

*Please reply to:*

Contact: Sam Nicholls  
Service: Corporate Governance  
Direct line: 01784 446240  
E-mail: s.nicholls@spelthorne.gov.uk  
Date: 19 June 2013

## **Notice of meeting**

### **Audit Committee**

**Date:** Thursday 27 June 2013

**Time:** 7.30 pm

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

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

Councillors:

D. Gohil (Chairman)	M.J. Madams (Vice-Chairman)	C.V. Strong
J. Dale	D. Patel	
A.C. Harman	A.C. Patterson	

## *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 23 May 2013 (copy attached). 1

## **3. Disclosures of Interest**

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

## **4. Corporate Risk Management**

To receive a report from the Assistant Chief Executive (copy attached). 2 - 17

## **5. Internal Audit Annual Plan 2013/14**

To receive a report from the Head of Audit Services (copy attached). 18 - 28

## **6. Internal Audit Charter**

To receive a report from the Head of Audit Services (copy attached). 29 - 36

## **7. Committee Work Programme 2013/14**

The Committee is requested to consider and approve its work programme for the Municipal Year 2013/14 (copy attached). 37 - 38



**Minutes of the Audit Committee  
23 May 2013**

**Present:**

Councillors:

J.A. Dale	M.J. Madams
D. Gohil	D. Patel
A.C. Harman	A. Patterson

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

**140/13 Appointment of Chairman**

**RESOLVED** that Councillor D. Gohil be appointed Chairman of the Audit Committee for the Municipal Year 2013/2014.

**141/13 Minutes**

The minutes of the meeting held on 21 March 2013 were approved as a correct record.

**142/13 Appointment of Vice-Chairman**

**RESOLVED** that Councillor M.J. Madams be appointed Vice-Chairman of the Audit Committee for the Municipal Year 2013/2014.



# Audit Committee

27 June 2013



Title	Corporate Risk Management		
Purpose	For Information		
Report of	Assistant Chief Executive	Confidential	No
Cabinet Member	Councillor Tim Evans	Key Decision	No
Report Author	Punita Talwar, Audit Manager		
Summary	<p>This report provides Management Team (MAT) and the Audit Committee with an opportunity to review the Corporate Risk Register and note outstanding actions.</p> <p>There are three key issues highlighted in this report:</p> <ul style="list-style-type: none"> <li>• The Corporate Risk Register has been reviewed and updated</li> <li>• Progress on outstanding actions has been documented on the register and a RAG (Red/Amber/Green) status has been assigned to each category to indicate whether actions are outstanding, partially actioned or complete/ongoing.</li> <li>• Three new actions have been added to the register relating to: <ul style="list-style-type: none"> <li>○ Review of Contaminated Land strategy</li> <li>○ Assessment of savings/benefits realisation from long standing projects.</li> <li>○ Agreement of formal timescales for launching staff survey</li> </ul> </li> </ul>		
Financial Implications	Staff time to implement proposed actions (contained within existing budgets).		
Corporate Priority	This item is not in the list of Corporate Priorities		
Recommendations	<b>That the Committee notes the report.</b>		

## 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, businesses 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 consider new risks and actions added.

### 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 action and progress columns). A red, amber and green (RAG) rating has been assigned to each risk category to highlight the level of progress made on actions previously recommended (please refer to key on risk register at Appendix 1). The target date column now incorporates the original target date for the assigned action, as well as the current target date, to facilitate monitoring.

Progress has been made in the following areas, which have been assigned either an amber (partially actioned) or green (completed/ongoing) RAG rating:

- Incident management training for **Emergency Planning** was delivered in April and a telecommunications degradation exercise took place in May.
- The Chief Finance Officer has assessed the impact of the new **Business Rate** arrangements on the Council's finances, and Officers are reviewing collection performance for business rates.

- A draft **economic assessment** has been produced and the Council is engaged in a consultation process with local businesses and other stakeholders to inform the production of an economic strategy.
- **Safeguarding** policies have been updated and reported to Management team, although feedback is still outstanding from Surrey County Council regarding the children's policy. Revised policies and procedures have been launched to all staff and training provided.
- Discussions have taken place with A2Dominion regarding proactive measures to reduce **housing tenancy fraud** and potentially free up more properties.
- **Contaminated Land** - The critical review of the Denman Drive site investigation identified areas where some general improvements to processes could be achieved.
- **Service Plans** have been updated to reflect new Council priorities and the new financial year (2013/14). Once Cabinet have approved the draft plans, final plans can be made available.
- **Project management** - The Sustainability and Open Spaces Manager has been seconded to Asset Management for a two year period to help deliver asset related projects. Certain projects are being reviewed by the relevant internal boards to ensure their continuing viability when compared to the original business case.
- The **Information Governance Group** are developing an action plan to ensure information assets are identified and managed. The Head of Corporate Governance is due to prepare a report for Management team outlining future options.
- **IT Security** –An internal health check has taken place and ICT are addressing any issues. The health check is due to be submitted as part of the Government Code of Connection (COCO) assessment.
- Business Impact Assessments are underway with all service areas. The Managers briefing in May focused on **business continuity**, to be followed by a workshop to test current arrangements.
- **Staff Morale** - Following the Investors in People (IIP) assessment and Spelthorne's re-accreditation, an action planning workshop is due to be held and it is anticipated that the Staff Survey will be progressed thereafter.
- Discussions have taken place about strengthening arrangements in place for **procurement** and developing closer links with project management. The Head of Corporate Governance has issued a paper to Management team setting out options. The Principal Solicitor will be relaunching the contract register at a future Managers Briefing, as well as reminding officers of the need to monitor contracts and comply with contract standing orders. The Surrey County Council parking agreement continues to be monitored by Financial Services.
- The Joint Heads of Housing and Independent Living continue to update Management Team, Service Heads and Members on forthcoming **welfare reforms** including implications for Services and community.
- **Council Tax Support Scheme** –collection of relatively small council tax debts from customers who previously paid nothing has now commenced and the Head of Customer Services is considering how to use existing resources to target recovery. This is due to be reported to Management team in June 2013.

- The authority also faces some financial challenges associated with the introduction of Universal Credit including loss of the **Housing Benefit subsidy** and uncertainty over the recovery of Housing Benefit **overpayments** (current debt of £1.26m). The implications of proposals to transfer Housing Benefit fraud investigation resources to a centralised government team (Single Fraud Investigation Service/SFIS) together with the need to retain resources to investigate Council Tax Support Scheme fraud and other potential fraud areas is also under consideration.

2.3 Whilst the following areas have been assigned an amber RAG rating, we wish to bring them to the attention of Management team and the Audit Committee:

- (i) The authority's Insurers issued several recommendations in July 2012 following a review of some of the Council's high risk activities, which were agreed by Management team. It is acknowledged that some positive actions have been taken to ensure compliance with legal requirements for the removal and transport of fly tipped asbestos, (staff training, certification records, protective covering) and also a system has been set up to periodically review Contractors involved in high risk activities such as legionella and asbestos. One recommendation remains outstanding relating to setting up a robust **inspection regime** for all our parks and open spaces. Inspections should be evidenced and records held to cover quality issues noted, health and safety and any resulting action taken.
- (ii) A number of Service **Performance Reviews** are outstanding and being pursued by the Assistant Chief Executive, Lee O'Neil.
- (iii) **Procurement** guidance requires updating to incorporate key learning points from recent **contract management** training as well as legislative changes. The Head of Corporate Governance has indicated this will be reviewed once the contract register has been relaunched and training delivered.
- (iv) Whilst the **electronic tendering system** is being developed and used within the Legal team, there are no imminent plans to roll out this system across the authority, which would help to ensure proper governance arrangements are in place relating to the award of contracts. Instead, the system may possibly be used by officers as procurement opportunities arise and particular contracts require tendering. Current limited use of this software does not represent value for money for the authority.

2.4 Three new actions have been added to the Risk Register in order to mitigate associated risks as far as possible. These are set out below:

- (a) The Contaminated Land Implementation strategy requires review and updating as appropriate.

- (b) Project Boards and Management team to assess whether the anticipated savings/benefits are being realised from some of the long standing projects. Some examples of long standing projects include the Customer Relationship Management system, the i-trent HR and Payroll system, and Agile working.
- (c) The increased potential risk of reduced staff morale has been highlighted at prior reviews, and the continuation of good management practices recognised. Whilst reference has been made to carrying out a Spelthorne staff survey in due course, it would be useful to put some firmer timescales in place for this action.

### 3. Options analysis and proposal

Either:

- i. To note and accept the contents of the Corporate Risk Register. 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:**

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

### 4. Financial implications

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

### 5. Other considerations

- 5.1 The Corporate Risk Register covers a wide range of risk categories such as technology/infrastructure/operations, financial, environmental, legal, contractual, economic/social, and personnel. Proposals set out in the Corporate Risk Register should improve overall risk management arrangements across the Authority, which supports all corporate priorities.
- 5.2 There are potential legal consequences should the risks identified not be addressed adequately. The purpose of the Risk Register is in part to avoid such consequences.

### 6. Risks and how they will be mitigated

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

### 7. Timetable for implementation

- 7.1 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.

**Background papers:** There are none.

**Appendices: Appendix 1 – Corporate Risk Register**

Appendix 1

**SPELTHORNE BOROUGH COUNCIL  
CORPORATE RISK REGISTER – 2013/14 QUARTER 1**

The register summarises the high level risks faced by the Council in relation to achieving the objectives and priorities as set out 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.

Reviewed by Audit Services, May 2013

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

RAG	RISK / CONSEQUENCES	LEVEL OF RISK	CONTROLS	ACTIONS	OWNER SHIP	FIRST ACTION DATE	TARGET DATES	PROGRESS
	1. Health and Safety failing resulting in death or serious injuries to staff/public and legal action against the Council	4	Policies and SHE (Safety Health and Environment) system in place for on-going management. Managers conduct regular risk assessments. Induction training for staff. Health and Safety Officer reports relevant issues/legislation to Members and officers. Contracts let to manage Legionella and asbestos. Procedure document held clarifying health and safety responsibilities/ arrangements where the authority leases out assets. Management team requested progress reports on the implementation of recommendations from the Insurance Review from April 2013. Whilst most actions have been implemented, the setting up of a robust inspection regime for parks and open spaces remains outstanding.	<b>Outstanding actions from the Insurance review of July 2012 to be addressed by Management Team. This will be monitored quarterly through the Corporate Risk Management Group.</b>	MAT	Mar-13	* O = May 2013 * C = July 2013	<b>Partially actioned/On-going. May 2013:</b> It is acknowledged that some positive actions have been taken to ensure compliance with legal requirements for the removal and transport of fly tipped asbestos, (staff training, protective covering ) and also a system has been set up to periodically review Contractors involved in high risk activities such as legionella and asbestos. . One recommendation does however remain outstanding, relating to setting up a robust inspection regime for all our parks and open spaces.
	2. Uncertainty surrounding the financial /economic/other consequences of contaminated land	4	Legal duty to inspect land and prioritise action. 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. A separate risk assessment addresses contractual, financial/resources and legal/regulatory risks, and this is reviewed annually. The Environmental Health team are taking the new government circular into account as they update the contaminated land implementation strategy. Consideration being given to providing Surrey Heath's contaminated Land Service.	<b>Contaminated Land Implementation Strategy to be reviewed and updated.</b>	ACX (LO)*	May-13	August 2013	<b>Partially actioned/On-going. May 2013:</b> The critical review of the Denman Drive site investigation identified some areas where some general improvements to process could be achieved. These improvements will be actioned at the start of any new Part 2a contaminated land site investigation. No such site investigation is currently being planned as the resources of the Pollution Control team are currently being directed towards other related work. The review of the Contaminated Land site inspection strategy is progressing. The 1st draft of the reviewed strategy has been completed and is in the process of being edited. After this it will go out for consultation, including to statutory consultees.

	3. Disaster- major in borough, e.g. flooding, resulting in significant strain on council services (eg homelessness). Risk of widespread disruption due to fuel shortages.	4	Emergency Plan. Membership and involvement in Local Resilience Forum. Regular testing of Emergency Assistance Centre plan. Yearly Borough Emergency Centre Plans. Incident management training and exercising. Aim to run a large flood based exercise this year (2013), which will involve the Environment Agency, Runnymede and Elmbridge . Rest centre exercise scheduled for June.	None.	ACX (LB)/Head of S & L/RRO*	N/A	Ongoing	<b>Actioned/Ongoing. May 2013:</b> Overview and Scrutiny Committee praised the response to the 2012 winter floods, although it was recognised that a policy on staff remuneration is required which is being considered. Incident Management Team training delivered in April 2013. A telecommunications degradation exercise is taking place over May 2013 with all key partners in Surrey.
	4. Failure to manage corporate and service performance (Performance Management)	3	The Corporate Plan sets out targets for the authority which will be monitored by Members and Management Team. Service performance (standard and targets) will be monitored by Management Team. Requirement for quarterly updates on performance from 2013/14, as well as annual performance review. Timetable in place. Individual performance is monitored through the appraisal process. Flagship project performance is reported to Management Team and Members.	<b>A new Performance Review template has been developed for each service and needs to be fully implemented.</b>	MAT	Mar-13	*O = June 2013. * C = July 2013	<b>Partially actioned/Ongoing. May 2013:</b> A number of Performance Reviews are outstanding and being pursued by the ACX, Lee O'Neil.
	5. Failure to align service objectives to corporate aims / Failure to deliver services effectively due to poor service planning	3	Service plans are derived from the Council's Corporate Plan and statutory/other responsibilities relating to the service. Plans incorporate issues relating to resources, risks, workforce, significant projects and any relevant performance indicators. Annual service planning and performance review process with timetable.	<b>All Service Plans require updating to reflect:</b> • <b>New Corporate Priorities</b> • <b>The new financial year including revised budgets, projects/systems/legislation/risks in 2013/14</b>	Service Heads	Nov-12	*O = February 2013 *C = July 2013	<b>Partially actioned/Ongoing. May 2013:</b> Service plans have been updated to reflect new corporate priorities. Awaiting comments from Cabinet on draft plans, after which final plans will be made available to other Members and the public.
	6. Failure of projects due to poor project management arrangements. Lack of resource and expertise to deliver and coordinate asset related/other projects.	3	Project management principles and methodology recently re-launched by the Head of Customer Services. Recent strengthening of project management support. A Corporate Project Manager has been appointed, whose role is to oversee the monitoring of the flagship projects (quarterly dashboard reporting in place), provide support and guidance to project managers, provide support for some asset related projects, as well as delivering some of the Council's key flagship projects. Additional post also appointed to support the Corporate Project team.	<b>1. Asset Management is a corporate priority and many of the Council's projects are asset related – this area will need to</b> <b>2. Project Boards and MAT to assess whether the anticipated savings/benefits are being realised from some of the long standing projects.</b>	MAT MAT/Head of CS *	Nov-13 May-13	*O = January 2013 *C = July 2013	<b>Partially actioned/Ongoing: May 2013:</b> The Sustainability and Open Spaces Manager has been seconded to Asset Management for a two year period to help deliver asset related projects. Certain projects are being reviewed by the relevant internal boards to ensure the continuing viability of the project when compared to the original business case. Some examples of long standing projects include the Customer Relationship Management system (CRM), the i-trent HR and Payroll system, and Agile working.
	7. Security / data breaches, resulting in system failure, Information Commissioner fines and reputational damage.	3	ICT Service now in-house with effect from January 2013. Back up and continuity arrangements managed by IT and tested by Service Heads. ICT security policies. Personal Commitment statement required from all staff. ICT security group assess ongoing risks. ICT disaster recovery test satisfactorily conducted June 2012 and 2013 exercise being arranged.	<b>Information Governance Group developing action plan to ensure information assets are identified and managed.</b>	Head of CG *	Mar-13	*O = June 2013. *C = August 2013	<b>Partially actioned/Ongoing. May 2013:</b> The Head of Corporate Governance is due to prepare a report for Management team outlining future options.

	<p>8. Failure to meet the minimum security requirements of the Government Code of Connection resulting in termination of connection to any other government sites/data.</p>	<p>3</p>	<p>A review group assesses compliance with the Government Code of Connection (COCO). Resubmitted annual Government Code of Connection (COCO) assessment in December 2012 and awaiting confirmation that COCO requirements passed (pending submission of health check – see below). New firewall installed. Additional security measures have been implemented, including encryption of 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. ICT Service has completed dual factor authentication on all laptops and replaced old laptops. The Firewall review and external penetration test took place in December and relevant action taken. The internal health check has taken place and ICT are addressing any issues.</p>	<p><b>The internal health check is due to be submitted as part of the annual Government Code of Connection (COCO) assessment.</b></p>	<p>Head of ICT *</p>	<p>May-13</p>	<p>* C = June 2013.</p>	<p><b>Partially actioned/Ongoing. May 2013.</b></p>
	<p>9. Disaster in Council buildings / Lack of continuity planning within services and reliance on individuals/ systems. Security incident at the council offices resulting in disruption to service.</p>	<p>3</p>	<p>A Business Continuity Policy (high level corporate approach) has been approved by Management Team. A corporate plan should describe the corporate management of a disruptive incident, and this will be developed through the Business Continuity Forum. The Business Continuity Forum oversees progress of business continuity planning. All Services should have up to date and tested Business Continuity Plans. New service level templates being developed with pre-written table top exercises allowing services to exercise their plans independently, with a corporate exercise planned for the corporate recovery team in due course. A meeting took place to discuss recovery options, particularly in terms of re-location from Knowle green. This was very productive with a number of actions required. The Risk and Resilience Manager chairs the Business Continuity Forum and work stream, reporting to the Assistant Chief Executive (Liz Borthwick) every 2 months and Management Team quarterly on progress. Security strategy in place and publicised to all staff.</p>	<p><b>Action 1: The Authority must ensure the plans are fully communicated, tested and updated regularly.</b></p>	<p>Service Heads/MAT/RM *</p>	<p>Ongoing</p>	<p>* O = ONGOING</p>	<p><b>Partially actioned/Ongoing. May 2013:</b> .Business Impact Assessments are underway with all service areas, due for completion by the end of May 2013. The Managers briefing in May focused on business continuity, to be followed by a workshop/exercise to test current arrangements. Corporate recovery planning is advancing , although a date for completion of the corporate recovery plan is not set as it will depend on other corporate commitments.</p>
				<p><b>Action 2: Business Impact Assessments to be completed by all service areas. Following this, Service Continuity Plans require updating using new templates.</b></p>	<p>Service Heads/MAT/RM *</p>	<p>May-13</p>	<p>* C = July 2013</p>	
	<p>10. Failure in service delivery due to over reliance on individuals</p>	<p>3</p>	<p>Service Heads are responsible for ensuring business continuity, including loss of key staff. Critical procedures should be fully documented and staff appropriately trained. In some cases resilience may be provided from other local authorities or other organisations.</p>	<p>None</p>	<p>Service Heads/MAT</p>	<p>N/A</p>	<p>N/A</p>	<p><b>Ongoing</b></p>

	<p>11. Failure in service delivery due to reduced capacity and increasing demands from the community. Increased risk of delay, errors or stress.</p>	<p>3</p>	<p>Short term reductions in capacity due to increasing demand or short term absence of staff on leave or sickness are accommodated by prioritisation and reallocating work among staff. 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. In some circumstances it is necessary to supplement staffing levels with additional temporary or permanent resource. Resources need to be diverted to implementing new systems or introduce new ways of working. The recent strengthening of project management support is a good example.</p>	<p><b>Members and Management Team will need to keep under review, including consideration of the impact of decisions and any statutory obligations on service/project delivery. Officers will need to continue to consider mitigating actions, including reallocating resources to priority areas where possible.</b></p>	<p>Service Heads/MAT</p>	<p>Mar-13</p>	<p>Ongoing</p>	<p><b>Ongoing. May 2013</b></p>
	<p>12. Poor morale as a result of service demand, lack of staff &amp; financial resources, organisational changes, future uncertainty etc</p>	<p>3</p>	<p>Change Management, clear communications, formal performance management system being set up, appraisals, one to one's, team meetings, performance clinics, staff meetings, staff workshops to be set up, Member training, corporate plan and priorities reviewed, Investors in People assessment. MAT and Cabinet are in discussions with the Local Government Association to agree a Peer review of the Council to take place at some point in the next 12 months.</p>	<p><b>Action 1: Management Team to keep under review.</b></p>	<p>MAT</p>	<p>Mar-13</p>	<p>*O = April 2013. *C = Aug 2013</p>	<p><b>Partially actioned/Ongoing. May 2013:</b> The Investors in People (IIP) assessment took place in March with a positive report confirming Spelthorne's re-accreditation. An action planning workshop is due to be held to agree improvement points, and following on from this the Staff Survey will be progressed.</p>
				<p><b>Action 2: Timescales for launching staff survey to be formalised.</b></p>	<p>MAT/Head of HR *</p>	<p>May-13</p>	<p>*C = Aug 2013</p>	
	<p>13. Failure to obtain value for money (vfm) / lack of transparency in awarding contracts. Contractual disputes and potential claims through poor documentation. Weak contract management resulting in Contractors/partners failing to deliver expected outcomes. Breach of contract standing orders leading to reputational</p>	<p>3</p>	<p>Contract Standing Orders set out tendering requirements. Officer Code of Conduct setting out requirement for declaration of interests. Contract guidelines (simplified version of Contract Standing Orders in place with compliance checklist). Legal team provide support on contract management as requested. Legal and Services require clear understanding of contract conditions. Contract management training held in September 2012, although this was not attended by all relevant services. Performance measures in place and contractual safeguards</p>	<p><b>Action 1 : Procurement guidance being updated, to be launched in 2013.</b></p>	<p>HEAD OF CG*</p>	<p>Nov-12</p>	<p>*O = Jan 2013 *C = July 2013.</p>	<p>1. <b>Outstanding. May 2013.</b> The procurement guidance requires updating to incorporate some legislative changes including the Public Services (Social Value) act 2012 which came into effect January 2013. This is currently outstanding and will be reviewed once the contract register has been relaunched and training delivered.</p>
				<p><b>Action 2: Electronic-tendering system to be re-launched in 2013.</b></p>	<p>Head of CG*</p>	<p>Nov-12</p>	<p>*O = Jan 2013 *C = July 2013.</p>	<p>2. <b>Partially actioned/Ongoing May 2013.</b> Legal Services are developing the e-tendering system primarily for use by the Legal team, and the system may be rolled out further as procurement opportunities arise.</p>

<p>damage and challenge by other companies. Financial loss/poor vfm as a result of poor contract management</p>		<p><b>Action 3: Procurement, contract management and asset management expertise is limited across the authority. (This is particularly relevant to the Grounds Maintenance contract and some asset related contracts). Management Team will be considering expertise and resources in these areas and possible options to strengthen arrangements.</b></p>	MAT	Mar-13	<p>*O = May 2013. * C = July 2013</p>	<p>3. <b>Partially actioned/ Ongoing. May 2013.</b> Some positive discussions have taken place about strengthening arrangements in place for procurement and developing closer links with project management. The Head of Corporate Governance issued a paper to Management team in May setting out options, and Legal are considering training requirements for Contract Managers.</p>
		<p><b>Action 4 : Periodical reminders to be issued to all Services about the need to comply with Spelthorne's procurement procedures and Contract Standing Orders when appointing contractors.</b></p>	Head of CG*	Mar-13	<p>*O = May 2013 * C = July 2013</p>	<p>4. <b>Partially actioned/ Ongoing. May 2013.</b> At the next Managers Briefing, the Principal Solicitor will be relaunching the contract register, as well as reminding officers of the need to monitor contracts and comply with contract standing orders.</p>
		<p><b>Action 5: The new Surrey County Council parking agreement will be closely monitored by Financial Services as the authority will now bear the cost of any deficits whereas any surplus will be shared.</b></p>	ACX (TC)*	Mar-13	<p>*O = May 2013 * C = July 2013</p>	<p>5. <b>Partially actioned/ Ongoing. May 2013.</b> The Surrey County Council parking agreement is monitored by Financial Services.</p>

<p>14. Pressures on Housing Service as a result of economic climate and welfare reforms including changes in government policy to restrict housing benefit. Introduction of Universal Credit may lead to staff retention issues. Loss of Housing Benefit subsidy and uncertainty over recovery of outstanding debt.</p> <p>Introduction of Council Tax Support scheme will impact on resources.</p>	<p>3</p>	<p>Service Heads/ MAT/Members have been made aware of risks. Internal structures being reviewed. Working groups established to deal with the various changes. The authority faces some challenges in managing the loss of £500k per annum in subsidy relating to recovery of Housing Benefit overpayments which will be fully realised once the roll out of Universal Credit is completed in 2017/18. The first year's impact is reflected in the 2013/14 budget and in medium term projections for future years. There is also uncertainty over recovery of the £1.26m of outstanding Housing Benefit overpayment debt which is currently in the council's accounts.</p> <p>The new council tax support scheme took effect from April 2013 and has generated a number of small council tax debts, which are difficult and time consuming to recover, impacting on resources. Briefing paper issued to Audit Committee Members in December 2012 relating to delivery of council tax support scheme.</p>	<p><b>2. In light of the future transfer of Housing Benefit administration to the Department for Work and Pensions (DWP), the joint Heads of Housing Options and Independent Living to ensure adequate arrangements are in place for staff resilience within the interim period.</b></p>	<p>Joint Heads of H &amp; IL *</p>	<p>Mar-11</p>	<p>*O = July 2011 *C= ONGOING</p>	<p><b>Partially Actioned/Ongoing. May 2013:</b> Heads of Service update MAT and Members periodically on forthcoming welfare reforms and implications for Service. A paper has been issued outlining impact and timescales for implementation of Universal Credit and the Single Fraud Investigation Service. All projects relating to Welfare Reforms and linkages between them have been identified together with budget and resource implications.</p> <p>Recovery action has now commenced on small council tax debts. Collection levels for April 2013 are currently 0.2% down as compared with April 2012, but 250 people have taken up the 12 monthly instalment plan.</p>
<p>15. Poor partnership governance arrangements</p>	<p>3</p>	<p>Review of strategic and internal partnerships undertaken. Partnership governance policy in place. Significant partnerships identified. Overview and scrutiny committee to periodically review partnerships. Insurance arrangements in place</p>	<p>None</p>	<p>MAT</p>	<p>N/A</p>	<p>Ongoing</p>	<p><b>Ongoing. May 2013.</b></p>
<p>16. Uncertainty over economic growth and supplier failure, impacting on:</p> <ul style="list-style-type: none"> <li>• Delivery of contracts and services</li> <li>• Business Rate income.</li> </ul>	<p>3</p>	<p>Financial Services monitor the financial media in relation to larger companies and critical commercial partners that the authority engages with.</p>	<p><b>1. Impact of new Business Rate arrangements on Council finances is under ongoing review.</b></p>	<p>ACX (TC) *</p>	<p>November 2012</p>	<p>*O = July 2013 * C = July 2013</p>	<p><b>Actioned/Ongoing. May 2013.</b> 1. Financial assessment has been undertaken and in common with all the Surrey districts Officers are reviewing collection performance for business rates on a monthly basis and providing feedback to Surrey County Council (who receive 10% of the business rates we collect).</p>

			<b>2. Economic development is a Council priority and growth will impact on business rate income.</b>	ACX (TC) * CS & EDO*	Mar-13	* O = July 2013 * C = September 2013	<b>Actioned/Ongoing. May 2013.</b> 2. A comprehensive draft economic assessment has been produced and the Council is now engaged in a consultation process with local businesses, and other stakeholders. This will then inform the production of an economic strategy which will be produced by early autumn.
17. Failure to deliver sustainable community strategy / deliver climate change strategy: - Contravening legislation (Climate Change Act 2008); Poor resilience to climate change by services and community; Services not adequately prepared for climate change, effecting service delivery	3	<p>Sustainable Development Strategy (SDS) and joint Climate Change Strategy. Action plans prepared assigning tasks and targets to named officers. Surrey wide climate change projects being developed through the Surrey Climate Change Partnership (SCCP), to be assigned as and when appropriate. Focus on energy reduction measures. Environmental impact assessments completed. Climate change impact reports will be used to identify key risks.</p> <p>SDS Delivery Board monitors 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 currently being implemented.</p>	None	Head of S & L *	N/A	Ongoing.	<b>Actioned/ Ongoing. May 2013.</b>
18. Risk of extreme weather conditions (drought, flooding, snow)	3	Service and Business Continuity Planning to identify and address significant risks.	None	ACX (LB)/Head of S & L/Head	N/A	Ongoing.	<b>Ongoing. May 2013.</b>
19. Failure to comply with employment legislation or statutory duty leading to possible compensation (unlimited), damage to reputation, Legal costs and significant officer time.	3	<p>Human Resources (HR) identify new employment legislation. 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).</p> <p>Clear documented processes exist for Recruitment and Selection, and Managers Briefings provide opportunity to promote corporate procedures. Equality and Diversity working group set up and training provided to all staff.</p>	None.	MAT/Service Heads/Head of HR*	N/A	Ongoing	<b>Ongoing. May 2013.</b>

	20. Failure to comply with statutory duty / adhere to Safeguarding Policy leading to death or injury to child or vulnerable adult, legal action and reputational damage. Failure by County to address Spelthorne referrals relating to vulnerable children/adults.	3	The Council has recently updated its safeguarding policies/ procedures /guidelines and awaiting feedback from Surrey County Council regarding the children's policy. Staff and Members have received training. All concerns and referrals made to Surrey County Council should be brought to the attention of a nominated Spelthorne Officer to ensure details are logged. Regular meetings held with Surrey County Council and consultation with the Surrey Safeguarding Children's Board (SSCB). SSCB carry out a Section 11 audit annually. Internal Audit review undertaken of the safeguarding function in 2012. The majority of actions have been addressed or are being progressed.	<b>Once Surrey County Council has provided feedback on revised safeguarding Policies they will be reported to MAT, Cabinet and re-launched to staff.</b>	ACX (LB)/LSM*	Mar-13	*O = April 2013. * C = June 2013	<b>Actioned/Ongoing. May 2013:</b> Safeguarding policies updated and reported to Management team. Due for Cabinet in June (feedback still outstanding from Surrey County Council regarding the children's policy). Policies and procedures launched to all staff. Training sessions provided to meet specific requirements of officers.
	21. Service planning difficulties due to changes in economic and	3	Long term strategic planning. Corporate and community plans linked to service plans. Corporate priorities reviewed.	None.	MAT	N/A	Ongoing.	<b>Ongoing. May 2013.</b>
	22. Poor return on long term investments /investments insecure in current climate	3	Treasury Management Strategy approved by Members. Aim to select counter parties of the highest credit quality; credit ratings monitored closely. Council's investments managed internally in consultation with Arlingclose. Use a range of credit ratings and criteria recommended by Arlingclose. Regular monitoring and reporting of investment portfolio and returns achieved.	None.	ACX (TC) *	N/A	Ongoing.	<b>Ongoing. May 2013.</b>

	<p>23. Increased risk of fraud / theft due to economic climate resulting in financial losses and damage to reputation of authority. Housing tenancy fraud reduces availability of social housing.</p>	<p>3</p>	<p>Corporate Policies in place including Confidential Reporting Code (Whistle blowing), Anti-fraud, Bribery and Corruption Strategy, Code of Conduct including rules relating to gifts and hospitality, and declaration of interest. Staff are reminded about governance policies as part of the annual appraisal process. Fraud awareness training for staff and Members has taken place in 2012. Implications of Bribery Act (July 2010) are being considered by services (raised in Fraud Awareness training). Other controls include various policies and procedures such as Financial Regulations and Contract Standing Orders (CSO'S), management checks, segregation of duties, reconciliation processes for financial systems and IT Security measures.</p> <p>Discussions have taken place with A2Dominion regarding proactive measures to reduce housing tenancy fraud and potentially free up more properties. Head of Audit Partnership liaised with Joint Heads of Housing and Independent Living to explore possibilities for new corporate fraud work.</p>	<p>None.</p>	<p>Service Heads/ MAT</p>	<p>N/A</p>	<p>Ongoing.</p>	<p>Ongoing. May 2013.</p>
	<p>24. Reduction in service delivery and possible loss of internal control as a result of savings required to balance budget</p>	<p>3</p>	<p>Management is responsible for maintaining key internal controls regardless of resource levels. Any savings offered will be accompanied with summary of any associated risks.</p>	<p>None.</p>	<p>Service Heads/ MAT</p>	<p>N/A</p>	<p>Ongoing.</p>	<p>Ongoing. May 2013.</p>

**\*KEY TO OFFICERS**

MAT - Management Team  
 Head of CS - Head of Customer Services, Linda Norman  
 Head of CG – Head of Corporate Governance, Michael Graham  
 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  
 Head of S & S – Head of Streetscene, Jackie Taylor  
 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  
 RRO – Risk and Resilience Officer, Nick Moon  
 CS & EDO – Community Safety and Economic Development Officer, Keith McGroary

**\*KEY TO RAG RATING**

	Actions outstanding
	Partially actioned/Ongoing
	Completed/Ongoing

**\*KEY TO TARGET DATES**

\* O = Original target date for assigned action  
 \* C = Current target date for assigned action

**Audit Committee****27 June 2013**

<b>Title</b>	Internal Audit Annual Report		
<b>Purpose</b>	For Information		
<b>Report of</b>	Head of Audit Services	<b>Confidential</b>	No
<b>Cabinet Member</b>	Councillor Tim Evans	<b>Key Decision</b>	No
<b>Report Author</b>	Head of Audit Partnership		
<b>Summary and Key Issues</b>	<p>The report:</p> <ul style="list-style-type: none"> <li>• summarises the work of Internal Audit for the financial year 2012/13 and</li> <li>• provides the Head of Internal Audit Partnership's Opinion Statement for 2012/13.</li> </ul>		
<b>Financial Implications</b>	There are no financial implications		
<b>Corporate Priority</b>	This item is not in the list of Corporate Priorities		
<b>Recommendations</b>	The Audit Committee notes the Internal Audit Annual Report.		

## 1. Background

- 1.1 Internal Audit is a statutory function and it is the responsibility of the Council to 'maintain an adequate and effective system of internal audit...'
- 1.2 The Audit Service is responsible for:
- a) Providing **assurance** to the authority that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.
  - b) Providing **advice** regarding risk, internal control and governance arrangements.
  - c) Assisting management in **assessment of risk**.
  - d) Undertaking special investigations as necessary.
  - e) Testing of financial and IT systems on behalf of external audit.
- 1.3 Attached at Appendix 1 is a summary of Internal Audit reviews undertaken in 2012/13 and details of other work undertaken by the team. Reports were issued to Assistant Chief Executives and Heads of Service, and included recommendations aimed at reducing risk and strengthening internal control.
- 1.4 A progress report was submitted to the Audit Committee in December 2012.
- 1.5 Internal Audit continued to have a constructive working relationship with the Council's appointed external auditor, KPMG. External audit has referred to the work undertaken by Internal Audit relating to corporate financial systems and ICT.
- 1.6 In addition to giving assurance on the adequacy of controls as set out in the reports in Appendix 1, Internal Audit has assisted the organisation in achieving its objectives through other aspects of its work which are listed below and detailed in the Appendix:
- (a) Corporate Projects
  - (b) Advice has been requested and provided to most services on various risk and control issues.
  - (c) Counter Fraud initiatives
  - (d) Corporate Governance and the Annual Governance Statement.
  - (e) Confidential Reporting (Whistleblowing) Code and Anti Fraud and Corruption Policy
  - (f) Corporate Project Management Board
  - (g) Shared Services lead (until July 2012)
  - (h) Attendance and advice to Corporate groups as set out in Appendix 1.
  - (i) The team continues to advise management on various aspects of the new Customer Services operation.
- 1.7 Corporate Risk Management – see separate risk report. Audit provides advice to the Corporate Risk Management Group and co-ordinates the Council's corporate risk register.

- 1.8 Deputy Section 151 Officer – The Head of Audit Partnership was responsible for supporting the Council's Section 151 Officer during 2013.
- 1.9 Non audit Investigations – The Head of Audit Partnership carried out a review of two staffing matters on behalf of Assistant Chief Executive (LB).
- 1.10 The implications of the new Public Sector Internal Audit Standards have been assessed and reported separately to Audit Committee.
- 1.11 Auditors have attended various in-house and technical training events to support their ongoing development needs.
- 1.12 The Internal Audit Partnership with Elmbridge continues to deliver efficiencies and ongoing savings for the two authorities. During the period all audit staff contracts, job descriptions, titles and pay were aligned across the two authorities with a view to developing a 'one team approach'. A new partnership agreement has been finalised and this provides a commitment to the arrangement for a minimum 3 year period. Staff have worked across the authorities on a number of projects and continue to share information for example recent work undertaken on Safeguarding and the joint Supporting Families initiative. Spelthorne has continued to sell ICT audit expertise to Woking and Elmbridge.

## 2. Key issues

- 2.1 Appendix 1 summarises the work of Internal Audit for the year 2012/3 and where appropriate, assurance levels provided.

- 2.2 Head of Audit Partnership Opinion is as follows:

***The overall opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit Services during 2012/13 which is summarised in this report.***

***Any shortcomings identified with a significant level of risk attached have been transferred onto the Council's Corporate Risk Register for quarterly monitoring by Management Team and the Audit Committee.***

## 3. Options analysis and proposal

- 3.1 There are no options

## 4. Financial implications

- 4.1 Not applicable

## 5. Other considerations

- 5.1 Not applicable

## 6. Risks and how they will be mitigated

- 6.1 Implementation of audit recommendations will reduce risks for the authority. Failure to undertake internal audit work to the required standards would lessen the Council's assurance that effective control systems are in place and could result in an increase in the Council's annual external audit fee.

## 7. Timetable for implementation

- 7.1 Not applicable

## Appendices:

### Appendix 1 – Summary of Internal Audit work 2012/13

## Appendix 1

<b>AUDIT WORK for the period 1 April 2012 – 31 March 2013</b>		
<b>Audit Review</b>	<b>Level of Audit Assurance</b>	<b>Issues raised</b>
Main Accounting	Effective	Finance Manual to be completed and issued to staff.
Treasury Management	Effective	None
Cash Collection and Banking	Some Improvement Needed	Procedures for reconciliation processes to be documented, referencing of working papers for the cashbook reconciliation to be improved, and scope to consider automated options.
Debtors	Some Improvement Needed	Management review required of credit notes, suppressed accounts and suspense accounts, the process for recovering sundry debts to be made more robust, revised recovery procedure to be documented, clarification of debt management roles and responsibilities and raising invoices in a timely manner.
Creditors	Some Improvement Needed	Management reminder regarding compliance with invoice authorisation limits, timely authorisation of new supplier forms prior to payment and prompt investigation of potential duplicate payments (data matches highlighted by the Audit Commission).
Housing Benefits	Some Improvement Needed	Areas for improvement include updating of procedure notes and staff training relating to reconciliation processes, debt management / recovery of overpayments arrangements, updating of health and safety policies, and business continuity arrangements.
Payroll/Human Resources	Some Improvement Needed	Whilst segregation of duties is difficult to achieve in a small team, the potential risks associated with the Payroll Officers both having system administrator access have been highlighted. However such access is auditable by management. Refresher data protection training is to be arranged for staff. Evidence of Disaster Recovery testing carried out by the host authority (Tandridge Council) is to be obtained to confirm it was satisfactory. Spelthorne is liaising with

## Appendix 1

		other Surrey districts to consider adequacy of business continuity arrangements.
Council Tax	Some Improvement Needed	Need to raise staff awareness about some updated policies and procedures.
Business Rates	Some Improvement Needed	Documentation required for the review of Business Rates parameter changes and periodic reviewing of suppressed accounts.
ICT	Some Improvement Needed	Management action to include audits of council owned laptops and updated policy /guidance for systems administrators.
Asset Register/Capital Accounting	Some Improvement Needed	Management to set up schedule in advance for revaluation of assets, ICT to complete asset register and send to Finance twice a year, physical verification/reconciliation of all assets to be evidenced and dated on asset register.
Housing Tenancy Fraud	N/A – this was not a formal Audit review and did not involve a full review of risks and internal controls	Research carried out on measures to reduce the risk of tenancy fraud. The Head of Audit Partnership has since been involved in discussing A2D fraud preventative measures and developing the role of the HB Fraud Investigation team with the Head of Housing.
Asset Management	Major Improvement Needed	Lack of Asset Management resources in the organisation has been partially addressed by a secondment and strengthening of management in the Asset Management team. Further work is required to co-ordinate asset related projects and functions. A quality audit of the partnership with Runnymede is required in accordance with the contract and the Asset Management Plan should be updated regularly.
Vehicles		In progress
Shopmobility	Completed for third party	Areas for potential improvement in the management of income were reported.
Safeguarding	N/A – this was not a formal	At management's request Audit reviewed safeguarding policies

## Appendix 1

	Audit review and did not involve a full review of risks and internal controls	and procedures which led to recommendations relating to training for staff, consistent use of the centralised safeguarding referral log, periodical monitoring by the Safeguarding Officer to ensure compliance with procedures and improved recording mechanism for training.
Members Allowances	Effective	It was noted that Member expenses will be published on the Council website from 2012/2013.
Waste and Recycling	Effective	Several areas where management action is being taken and some potential gaps with low risk attached were noted. No recommendations made during this review.
Building Control	Effective	No recommendations made during this review.
Customer Services		In progress
Grants to Voluntary Organisations	N/A – this was not a formal Audit review and did not involve a full review of risks and internal controls	Advice given regarding establishing a robust performance management framework for grants awarded to voluntary organisations and scope for the authority to consider linking in requests to corporate plan/priorities/service objectives.
Procurement	N/A – significant risks arising from preliminary audit work transferred to Corporate Risk Register. Audit will recommence once the risks highlighted have been addressed by management.	The following issues have been raised in the Corporate Risk Register: Procurement, contract management and asset management expertise is limited across the authority. (This is particularly relevant to the Grounds Maintenance contract and some asset related contracts). Management Team will be considering expertise and resources in these areas and possible options to strengthen arrangements. Periodical reminders to be issued to all Services about the need to comply with Spelthorne's procurement procedures and Contract Standing Orders when appointing contractors.
Grounds Maintenance	Some Improvement	Management was advised to consider developing horticultural

## Appendix 1

	Needed	expertise to assist with the management of the Grounds Maintenance contract, to improve the control of contractual variations, develop documentation of guidance for contract management and to finalise leases with the contractor.
Disabled Facilities Grants	N/A –improvements were agreed following Audit tests. A full audit will be completed once new procedures have been embedded.	Improvements were agreed with management relating to procedures for establishing a select list, selection of contractors from the select list, tendering, quality control, monitoring of waiting lists and formalising current contractual arrangements with A2D.

**ASSURANCE KEY:**

**Effective** - Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met

**Some Improvement Needed** - A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met

**Major Improvement Needed** - Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met

**Unsatisfactory** - Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met

## Appendix 1

<b>Ongoing / Continuous Audits:</b>	<b>Comments</b>
Human Resource/Payroll System – iTrent Phase 2 (self-serve)	The original implementation date was the end of 2012. This has now been rescheduled to take account of consultant availability and increased workloads. Audit raised concerns about the likely impact in terms of savings realisation. Some savings are being achieved on licence fees, support and payslip printing. However it is understood anticipated salary savings will not be achieved as there will be no reduction in staff levels or time. This project is due to be reviewed further by the relevant internal board to ensure its continuing viability. iTrent should improve business continuity / resilience due to working with Tandridge and other councils.
Knowle Green Heating	Phase 1 completed – target dates to be set for completion of remaining works
Remote Working	This project is due for review by Management Team. There have been some delays in completing the remote working pilot project and reporting to MAT on viable options for hot desking, findings of the pilot, the impact of Remote Working on performance and output, and future options for Remote Working across the authority. Audit advised on the need to coordinate this project with areas such as the Public Sector Village and Knowle Green accommodation.
Public Sector Village	Viability of project can only be determined once the feasibility study has been carried out. Lack of resources to effectively deliver the project was identified as a key risk.
Council Tax support	Despite some early concerns regarding resourcing of the project, risk to grant and tight timescales, the scheme was implemented successfully.
Sharepoint	Concerns were raised with the previous Business Improvement Manager at the early stages of this project about the business case, use of consultant and associated costs. The project now on hold.
Steria contract	Audit monitored management arrangements for the ending of the Steria contract and transfer of functions. Transfer took place on 1st January 2013 with staff transferring, new contracts and new structure in place.
Website	Audit assisted in testing of the new Website.
Older Persons Review	Reviewed Management Team report and provided comments to Assistant Chief Executive (TC) relating to financial implications and possible further options for the service.

## Appendix 1

Parking Partnership	Project did not progress
Automatic Number Plate Recognition	Project halted by management
Business Rates changes	Management are aware of risks relating to new scheme e.g. little financial reward for BR growth, risk of districts bearing cost of non-collection. There are proposals to strengthen recovery arrangements and statistics to be monitored.
Laleham Park	Officers are managing potential key risks relating to lack of staff resources, change of Political Leadership / direction, lack of interest in managing the Café (when an Expression of Interest was issued last year there was limited interest) and scoping the project. There are a number of ongoing issues being addressed by management and consultants have been employed to develop a Masterplan for the park.
Customer Relationship Management (CRM)	Plans to implement new CRM have been reviewed and new proposals to upgrade existing system (Civica) and integration with a new product (EDEN)

## Appendix 1

Other Audit Work	Comments
Advice	Advice provided on various matters including security, staffing, procedural and management reports.
Counter Fraud	Fraud Awareness training provided for Members Council Tax/Single Person Discounts joint contract with Surrey County pursued Student Exemption Discounts were tested and in several cases discount withdrawn Supplier validity testing revealed some discrepancies which led to further work with Environmental Health on Disabled Facilities Grants IT Staff Loan system reviewed and advice given regarding credit checks on Council employees Investigation into stolen Council mobile phone Confidential Reporting (Whistleblowing) Code and Anti-Fraud, Bribery and Corruption Policy reviewed and reported to Audit Committee
Corporate Governance	Audit Committee report on the Effectiveness of the System of Internal Audit, review of corporate governance matrices and contribution to the Annual Governance Statement
Corporate Project Management	The Head of Audit Partnership has been a member of the Council's Project Management Board which has developed and implemented new methodology and processes for improved project management.
Shared Services	The Head of Audit Partnership carried out the role of corporate lead on shared services until July 2012.
Corporate groups	Attendance and advice to the following groups - Corporate Debt, Information Security Risk, ICT Service Improvement, Uniform User, Finance and Revenues, Information Governance and Corporate Risk Management.
Deputy Section 151 Officer	The Head of Audit Partnership was responsible for supporting the Council's Section 151 Officer during 2013.
Public Sector Internal Audit Standards	The implications of the new standards have been assessed and reported separately to Audit Committee
Corporate Risk Management	See separate corporate risk report. Audit provides advice to the Corporate Risk Management Group and co-ordinates the Council's corporate risk register
Audit Committee	Preparation of reports, Management Team/committee attendance, various meetings, committee follow

**Appendix 1**

	up action and correspondence..
Miscellaneous	Meetings (one-to-ones, appraisals, team, departmental, attendance at MAT, Manager's briefings), audit planning, liaison with external audit, budget monitoring, processing contract payment certificates, Service Planning, performance management, health and safety issues, Business Continuity Planning, two major staffing investigations and various other tasks



**Audit Committee****27 June 2013**

<b>Title</b>	Internal Audit Charter		
<b>Purpose</b>	Resolution required		
<b>Report of</b>	Head of Audit Services	<b>Confidential</b>	No
<b>Cabinet Member</b>	Councillor Tim Evans	<b>Key Decision</b>	No
<b>Report Author</b>	Head of Audit Partnership		
<b>Summary and Key Issues</b>	The Audit Committee is required to review and approve the Internal Audit Charter. The revised Charter takes into account the new Public Sector Internal Audit Standards reported to the Audit Committee in March 2013		
<b>Financial Implications</b>	None		
<b>Corporate Priority</b>	This item is not in the list of Corporate Priorities		
<b>Recommendations</b>	That the Audit Committee approves the Internal Audit Charter		

## **1. Background**

- 1.1 The Internal Audit Charter has been amended to reflect the new Public Sector Internal Audit Standards which came into effect from 1 April 2013 and a number of other changes required to update the document. The document is attached at Appendix 1.
- 1.2 As reported previously the Standards have been developed by CIPFA (Chartered Institute of Finance and Accountancy), the Chartered Institute of Internal Auditors (CIIA) and a range of other public bodies to tailor mandatory internal standards (International Professional Practices Framework) to meet the special requirements of public sector organisations in the UK.
- 1.3 The Standards have been endorsed by CIPFA and compliance with the Standards will be mandatory. The Council will be under an obligation to comply fully or to provide a clear justification for any aspects of non-compliance. The Council's External Auditor will also be required to obtain assurance as to compliance and to report any material non-compliance.
- 1.4 The Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards.
- 1.5 The Audit and Standards Committee is responsible for approval of the Charter.

## **2. Key issues**

- 2.1 The revised Internal Audit Charter includes:
  - (a) Purpose – Formal definition of Internal Audit as set out in the new standards
  - (b) Authority – Legislative requirement for Internal Audit
  - (c) Scope of Internal Audit – Including unrestricted access to records, officers and Members
  - (d) Objectives of Internal Audit – Specific objectives of the Internal Audit Service at Spelthorne
  - (e) Audit Resources – Covering partnership arrangements, staffing and auditor competencies
  - (f) Audit Reporting
  - (g) Independence – Setting out how Internal Audit reports independently, assures itself that any proposed 'non audit' work would not impair its independence or objectivity and explains how the Council intends to ensure decisions regarding the Head of Internal Audit's remuneration and performance assessment are not inappropriately influenced by those subject to audit.
  - (h) Audit Approach – Audit management arrangements and quality assurance mechanisms including the new requirement for a five yearly independent external assessment
  - (i) Fraud and Corruption – Internal Audit and management responsibilities

- (j) Related Professional Standards and Policies
- (k) Charter Review – Future biennial reviews

**3. Options analysis and proposal**

3.1 There are no options.

**4. Financial implications**

4.1 N/A.

**5. Other considerations**

5.1 None.

**6. Risks and how they will be mitigated**

Failure to adhere to professional standards could compromise the Internal Audit function, reduce the level of assurance the authority has that systems and risks are being effectively managed and potentially lead to losses and reputational damage.

**7. Timetable for implementation**

7.1 Immediate implementation.

**Background papers:**

There are none

**Appendices:**

**Internal Audit Charter**

## INTERNAL AUDIT CHARTER

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards.

The Audit Committee is responsible for approval of the Charter.

The Public Sector Internal Audit Standards make reference to the following terms which are defined as:

*'Board' – the Audit Committee*

*'Senior management' – the Council's Management Team (MAT)*

*'Chief Audit Executive' – Head of Audit Partnership*

### 1. Purpose

The Public Sector Internal Audit Standards define Internal Audit as:

*“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

### 2. Authority

The authority of the Internal Audit function is derived from legislation and for local authorities this is implied by Section 151 of the Local Government Act 1972, which requires that authorities shall *'make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs'*.

The Accounts and Audit (England) Regulations 2011 more specifically state *'A local government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'*.

### 3. Scope of Internal Audit

The scope of Internal Audit's remit includes the organisation's entire control environment and allows for unrestricted access to all records and assets deemed necessary by auditors in the course of internal audit work. In addition, Internal Audit will have unrestricted access to the Audit Committee, Chief Executive, Members of Council, Assistant Chief Executives and all employees of the authority

### 4. Objectives of Internal Audit

At Spelthorne Internal Audit objectives can be summarised as:

- To provide independent **assurance** to the authority that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.
- To provide **advice** regarding risk, internal control, value for money and governance arrangements.
- Assist in promotion of anti-fraud, anti-bribery and anti-corruption culture within the Council
- Undertake special investigations as necessary.
- Complete testing of financial systems on behalf of external audit.

## 5. Audit Resources

5.1 The Head of Audit Partnership jointly manages Internal Audit teams at Spelthorne and Elmbridge Borough Councils, and the arrangement is supported by a formal contract. The Head of Audit Partnership is employed by Spelthorne. Staff in the two Internal Audit teams are employed separately by Elmbridge and Spelthorne, but they now have contracts requiring them to work across the partnership sites.

5.2 The service currently comprises:

Head of Audit Partnership (.6 FTE)

Internal Audit Manager (.5 FTE)

Internal Auditor / Senior Internal Auditor (1 FTE)

External contracts – (.18 FTE)

All staff work across the partnership site

5.3. Auditor competency is assessed and provided by:

- Auditor training needs are identified through the performance appraisal process and these are met through in-house and external training courses. A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Audit Partnership is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.
- Internal Auditors have access to an Internal Audit Manual setting out operational standards and processes
- Each audit review undertaken is allocated a lead auditor to ensure the work is supervised as necessary. This includes a formal review on completion of the work.
- Annual and interim performance reviews are undertaken for all staff.
- Competency matrices have been developed for all levels of Internal Audit staff.

## 6. Audit Reporting

The UK Public Sector Internal Audit Standards require the Head of Audit to report at the top of the organisation and this is done in the following ways:

- Audit reports are copied to Assistant Chief Executives
- Reports summarising the work of Internal Audit are presented to Audit Committee.

All internal audit assignments and significant unplanned work will be the subject of formal reports. Draft reports will be sent to the managers responsible for the area under review for agreement to the factual accuracy of findings. After agreement, they will be issued to the Assistant Chief Executive of the service under review and relevant managers.

## 7. Independence of Internal Audit

Organisational independence of Internal Audit is achieved:

- Internal Audit reports in its own name and has unrestricted access to the Section 151 Officer, Management Team and Audit Committee.
- Audit Committee approves the Charter, Internal Audit Plan and Internal Audit activities.
- Decisions regarding the performance and remuneration of the Head of Internal Audit Partnership are taken by Spelthorne Council. The underlying principle is that the independence of the Head of Audit Partnership is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit.
- Internal Audit is generally segregated from line operations and every effort will be made to preserve objectivity by ensuring that all Internal Audit staff are free from any conflicts of interest and do not undertake any non-audit duties with the exception of co-ordination of the Council's Corporate Risk Register and assistance in staff investigations. At the Head of Audit Partnership / Internal Audit Manager's discretion, involvement may also include:
  - Ad-hoc fraud work – including review of Anti-Fraud and Corruption and Whistleblowing Policies
  - Consultancy services – For example, providing advice on implementing new systems and controls, appointment of contractors or organisational reviews. Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.
  - Members of the Internal Audit team will be expected to contribute to the general management and conduct of business through membership of corporate working groups and participation in ad hoc exercises.
- All Internal Auditors are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

## 8. Audit Approach

The Head of Audit Partnership will be required to manage the provision of a complete audit service to the authority which will include provision of advice as required. In discharge of this duty, the Head of Audit Partnership will:

- Prepare an annual risk-based Internal Audit Plan, for formal ratification by Management Team and Audit Committee. This plan will be regarded as flexible rather than as an immutable expression of internal audit policy.
- Ensure a system of supervision of internal audit work, and maintain a review of internal audit documentation through the supervisory structure.
- Assist managers to review risks, undertake testing and issue a draft internal audit report summarising the key findings and recommendations.
- Prepare regular reports on internal audit activities for presentation to the Audit Committee.
- Issue an opinion/annual report within the governance framework.

The quality of Internal Audit is managed through the following:

- Reporting to the Audit Committee (responsible for approving (but not directing) internal audit's strategy, plan and performance).
- Demonstrating compliance with the Public Internal Audit Standards
- Customer Satisfaction surveys
- External Audit reliance on placed on Internal Audit work.
- The Accounts and Audit Regulations 2006 introduced a requirement for authorities to 'conduct a review of the effectiveness of internal audit'. This is achieved through an Annual Review reported to the Management Team and Audit Committee.
- The Public Sector Internal Audit Standards require an external assessment at least once every five years by a suitably qualified, independent assessor.

## 9. Fraud and Corruption

The Head of Audit Partnership should be notified of all suspected or detected fraud, corruption or impropriety.

The service may go beyond the work needed to meet its assurance responsibilities to assist with or lead investigations as required but this will be dependent on circumstances and resources available. The service will follow guidelines set out by CIPFA and any relevant statutory duties in respect of investigations.

*'Managing the risk of fraud and corruption is the responsibility of management. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. ....Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.'* – CIPFA.

The Head of Audit Partnership is responsible for reviewing and updating the Council's Anti-Fraud and Corruption Strategy and for promoting an anti-fraud culture within the Council. Internal Audit currently contributes to the management of fraud risk by:

- assessing the Council's level of compliance with the recommendations contained in the Fighting Fraud Locally Strategy
- specific detailed testing in high risk areas
- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing policy.

## **10. Related Professional Standards and Policies**

The Internal Audit function is bound by the following standards:

- Relevant professional standards
- Chartered Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan) – Selflessness, Integrity, Objectivity, Accountability, Openness, Honest and Leadership
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- Relevant legislation

All Internal Audit staff should be aware of and comply with the following policies and procedures:

- Employee Code of Conduct
- Council Constitution
- Anti-Fraud and Corruption Policy
- Whistleblowing Policy - regarding suspected malpractice
- Information Security Policies
- Contract Standing Orders - supply of goods and services and/or entering into contracts
- Financial Regulations (rules applicable to key areas of financial administration)
- Procurement Guidance
- Finance Manual (covers procedures for all financial systems)

## **11. Charter Review**

The Internal Audit Charter will be reviewed biennially by the Head Audit Partnership and presented Audit Committee for approval.

## WORK PROGRAMME 2013 – 2014

### AUDIT COMMITTEE – 27 JUNE 2013

#### Resolution Required

#### 1. Work Programme

1.1 This report covers the Work Programme for the 2013/14 municipal year. The Committee's terms of reference are set out at the front of the agenda

#### 2. Current Work Programme

2.1 The remaining three meetings of this Committee have been scheduled in the Council's Diary for 2013-14 on the following dates:

- 19 September 2013
- 12 December 2013
- 27 March 2014

2.2 Details of the currently identified items in the Work Programme are as follows:

19 September 2013		
External Audit report on Audit and Statement of Accounts	External Audit	Report
Report on The Effectiveness of the System of Internal Audit	Head of Audit Services	Report
Corporate Risk Register	Head of Audit Services	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Anti-fraud, corruption and bribery policy	Head of Audit Services	Review
Annual Governance Statement	Chief Finance Officer	Report
Committee's Work programme	Head of Audit Services/ Chief Finance Officer/Audit Committee	Report

12 December 2013		
Annual Audit letter	External Audit	Letter
Audit Services interim Report	Head of Audit Services	Report
Corporate Risk Register	Head of Audit Services	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Confidential Reporting Code (Whistleblowing Policy)	Head of Audit Services	Review
Committee's Work programme	Head of Audit Services/ Chief Finance Officer / Audit Committee	Report

27 March 2014		
External Audit Plan	External Audit	Report
Corporate Risk Register	Head of Audit Services	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Internal Audit Annual Plan	Head of Audit Services	Report

- 2.3 Any topics identified during consideration of the business at this meeting, will need to be included in the Work Programme.
- 2.4 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.
- 2.5 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.
- 2.6 The Committee may require a Head of Service to attend the next meeting of the Committee, where the Head of Audit Services has identified a risk but the target for controls to be put in place remains outstanding. This may be agreed either at the request of the Committee or if the matter is considered urgent, by the Chairman in consultation with the Chief Finance Officer.
- 3. Resolution**
- 3.1 The Audit Committee is asked to consider and approve the Work Programme as submitted and/or amended at the meeting.

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

**Report Author: Samuel Nicholls, Trainee Committee Manager (01784) 446240**