The plan considers lessons learnt from the borough emergency training/test exercise which took place on 13<sup>th</sup> Oct 2011. Other areas of emergency planning are underway.
- A risk assessment for **contaminated land** has been updated, and any issues arising from the government consultation exercise are being taken into account as the Environmental Health team update Spelthorne's contaminated land strategy.



- **Fraud awareness** training sessions are being held throughout March. Implications of the Bribery Act (July 2011) are being highlighted as part of the Fraud training.
- The Joint Heads of Housing and Independent Living continue to update MAT and Members of any key changes in government policy relating to **Housing Benefits** including new Council Tax discount proposals, and the implications this may have for the Service. Reports have also been issued outlining Housing Benefit staffing arrangements in the interim period before transfer to the Department for Work and Pensions (DWP).

2.3 The following areas have not been fully addressed:

- (a) Management team (MAT) should consider the adequacy of business continuity planning arrangements and whether there should be a more holistic approach to overall emergency planning activities. See part 5 of the Risk Register.
- (b) The Business Continuity Forum have not met since March 2011 and therefore have not evaluated responses from questionnaires issued in May 2011, in order to seek assurance that business continuity plans are fit for purpose and regularly tested. The 2012 action plan for the Business Continuity Forum is also outstanding. A meeting is scheduled in April for the Business Continuity forum to address these issues. A number of services have not submitted updated business continuity plans for 2011 and responses to questionnaires also remain outstanding for several areas. See part 5 of the Risk Register.
- (c) Actions aimed at further strengthening emergency planning arrangements have been considered by Management Team and the Emergency Planning Officer, but require implementation. See part 6 of the Risk Register.

2.4 Two new actions have been added to the register to mitigate risks as follows:

- (a) Contractor performance to be regularly monitored against expected outcomes as set out in the contract agreement and contract monitoring to be consistently evidenced for all contracts. Corporate Governance to arrange contract management training in due course. See part 10 of the risk register.
- (b) In the current climate, Management Team may wish to consider alternative ways to enhance staff morale across the authority. See part 18 of the risk register.

### 3. OPTIONS ANALYSIS

**Either:**

- 1 To note and accept the contents of the Corporate Risk Register including the new actions proposed to mitigate risks. 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. (**Preferred option**)

**Or:**

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

#### **4. PROPOSALS**

- 4.1 To agree option one (a) and (b) above. Please see reasons indicated.

#### **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.

#### **6.2 LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

- 6.3 Potential legal consequences should the risks identified not be addressed adequately. The purpose of the Risk Register is in part to avoid such consequences.

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

- 7.1 The risks and associated actions to mitigate risks are set out in the Risk Register.

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

- 8.1 The Corporate Risk Register shows officers responsible for progressing actions, together with timescales for implementation. The register is reviewed and updated quarterly by Audit Services.

**Report Author: Punita Talwar, Audit team Leader, 01784 446454. Deanna Harris, Head of Audit Partnership, 01784 446207**

**Background Papers: There are none.**

**SPELTHORNE BOROUGH COUNCIL  
CORPORATE RISK REGISTER – 2011/12 QUARTER 4**

The register summarises the high level risks faced by the Council in relation to achieving the objectives and priorities as defined in the Council's corporate plan. The register sets out the control procedures in place to mitigate these risks, and identifies any further action needed to manage these risks effectively. Actions are assigned to appropriate officers with target dates for implementation.

**Corporate Priority themes are referred to in the risk register. It is acknowledged that corporate priorities have been updated.**

**Level of risk: Likelihood vs. Impact on a scale of 1 (lowest) to 4 (highest)**

| <b>Risk Category</b>                             | <b>Risk/Consequences</b>   | <b>Corp Priority</b> | <b>Level Of Risk</b> | <b>Control / Action</b>   | <b>Owner-ship</b> | <b>Target Date</b> | <b>Progress</b>  |
|--|--|----------------------|----------------------|---|-------------------|--------------------|--|
| <b>1. Technology/ Infrastructure /Operations</b> | Failure to align service objectives to corporate aims            | All                  | 3                    | <b>Controls:</b><br>Service plans are derived from Community and Corporate Plans.<br><b>Actions: All Service Plans require updating annually and need to reflect corporate priorities. Plans for 2012/13 to incorporate new corporate priorities.</b>   | Service Heads     | June 2012          | <b>Some. March 2012: Service Plans for 2012/13 are being updated. Annual Service performance reviews to be completed by May 2012.</b>                  |
| <b>2. Technology/ Infrastructure /Operations</b> | Failure of projects due to poor project management arrangements. | All                  | 3                    | <b>Controls:</b><br>Project management principles and methodology agreed some years ago, although not consistently applied and scope for senior management to re launch on a corporate level. The Head of Customer Services has been assigned to take on a Project Management Co-ordinator role.<br><b>Actions: Review corporate reporting and management of projects; allocation of responsibilities and resources; corporate guidance; business case preparation and post implementation reviews.</b> | MAT/ Head of CS * | July 2012          | <b>Some. March 2012: The project register and associated project documents are being reviewed. Meetings are due to be held with Project Manager's.</b> |

| Risk Category                                    | Risk/Consequences  | Corp Priority | Level Of Risk | Control / Action  | Ownership               | Target Date | Progress  |
|--|--|---------------|---------------|---|-------------------------|-------------|---|
|  |  |               |               |   |                         |             | <i>Procedures and templates are being updated, followed by training for Members, Sponsors and Managers.</i> |
| <b>3. Technology/ Infrastructure /Operations</b> | 3i. Security breaches, system failure, loss of data  | All           | 3             | <b>Controls:</b><br>Back up and continuity arrangements managed by Steria and tested by Service Heads.<br>IT security policies. Personal Commitment statement required from all staff.<br>Contractual responsibilities of Steria.<br>IT security group assess ongoing risks.<br>IT disaster recovery test conducted June 2011.  | ACX (TC)/ Head of ICT * |             | Ongoing   |
|  | 3ii. Failure to meet the minimum security requirements of the Government Code of Connection resulting in termination of connection to any other government sites/data. | All           | 3             | <b>Controls:</b><br>COCO review group assess compliance with the Code of Connection<br>Successfully passed security requirements of the Government Code of Connection (COCO) in December 2011.<br>New firewall installed.<br>Additional security measures have been implemented, including encryption of most laptops, CD'S and memory sticks, (memory sticks banned until they are 'white-listed' as known devices on the network), and locking down universal serial bus (USB) ports. Steria have been requested to complete dual factor authentication and encryption on all laptops by the end of February 2012 (NOTE: Some officers participating in the remote working pilot are not set up with dual factor authentication. Steria will be addressing this and checking other areas across the authority). Penetration testing conducted annually, in accordance with COCO | ACX (TC)/ Head of ICT * |             | Ongoing   |

| Risk Category                                    | Risk/Consequences  | Corp Priority | Level Of Risk | Control / Action   | Ownership                                       | Target Date | Progress   |
|--|--|---------------|---------------|--|---|-------------|--|
|  |  |               |               | requirements. Latest exercise carried out in June 2011. New arrangements have been implemented for voluntary sector access.  |   |             |  |
| <b>4. Financial</b>                              | Poor return on long term investments /investments insecure in current climate.                                   | All           | 3             | <p><b>Controls:</b><br/>                     Treasury Management strategy approved by Members. Aim to select counter parties of the highest credit quality; credit ratings monitored closely.<br/>                     Council's investments managed internally in consultation with Arlingclose.<br/>                     Use Fitch ratings and criteria recommended by Arlingclose.<br/>                     Regular monitoring and reporting of investment portfolio and returns achieved.</p>  | ACX (TC)*                                       |             |  |
| <b>5. Technology/ Infrastructure /Operations</b> | Disaster in Council buildings / Lack of continuity planning within services and reliance on individuals/ systems | All           | 3             | <p><b>Controls:</b><br/>                     The Health and Safety Officer chairs the gold corporate Business Continuity group. The Gold corporate Business Continuity plan has been updated. An action Plan is in place for the Business Continuity Forum which is monitored. Although the Business Continuity forum has not met regularly during 2011, updates on business continuity planning have been provided to the Corporate Risk Management Group. The Health and Safety Officer is responsible for the coordination of business continuity plans. 12 out of 20 services submitted updated plans during 2011, but 8 remain outstanding. A Questionnaire has been issued to all Service Heads (May 2011) in order to seek assurance that plans are fit for purpose and being regularly tested, and returns are outstanding for 9 services.<br/>                     There are aspects of business continuity planning which overlap with emergency planning and this is being addressed by Management Team.<br/>                     New website developed to include information on conference calling and provide a single access point for storing information on business continuity planning.</p> | Service Heads/ MAT /Health and Safety Officer * | June 2012   | <p><b>Outstanding. March 2012: The Business Continuity Forum has not addressed action points (assessment of plans; action plan for 2012.) A meeting is scheduled in April for the Business Continuity forum to address these issues.</b></p> |

|                       |   |             |   |   |   |            |   |
|-----------------------|---|-------------|---|---|---|------------|---|
|                       |   |             |   | <p><b>Action: The Authority must ensure the plans are fully communicated, tested and updated regularly.</b></p> <p><b>Action Nov 2011: Management team (MAT) should consider the adequacy of business continuity planning arrangements and whether there should be a more holistic approach to overall emergency planning activities.</b></p>   | Service Heads/ MAT/ Health and Safety Officer * |            |   |
| <b>6. Environment</b> | Disaster- major in borough, e.g. pandemic influenza, resulting in inability to provide services | Environment | 4 | <p><b>Controls:</b><br/>Emergency Plan (strategic approach) has been updated. Borough Emergency centre plan (operational approach) written and approved by Management Team, setting out additional requirements for some staff. A borough emergency training/test exercise was carried out on 13<sup>th</sup> Oct 2011 and lessons learnt were fed into the revised Emergency Plan. The Emergency Planning Officer is training individual officers in new roles as part of the emergency response. Training relating to the Borough's emergency centre plan held and ongoing. Members of Management Team attended specialist gold training with Surrey Local Resilience Forum (Sept 2011), and Incident Management team training in November 2011. Emergency assistance centre work also underway with issues arising being reported to Management Team. Risk assessments completed and major incident flood plan submitted to Surrey Local Resilience forum. Advice and training provided by Surrey Local Resilience forum and the Primary Care Trust. Counter terrorism exercises and reservoir response planning currently underway. National emergency planning exercise attended.</p> <p><b>Action 2011: The Borough Emergency Plan (strategic approach) requires updating.</b></p> <p><b>Action Nov 2011: Actions aimed at further strengthening emergency planning arrangements have been considered by Management Team and the Emergency Planning Officer and require implementation. These</b></p> | ACX (LB)/ Head of S & L*                        | March 2012 | <p><b>Some. March 2012: The Emergency plan (strategic approach) has been updated and is due to be signed off by MAT. Awaiting updated multi agency numbers. Actions aimed at further strengthening emergency planning arrangements are outstanding.</b></p> |

|                       |   |             |   | <i>relate to reporting lines, roles and responsibilities, guidance, resilience, operational matters and business continuity.</i>   |           |  |         |
|-----------------------|---|-------------|---|--|-----------|--|---------|
| <b>7. Environment</b> | Uncertainty surrounding the financial /economic/other consequences of contaminated land | Environment | 4 | <p><b>Controls:</b><br/>                     Legal duty to inspect land and prioritise action<br/>                     Progress reports issued to Management Team and Cabinet outlining financial and other risks. Department for Environment, Food and Rural Affairs (DEFRA) review on statutory guidance.</p> <p>A separate risk assessment was updated in September 2011 which addresses contractual, financial/resources and legal/regulatory risks. The government consultation exercise has concluded and the circular reissued. The Environmental Health team are taking the new circular into account as they update the contaminated land implementation strategy. Any new issues/risks which are identified during this process will be addressed.</p> | ACX (LO)* |  | Ongoing |

|   |  |            |          |  |  |  |  |
|---|--|------------|----------|--|--|--|--|
| <p><b>8. Regulation/ Legal / Litigation</b></p> | <p>Health and Safety failing resulting in death or serious injuries to staff/public and legal action against the Council</p>   | <p>All</p> | <p>4</p> | <p><b>Controls:</b><br/>                 Managers responsible for conducting regular risk assessments<br/>                 Induction training for staff and policies clarify responsibilities<br/>                 Health and Safety Officer in post and reports relevant issues/legislation to Cabinet, Management Team, Corporate Risk Management Group (CRMG), all staff, e.g. Corporate Manslaughter Act and associated risks.<br/>                 Contract let to manage Legionella and progress reported to Asset Management Group (AMG) and Management Team as appropriate. Information held on the Council's SHE system for ongoing management by Health &amp; Safety Officer and Asset Management.<br/>                 Procedure document held clarifying health and safety responsibilities/ arrangements where the authority leases out assets.</p> | <p>MAT/<br/>Service Heads/<br/>Head of AM &amp; OS *</p> |  |  |
| <p><b>9. Regulation/ Legal / Litigation</b></p> | <p>Failure to comply with employment legislation or statutory duty leading to possible compensation (unlimited), damage to reputation, Legal costs and significant officer time.</p> | <p>All</p> | <p>3</p> | <p><b>Controls:</b><br/>                 Human Resources (HR) identify new employment legislation<br/>                 HR provide staff guidance on new/existing legislation and arrange training to ensure compliance, although the HR partnership with Runnymede has led to a reduction in professional HR support which could impact on the ability to identify and deal with employment law issues (see risk 10 below – partnerships).<br/>                 Clear documented processes exist for Recruitment and Selection, and Managers Briefings provide opportunity to promote corporate procedures.<br/>                 Equality and Diversity working group set up and training provided to all staff.</p>   | <p>MAT/<br/>Service Heads/<br/>Head of HR*</p>           |  |  |



|   |   |     |   |   |                               |             |          |
|---|---|-----|---|---|-------------------------------|-------------|----------|
| <p><b>10. Partner/ Contractor/ Commercial</b></p> | <p>Failure to obtain value for money (vfm) / lack of transparency in awarding contracts</p> <p>Contractual disputes and Potential claims through poor documentation.</p> <p>Officers may become complacent about contractors performance. Weak contract management resulting in Contractors/partners failing to deliver expected outcomes</p> <p>Weak partnership governance arrangements</p> | All | 3 | <p><b>Controls:</b><br/>                     Contract guidelines (simplified version of Contract Standing Orders in place with compliance checklist).<br/>                     Procurement guidance being updated, to be launched in 2012.<br/>                     E-tendering system to be re-launched in 2012.<br/>                     Legal team provide support on contract management as requested. Scope for Procurement and contract management training to be re-visited.<br/>                     Surrey First Initiative identified scope for procurement savings.<br/>                     Performance measures in place and contractual safeguards - Management responsibility.</p> <p><b>Action March 2012: Contractor performance to be regularly monitored against expected outcomes as set out in the contract agreement, and contract monitoring to be consistently evidenced for all contracts. Corporate Governance to arrange contract management training in due course.</b></p> | Service Heads/ MAT/ CM *      | August 2012 | Ongoing  |
|   | <p>Review of strategic and internal partnerships undertaken<br/>                     Partnership governance policy in place, and reminders issued to Service Heads on need to comply.<br/>                     Significant partnerships identified.<br/>                     Overview and scrutiny committee to periodically review partnerships.</p>   |     |   |   |                               |             |          |
|   | <p>Suppliers/ contractors go out of business, affecting the completion of contract works/service</p>  | All | 3 | <p><b>Controls:</b><br/>                     Financial Services monitor the financial media in relation to larger companies and critical commercial partners that the authority engages with.</p>   | Service Heads/ MAT/ ACX (TC)* |             | Ongoing. |

|                            |  |                                   |   |  |                           |  |         |
|----------------------------|--|-----------------------------------|---|--|---------------------------|--|---------|
|                            | delivery, and ability to pay business rates.   |                                   |   |  |                           |  |         |
| <b>11. Economic/Social</b> | Service planning difficulties due to changes in economic and social conditions beyond Council's control  | Environment /Economic Development | 3 | <p><b>Controls:</b><br/>                     Long term strategic planning<br/>                     Corporate and community plans linked to service plans<br/>                     Corporate priorities reviewed.</p>   | MAT                       |  | Ongoing |
| <b>12. Environment</b>     | Failure to deliver sustainable community strategy / deliver climate change strategy:<br>-Contravening legislation (Climate Change Act 2008)<br>-Poor resilience to climate change by services and community<br>-Services not adequately prepared for climate change, effecting service delivery. | Environment                       | 3 | <p><b>Controls:</b><br/>                     Sustainable Development strategy (SDS) and joint Climate change strategy. Action plans prepared assigning tasks and targets to named officers, with timescales for delivery. Surrey wide climate change projects being developed through the Surrey Climate Change Partnership (SCCP), to be assigned as and when appropriate.<br/>                     Environmental impact assessments completed.<br/>                     Climate change impact reports will be used to identify key risks.</p> <p>SDS Delivery Board set up to monitor the implementation of Sustainable Development strategy and related action plans including climate change measures. Meetings held every two months and minutes available.</p> <p>Sustainability issues incorporated into the Procurement strategy and training to be provided. Energy policy and Carbon Management plan in development.</p> | ACX (LB)/ Head of S & L * |  | Ongoing |

|   |   |     |   |   |  |  |         |
|---|---|-----|---|---|--|--|---------|
| <b>13. Financial</b>                            | Fraud / theft (income, assets, payments), resulting in financial losses and damage to reputation of authority.                                  | All | 3 | <p><b>Controls:</b> Corporate Policies in place to help create a culture of honesty and ethical behaviour such as Whistle blowing, Anti-fraud, Bribery and Corruption, employee Code of Conduct, gifts and hospitality, Register of Interest. Staff to be reminded about governance policies as part of the annual appraisal process. Fraud awareness training being rolled out currently. Implications of Bribery Act (July 2011) being considered (also addressed in Fraud training).<br/>Service risk assessments outlining control procedures and arrangements in place to prevent the risk of fraud or help detect it.<br/>Key controls include compliance with policies and procedures such as Financial Regulations and Contract Standing Orders (CSO'S), management checks, segregation of duties, reconciliation processes for financial systems, good IT Security measures.</p> | Service Heads/<br>MAT                            |  | Ongoing |
|   | In current economic climate, increased risk that individuals will be tempted to perpetrate fraud.   |     |   |   |  |  |         |
| <b>14. Technology/Infrastructure/Operations</b> | Failure in service delivery due to over reliance on individuals eg Housing Options, Revenue and Benefit system administrator roles.             | All | 3 | <p><b>Controls:</b> Resilience and back up arrangements within Housing Benefits, Revenues and Customer Services, and Housing Options have been considered and addressed.</p>  | ACX (TC)/<br>ACX (LB)/<br>Joint Heads of H & IL* |  | Ongoing |
|   | Failure in service delivery due to reduced capacity and demands from the community Increased risk of delay, errors or stress.<br>Organisational |     |   | <p>Short term reductions in capacity due to increasing demand from the community or short term absence of staff on leave or sickness are accommodated by careful prioritisation and reallocating work among staff.<br/>Longer term impacts and changes to demand may be more difficult to address and a fundamental review of arrangements may be required to align staff resources to the work required. System redesign may be possible to help match resources to the level of work<br/>In some circumstances it is necessary to supplement staffing</p>   | Service Heads/<br>MAT                            |  |         |

|  |   |     |   |   |                             |            |   |
|--|---|-----|---|---|-----------------------------|------------|---|
|  | impact (and impact on individuals) arising from the significant level of change at senior management level. Poor motivation and morale.   |     |   | levels with additional temporary or permanent resource. Resources need to be diverted to implementing new systems or introduce ways of working<br>Plans are in place to deal with the reallocation of responsibilities following the senior staff reductions that took place at the end of 2011.  |                             |            |   |
| <b>15. Regulation/ Legal/ Litigation</b> | Failure by County to address Spelthorne referrals relating to vulnerable children.  | All | 3 | <b>Controls:</b> The Council has policy/procedures in place and all relevant staff have been trained. A meeting has been held between the Assistant Chief Executive (Liz Borthwick) and Surrey County Council (SCC) to discuss this issue, and the Leader has also met with the Chief Executive (SCC). The Housing Options Manager regularly monitors cases/referrals and reports any outstanding issues to SCC. Any concerns are brought to the attention of the Service Head. Regular meetings with SCC and joint training provided.  | ACX (LB)/ LSM*              |            | Ongoing   |
| <b>16. Financial</b>                     | Pressures on Housing Service as a result of changes in government policy to restrict housing benefit and general economic climate. Changes announced relating to the future administration of | All | 3 | <b>Controls:</b> Service Heads/ MAT/Members aware of possible risks. Internal structures being reviewed.<br><br><b>Action: Service Heads/MAT to monitor, evaluate performance and recommend changes in staffing requirements as appropriate.</b><br><br><b>Action: In light of the future transfer of Housing Benefit administration to the Department for Work and Pensions (DWP), as well as planned retirements within the service, the joint Heads of Housing Options and Independent Living to ensure adequate arrangements are in place for staff resilience within the interim period. It is acknowledged that there is still uncertainty as to future government plans.</b> | MAT/ Joint Heads of H & IL* | March 2012 | <b>Ongoing</b><br><b>March 2012: Heads of Service update MAT and Members periodically on changes in government policy and implications for Service.</b> |

|   |   |     |   |  |                          |              |          |
|---|---|-----|---|--|--------------------------|--------------|----------|
|   | Housing Benefit may lead to staff seeking alternative jobs.   |     |   |  |                          |              |          |
| <b>17. Financial</b>                                    | Reduction in service delivery and possible loss of internal control as a result of savings required to balance budget   | All | 3 | <p><b>Controls:</b><br/>Management is responsible for maintaining key internal controls regardless of resource levels.<br/>Any savings offered will be accompanied with summary of any associated risks.</p>   | MAT/<br>Service<br>Heads |              | Ongoing. |
| <b>18. Organisati on/<br/>Management/<br/>Personnel</b> | Poor morale and motivation as a result of organisational changes, uncertainty about the future, nil pay increases etc. This could lead to reduced performance levels. | All | 3 | <p><b>Controls:</b> Change Management, clear communications, formal performance management system being set up, appraisals, one to one's, team meetings, performance clinics.</p> <p><b>Action March 2012: In the current climate, Management Team may wish to consider alternative ways to enhance staff morale across the authority.</b></p> | MAT/<br>Service<br>Heads | June<br>2012 | Ongoing. |

**\*KEY TO OFFICERS**

Head of CS - Head of Customer Services, Linda Norman

Head of ICT – Helen Dunn

ACX (TC) – Terry Collier

Health and Safety Officer – Stuart Mann

ACX (LB) – Liz Borthwick

Head of S & L – Head of Sustainability and Leisure Services, Sandy Muirhead

ACX (LO) – Lee O’Neil

Head of AM & OS – Head of Asset Management and Office Services, Dave Phillips

Head of HR – Head of Human Resources, Jan Hunt

CM- Contract Managers

Joint Heads of H & IL – Joint Heads of Housing and Independent Living , Deborah Ashman and Karen Sinclair

LSM - Leisure Services Manager, Lisa Stonehouse

***Reviewed March 2012***

***Punita Talwar, Audit Team Leader, Audit Services.***

## **AUDIT SERVICES – ANNUAL PLAN 2012/13**

**Audit Committee: 29 March 2012**

**Report of the Head of Audit Services**

### **Report Summary**

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

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

#### **Purpose of Report**

This report summarises the work planned by Audit Services during 2012/13.

#### **Key Issues**

Details of planned audit work for 2012/13 is attached (Appendix 1).

#### **Financial Implications**

None

#### **Corporate Priority**

The work of Audit Services supports all corporate priorities.

#### **Officer Recommendations**

**The Audit Committee is asked to note the work plan (2012/13) for Audit Services.**

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

**Portfolio Holder: Councillor Tim Evans**

## MAIN REPORT

### 1. BACKGROUND

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

### 2. KEY ISSUES

- 2.1 A copy of the Annual Audit Plan Summary (2012/13) is attached (Appendix 1).
- 2.2 The document shows the scope of internal audit work and specific work planned in the following areas:
  - Assurance - Internal Audit is required to provide assurance that the Council's risks and controls are being effectively managed
  - Financial System and ICT audits – including 'managed audit' work undertaken for external audit
  - Corporate Work
  - Advice
  - Contingency - Approximately 30% of available time is set aside for contingency which is allocated to special investigations and other unplanned work as it arises.

In addition to the audit projects identified, assistance will be given with a number of corporate issues such as information security, project management, partnership development, Corporate Governance and corporate fraud awareness. The Internal Audit Service is also responsible for co-ordinating the Council's corporate risk management arrangements.

- 2.3 The internal audit team works in partnership with Elmbridge and Woking Borough Councils. Some of the work will be delivered jointly by auditors employed by those authorities.



**3. OPTIONS ANALYSIS**

None

**4. PROPOSALS**

None

**5. BENEFITS AND SUSTAINABILITY**

N/A

**6. FINANCIAL IMPLICATIONS**

None

**7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

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

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

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

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

**Background Papers:  
There are none**



## SPELTHORNE AUDIT SERVICES

### ANNUAL AUDIT PLAN SUMMARY – 2012/13

#### 1. Scope of Audit Work

##### 1.1 1. Assurance Work

Internal Audit provides independent **assurance** that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.

Internal Audit uses a risk-based approach to identify and assess controls which mitigate significant risks. Audit risk assessments are also used to determine the nature and level of testing required in each service, system or project under review.

Scope: **All Services and corporate systems.**

Audit Objectives: Audit risk assessments will be updated as necessary in each service area. Emphasis will be placed on significant risks identified by services, special projects/new legislation/systems, value for money and fraud related risks.  
Key controls will be tested as identified by the risk assessment.  
Previous recommendations will be followed up.

Internal Audit will also specifically review the following areas:

- The Council's key projects – including implementation of the new ICT management arrangements, web project, implementation of Sharepoint, HR/Payroll system, Laleham Park project, Older Persons Review and Knowle Green refurbishment.
- Corporate Risks – including business continuity, health and safety, data security and emergency planning.
- Corporate Systems - including information management and procurement.
- Various other matters – including housing tenancy fraud, localism of business rates, Welfare Reforms, new council tax benefit arrangements, New Homes Bonus, Community Infrastructure Levy, new parking contract/arrangements, Surrey Waste Partnership and social media.

2. **Financial Systems and ICT**

Internal Audit reviews and tests all key financial systems and ICT general controls. External Audit places reliance on this work which reduces the risk of duplication, improves the effectiveness of the overall auditing process and minimises the External Audit fee.

**Scope/Systems**

**to be audited:** Main Accounting, Creditors, Debtors, Cash and Bank, Payroll, Housing Benefits, Council Tax, NNDR, Capital Accounting/Asset Register, Treasury Management and ICT.

**Audit Objectives:** Systems will be tested including any external audit requirements.  
Previous Internal Audit recommendations will be followed up and outstanding issues reported.

3. **Advice**

Internal Audit provides advice on financial procedures, compliance with Contract Standing Orders, Financial Regulations and other governance arrangements, and advice that may be required on an ad hoc basis.

4 **Contingency**

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

5 **Corporate Work**

Internal Audit provides assistance with corporate issues.

**Services to be audited:**

All/Corporate

**Audit Objectives:** Assistance/advice on the following corporate matters:

- Information Governance and Security
- Corporate Governance
- Annual Governance Statement
- Corporate Risk Management
- Fraud Awareness training
- Review of Anti-Fraud, Bribery & Corruption & Confidential Reporting Policies

Deanna Harris  
Head of Internal Audit Partnership  
February 2012

**WORK PROGRAMME 2012 – 2013****AUDIT COMMITTEE - 29 MARCH 2012****Resolution Required****1. Work Programme**

- 1.1 This report covers the Work Programme for the 2012/13 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 This is the last meeting of the Committee scheduled for the municipal year 2011/12.
- 2.2 Meetings of this Committee have been scheduled in the Council's Diary for 2012 -13 on the following dates:-
- 20 September 2012
  - 6 December 2012
  - 21 March 2013
- 2.3 The Chairman has agreed to schedule an additional meeting of the Committee on 3 May 2012 to consider a report on proposals for dealing with the provisions of the Localism Act in relation to standards.
- 2.4 A further date had been scheduled in the diary for a meeting of the Committee on 21 June 2012, but the Chairman has agreed to consider the items that would have gone to this meeting at the September meeting instead. Consequently, the June meeting date has been cancelled.
- 2.5 Details of the Work Programme for the September 2012 meeting are as follows:

| September 2012   |  |                                |
|--|--|--------------------------------|
| External Audit report on Audit and Statement of Accounts | External Audit   | Report                         |
| Corporate Risk Register                                  | Head of Audit Services   | Review                         |
| Corporate Risk Register                                  | Head of Service - as appropriate                               | Updates on target dates missed |
| Audit Services Annual Report                             | Head of Audit Services   | Report                         |
| Annual Review of Internal Audit                          | Head of Audit Services   | Report                         |
| Anti-Fraud, Bribery and Corruption Policy                | Head of Audit Services   | Report                         |
| Annual Governance Statement                              | Chief Finance Officer  | Report                         |
| Committee's Work programme for 2012/2013                 | Head of Audit Services/ Chief Finance Officer /Audit Committee | Report                         |

- 2.6 Any topics identified during consideration of the business at this meeting, will need to be included in the above Work Programme.
- 2.7 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.
- 2.8 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.
- 2.9 Managers may be required to attend the Committee, similarly to that resolved in Minute No. 227/06, to explain why they have not implemented the recommendations of the Head of Audit Services. It is not possible to predict these circumstances but they will be dealt with as and when they arise either by incorporating into the Work Programme or appearing on the agenda as appropriate.

### **3. Resolution**

The 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) 444243**