



INFRASTRUCTURE, GOVERNMENT  
AND HEALTHCARE

**Report to those  
charged with  
governance  
2008/09**

Woking Borough Council

24 September 2009

AUDIT

# Content

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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 Greg McIntosh, who is the engagement director to the Authority, telephone 020 7311 6430, email [greg.mcintosh@kpmg.co.uk](mailto:greg.mcintosh@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [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 Investigation Officer, 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



## Executive summary

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### Scope of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Standards and Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Woking Borough Council ('the Authority's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Authority's arrangements to secure value for money in its use of resources.

A summary of all reports we have issued in the year is set out in Appendix 8. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Summary of findings

#### *Financial statements*

The Authority is responsible for having in place effective systems of internal control which ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

Our findings are detailed in section two and our proposed opinion on the accounts is presented in Appendix 4.

#### *Status of the audit*

At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:

- Information outstanding on WGA - I&E NCS Subjective Analysis, cashflow and employee figures

We require a signed management representation letter, and have provided a draft version as Appendix 10.

## Executive summary (continued)

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### *Declaration of independence and objectivity*

In relation to the audit of Woking Borough Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Woking Borough Council, its directors and senior management and its affiliates that may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 9 in accordance with ISA 260.

### *Exercise of other powers*

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2008/09.

### *Certificate*

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present we require the receipt of all documentation identified as outstanding on the previous page, prior to our sign off of the audit as complete.

### *Fees*

Our fee for the audit is £107,000. This has been contained within the fee agreed with you in our audit plan. We undertook a review of a stakeholder question to us during the year. Fees in relation to this work totalled £10,620. We have not performed any non-audit 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.

Section two  
**Use of resources**

**We are required to conclude whether the Authority has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission**

**The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources and the Authority has been assessed as performing well against these themes**

**Based on this, we concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

**Introduction**

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

**The new use of resources assessment**

The Audit Commission introduced a new assessment this year. This assesses how well organisations are delivering value for money and better and providing sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As a consequence it is not possible to make direct comparisons with the previous year’s assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

**Findings**

We have assessed the Authority as an overall score of level 3 which means the Authority is performing well

The table below shows our Use of Resources assessment across the three themes.

<b>KLOE</b>	<b>DRAFT Theme Score</b>
1 – Managing finances	3
2 – Governing the business	3
3 – Managing resources	3

**The scores are subject to completion of Audit Commission national quality assurance and review processes, and may change. Final score will be published on 5 October 2009**

The scores have been quality checked by KPMG’s national quality control processes, through a local area based challenge process and nationally by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

Appendix 2 sets out our detailed findings from the use of resources assessment.



## Use of resources (continued)

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### Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Authority's arrangements to ensure effective use of its resources. This is the use of resources or value for money (VFM) conclusion

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix 3.

Based on our use of resources assessment, we conclude that the Authority has appropriate arrangements in place to ensure the effective use of its resources. Our proposed conclusion is set out in Appendix 1.

## Financial statements

The Authority is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have substantially completed our work on the 2008/09 financial statements.

Whilst we have noted an improvement in the quality of the accounts and the supporting working papers and the level of adjustments is below that of previous years we would note that we have experienced problems towards the closure of the audit with regards the receipt of the final pieces of key information. The receipt of this information, for example in relation to operating leases and the group accounts, was also delayed in previous years.

We have identified no issues in the course of the audit that are considered to be material.

There are a number of areas where our work is continuing. Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2009.

We will also report that the wording of your Annual Statement of Governance accords with our understanding

### Introduction

Our financial statements work can be split into four phases.

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> <li>Updating our business understanding and risk assessment</li> <li>Assessing the organisational control environment</li> <li>Issuing our accounts audit protocol</li> </ul>	February 2009	✓
Control evaluation	<ul style="list-style-type: none"> <li>Reviewing the accounts production process</li> <li>Evaluating and testing controls over key financial systems</li> <li>Review of internal audit</li> </ul>	March to April 2009	✓
Substantive testing	<ul style="list-style-type: none"> <li>Planning and performing substantive work</li> <li>Evaluating the accounts production and audit process</li> <li>Concluding on critical accounting matters</li> <li>Identifying audit adjustments</li> <li>Reviewing the Annual Governance Statement</li> </ul>	July to August 2009	✓
Completion	<ul style="list-style-type: none"> <li>Declaring our independence and objectivity</li> <li>Obtaining management representations</li> <li>Reporting matters of governance interest</li> <li>Forming our audit opinion</li> </ul>	September 2009	-

This report highlights issues on an exception basis following our testing.

## Financial statements (continued)

### Substantive testing – accounts production and audit process

As part of our use of resources assessment we assess the Authority's process for preparing the accounts and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness of draft accounts	Accounts were sent to us prior to the deadline of the 30 June 2009, and our onsite work commenced on 20 July 2009. During the course of our audit Management has made a number of minor disclosure and presentational changes to the draft accounts. These are summarised within Appendix 5.
Quality of supporting working papers	The quality of supporting working papers provided to us was good. A comprehensive set of working papers were provided to us on the first day of our onsite audit. These were referenced to the financial statements and represented an improvement from the prior year.
Response to audit queries	Finance staff were available for questions and queries throughout the course of our audit. Key officers ensured we were aware of booked annual leave in order we could plan our work effectively. We thank the finance team for their co-operation throughout the visit which enabled the audit to progress smoothly. Further improvements could be made to the speed with which outstanding audit issues are closed down at the end of the audit.

### Substantive issues – revaluation of fixed assets

Revaluation of fixed assets - The Council has recorded impairments of £61.1m within the 2008-09 accounts. Our audit work has confirmed that the Council has followed the advice of external valuers. There are however a number of assumptions that underpin the advice and whilst we can place reliance on the work that has been conducted we will seek specific representations from management regarding the value of total impairments included within the financial statements for the year ended 31 March 2009.

### Substantive testing – other judgement areas

In addition to the material judgements made in relation to the valuation of fixed assets we would also like to draw to your attention other judgements that have been made by the Council in compiling the financial statements.

Each year management exercises judgement over accruals and provisions that are included within the financial statements. The values included within the 2008-09 accounts for accruals are based on known expenditure for the year that had not been invoiced at the year end.

Management also includes a provision for doubtful debt each year. We would not deem the total provision within the accounts to be material and appears materially accurate.

### Substantive testing – adjustments to the accounts

In accordance with ISA 260 we are required to report uncorrected audit differences to you. 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.

We did not identify any material misstatements that impact on the reported outturn of the Council. We identified one minor audit difference, which has been adjusted for by management.

We have provided a summary of audit differences in Appendix 5.

In addition, we identified a large number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting the United Kingdom 2008: A Statement of Recommended Practice ('SORP'). We understand that the Council has addressed these.

## Financial statements (continued)

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### Substantive testing – Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### Control issues

Appendix 6 outlines the recommendations from both the 2008-09 interim and final accounts audit. We have not identified any significant control issues. The recommendations detailed within appendix 6 have been agreed with management.

### Completion – declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Woking Borough Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Woking Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 9 in accordance with ISA 260.

### Completion – management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 10. We will provide a draft to the Chief Finance Officer. We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

We are seeking specific management representations regarding the financial viability of the Thameswey Group as a going concern.

### Completion – other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

### Completion – opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2009.

Our proposed opinion on the financial statements is presented in Appendix 4

## Appendix 1: Proposed use of resources conclusion

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Woking Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Greg McIntosh

Appointed Auditor

**for and on behalf of KPMG LLP**

Chartered Accountants

Statutory Auditor

London

September 2009

## Appendix 2: Use of resources key findings

This appendix summarises key messages from the use of resources assessment by theme and recommendations. The recommendations have been included in appendix 6.

### KLOE 1 – Managing finances: overall score 3

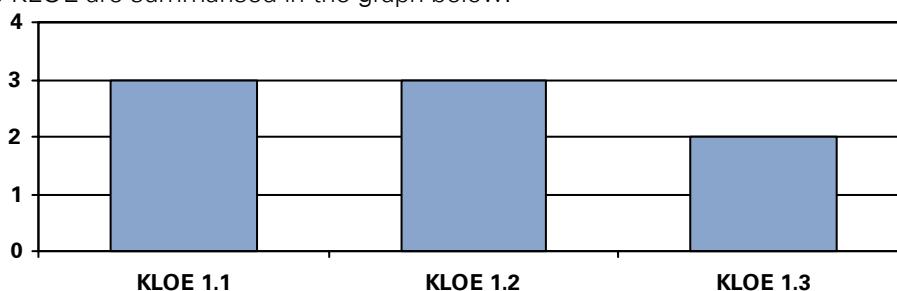
The Council has embedded, robust financial management processes. It has clear, well defined strategic priorities which have delivered significant achievements during 2008-09 including job creation, securing capital and revenue funding for future regeneration, financial efficiencies, carbon reduction and increased recycling rates.

Regular value for money reviews are conducted across services and the Council is starting to explore more radical outsourcing strategies to deliver more comprehensive cost savings for future years.

In light of the banking crisis, the Council has revised its investment policy.

To date we have not received a number of questions and enquires of which we keep the council informed.

The scores by sub KLOE are summarised in the graph below:



As the Authority has scored above level 2 for all criteria, it has met the requirements for the VFM conclusion.

### KLOE 1.1 – Financial planning

Finances are effectively managed to deliver strategic priorities and clearly linked to delivery of priorities at both the budget setting stage and as part of the ongoing monthly monitoring. Woking has three key strategic priorities (clearly articulated within the medium term financial plan) which underpin and drives the way that financial and business planning occurs, and linked to this, the means through which the prioritisation of strategic and business planning decisions made.

Woking has a record of sound financial management where challenging budgets and efficiency targets have been delivered against, year on year. This said, the 2008-09 outturn position is a deficit of a deficit of £66M. This reflects the occurrence in year of a £57M impairment on fixed assets. In addition to this, the Authority has a negative subsidy entitlement of £5M. This aside, the Authority has maintained the general fund at a consistent level since the prior year and has total reserves in excess of the 5% of turnover as recommended by CIPFA.

Over 60% of Woking's income is trading based and as such a robust understanding and management of activity has been essential in securing their ongoing financial health. This has been demonstrated through the ability of the Authority to drive through cost savings through increase outsourcing of contracts, whilst negotiating increases in the service provision (in accordance with stakeholder identified need). There has been a clear focus throughout the year of stripping back costs, whilst also improving services and service outcomes.

Where viable, innovative charging schemes have been utilised to ensure the best delivery of services (e.g leisure card project) Business decisions are made based on a structured and comprehensive project and performance management systems and processes, which forces the demonstration and compliance with specific, measurable criteria. This provides a demonstrable link into the overall strategic objectives and priorities. This allows the strategic benefits and the viability of finances to be articulated at the conception of a project and monitored throughout the life of the delivery.

### KLOE 1.2 – Understanding costs and achieving efficiencies

The Council has reviewed services to allow a greater understanding of the drivers of activity, performance and the over arching financial impact of services. Efficiencies have been driven through internal realignment of process and management (restructure) and through the outsourcing of many functions (for example waste collection and disposal).

Project management systems demonstrate that scenario planning and detailed option appraisal have been used on a frequent basis to demonstrate the viability of projects. (This is linked to the overall financial planning and strategic prioritisation of the Council also)

New ways of working are constantly being considered. A number of recent project includes the self service 'HomeTrak' scheme, the development and increase of Council owned properties through partnership working with the MOD and the co-location of the Police within the Civic Centre which has led to closer working (and also regular joint briefings) which has allowed an increasingly shared understanding of local issues and needs. The Council has also developed affordable housing through its subsidiary working with Woking Borough Homes.

Benchmarking is undertaken at both a local and Surrey wide basis. This has been a key element of driving efficiencies via the external tendering process and based on an underlying understanding of the costs involved and the priorities of the Council.

## Appendix 2: Use of resources key findings

### KLOE 1.3 – Financial reporting

Internal financial reporting is timely. The key financial reporting tool is the 'green book'. This draws together finance and performance information from across the Council on a monthly basis to clearly articulate the overall performance of the Council. This requires and demonstrates both the effective use of forecasting and the timely production of accurate financial and performance information. This is usually produced by the middle of the following month. This also includes an equality impact assessment for any new projects. The Borough consolidates group companies within the accounts. The ongoing financial monitoring of this has not been as robust as that associated with the main authority due to a lack of resources in place to undertake the monitoring. The group was reviewed by PwC at the start of 2009. A number of business critical recommendations were raised, but have not yet been fully implemented. **[Recommendation 13]**

Review of the content of the green book shows it to be a constantly developing media. Where feedback is provided on its content (from officers and members) this is iteratively updated to ensure it meets users needs. For example, Treasury management information has recently been expanded to respond to Councillor Questions over the Treasury performance of the Council. Officers of the Council consider the Green Book to be a comprehensive key tool to support both the financial and service performance of the Council.

Accounting deadlines for the preparation of accounts have been complied with in 2009. The year end compilation of supporting documentation could be more robust, specifically around the identification of leases and rigour attached to the close down of the group accounts audit and the provision of final documentation **[Recommendation 14]**

To date, for the 2008-09 accounts, key deadlines have been delivered against. The accounts contain only trivial errors and cumulatively, the errors do not have a material effect on the accounts.

## Appendix 2: Use of resources key findings (continued)

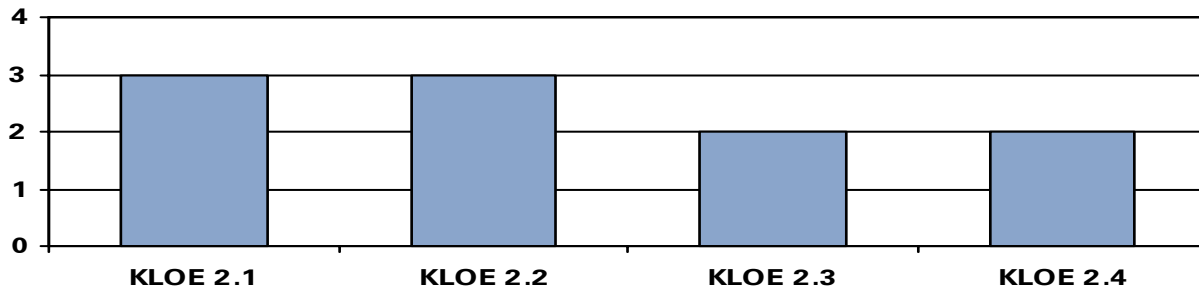
### KLOE 2 – Governing the business: overall score 3

The Council’s strategic objectives and the plans that support them demonstrate that there is a clear vision for the outcomes of local people. The Community Strategy has been developed to underpin the strategic objectives and has been subject to wide consultation to ensure that public opinion is appropriately captured.

The Council’s works is underpinned by a sound Code of Conduct which places emphasis on staff and member conduct as well as the stated outcomes for the local community.

Data quality is robust and the Council has introduced innovative and efficient records management processes.

The scores by sub KLOE are summarised in the graph below:



As the Authority has scored above level 2 for all criteria, it has met the requirements for the VFM conclusion.

### KLOE 2.1 – Commissioning and procurement

A clear vision is in place at all levels within the Council outlining strategic aims and priorities. The “Working partnership” sets out intended performance and priorities. This includes a clear commitment to Priority Communities and good examples of partnership working with the Police, Probation, Central Government, Schools, the private sector and local community groups.

Joint commissioning exists but examples are largely small scale. High priority areas have been identified and projects in place to improve standards within these areas (housing and the environment are key to this). Difficult to reach groups within priority communities have been identified and actively engaged with through liaison with community groups and through initiatives such as the decent and affordable housing schemes, the expansion of the home improvements initiative to deprived areas and increased investment in new housing options.

The Council established Thamesway Limited in 1998/99 to make long term energy and environmental project investments in support of the Council climate change strategy. Since the initial investment, a number of subsidiary companies have also been established. Thames Central Milton Keynes was established to construct and operate a Combined Head and Power station and private wire network to newly developed areas of Milton Keynes. This represents an indication of the innovative long term solutions that the council has sought to address priorities in delivering value for money and long term sustainable services.

### KLOE 2.2 – Data quality and use of information

With regards data quality the authority is considered to be low risk with well managed systems and processes. We selected three indicators from the National Indicator set for detailed testing (in addition to the benefits indicators). These included – NI 14, percentage of avoidable contacts, NI 154 – Net additional homes and NI 157 – Processing of planning applications. These were tested in accordance with the Audit Commission guidance. All were found to be correctly stated, however slight improvements in process were noted for NI 14 (however this was a new indicator and one which, given its subjective nature, the Authority had asked us to focus upon this year) where we did identify a specific need to reinforce training with a number of individuals.

Priorities are actively monitored via a suite of performance indicators which align strategic objectives and operational outcomes. No significant lapses in performance have occurred in the last 12 months.

Data security and information governance has recently been revisited by the Council. The system of control is underpinned by a series of policies and procedures, the implementation of which is monitored and any weaknesses identified and actions taken. Strengthened procedures have been put in place and a renewed SIRO structure implemented. Work is ongoing in this area.

The Council needs to proactively disseminate information to local people and communities that highlights the importance of the ethical agenda and in particular the importance of maintaining high standards of conduct within the council to ensure probity. **[Recommendation 15]** We have dealt with a number of questions and objections from stakeholders during the year which indicated that further work could be done in ensuring that stakeholders and local people have confidence in the Authority’s standards of conduct for members and staff and specifically in governance arrangements.

The Council should also consider at to whether it is possible to improve the use of data to track outcomes. For example to consistently capture data across all projects to demonstrate that desired benefits and outcomes have been achieved.

## Appendix 2: Use of resources key findings (continued)

### KLOE 2.3 – Good governance

Principles of good governance are inherent within the organisation. All statutory codes of conduct are in place and are in line with and reflect the CIPFA/SOLACE Good Governance Framework. Implementation is monitored through the relevant committee process with supporting policies and procedures in place. The Scrutiny committee provides the most active forum through which the principles of good governance are challenged, reviewed and assurance obtained. There are a number of examples over the last 12 months where this has been demonstrated in practice. Partnerships are actively governed by the same principles inherent within the Council and articulated within Contract agreements. The council has recently undertaken a strategic review of all senior posts. This has resulted in the realignment of senior responsibilities. As the revised structure embeds, additional consideration will be given to the composition of underlying staffing. A member training and induction process is in place. Attendance records show a good take up of the courses which cover both general and specific skill needs. Working relationships between members and officers is good.

Additionally, Woking meets and has achieved the standard of the South East Charter for Elected Member Development. The council has been awarded Charter status for three years from 24th January 2008 and has committed to a process of continuous improvement with regards to member development.

There are a limited number of partnership arrangements in place, e.g. Thamesway Group, Surrey Improvement Partnership and the Community Safety Partnership. There is scope to strengthen arrangements surrounding the risk management arrangements associated with these agreements as part of setting priorities, policy making, financial planning and performance management. Such arrangements might include for example updating a joint risk register.

### KLOE 2.4 – Risk management and internal control

Risk management is inherent within the operation of the Council. Roles and responsibilities are clear and are demonstrably implemented through officer, member and committee responsibility.

Risk management is integral to business planning process. The project management software within the Council forces risk management (and therefore links to the risk register) to be considered as part of each new project. All Council reports reflect of key risks and mitigating actions in place.

An effective system of internal control is in place and assurance is provided by both internal audit and KPMG as part of the external audit. Counter fraud champions are in place and this process appears to be well managed.

No significant lapses in internal control have been identified and recommendations (raised by both internal and external audit in this area) have not been significant in nature. A programme of member training is in place to ensure that they understand and implement effective systems of control and provide challenge where they may be unclear regarding the processes in place. An audit committee is in place which includes reports by internal audit, external audit, Fraud and risk management. Assurances are provided to the audit committee in accordance with the risk profile of Woking.

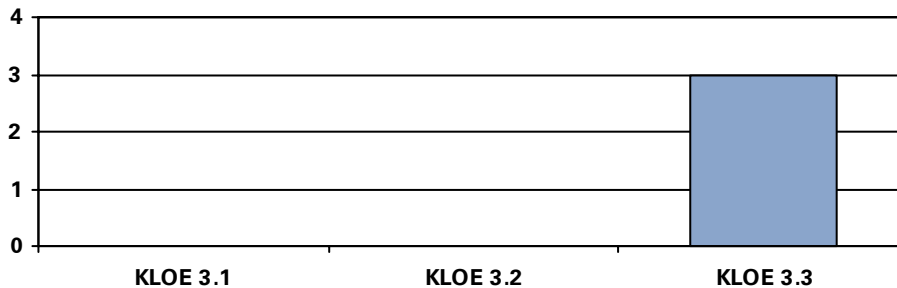
Where business continuity plans are in place, these should be tested on a periodic and regular basis. **[Recommendation 16]**

**Appendix 2: Use of resources key findings (continued)**

**KLOE 3 – Managing resources: overall score 3**

Workforce planning is the only applicable element of KLOE 3 for district councils in 2009. The Council has drawn up a forward looking workforce plan. Underpinning this, HR plans have been drawn up, aimed at improving and streamlining service delivery. This allows the Council to respond quickly to changing business needs and redeploy staff to maximise efficiency.

The scores by sub KLOE are summarised in the graph below:



As the Authority has scored above level 2 for all criteria, it has met the requirements for the VFM conclusion.

**KLOE 3.3 – Workforce planning**

The council has invested significantly in restructuring and developing the workforce. A three year workforce strategy is in place. As part of this, a strategic review of staff in post has been completed, starting with the most senior staff. The revised senior management structure is now in place.

The senior management are now individually (and as a group) looking at the structures which sit beneath them, and considering as to whether this is fit for purpose. It is envisaged that the completely revised structure will be in place by the end of the calendar year 2009. The impact of the senior restructure has been to more clearly define and link roles and responsibilities. There has been a reduction in the number of senior management in post. The process has been managed on a phased basis to ensure a seamless implementation.

In conjunction with this, the council has implemented a revised skills and behaviours framework for all staff. This reflects the strategic priorities and vision of the council. This has meant that all posts have been “skills graded” against the revised framework to ensure that competencies attached to each role are accurately captured and performance managed against. It is against the skills and behaviours framework that officers are performance managed. Where skills gaps have been identified as part of this process, personal development plans have been put in place.

The Authority have completed an equality and diversity self assessment. Whilst they have not sought accreditation (due to the accreditation being replaced shortly with an alternative scheme) they have self assessed at level 3. Compliance with diversity and equality policies is ensured and monitored, ultimately, as the council level.

## Appendix 3: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Authority
<b>Managing finances</b>	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
<b>Governing the business</b>	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
<b>Managing resources</b>	
3.1 – Use of natural resources – not required to be assessed	X
3.2 – Strategic asset management – not required to be assessed	X
3.3 – Workforce planning	✓

**The scores are subject to completion of Audit Commission national quality assurance and review processes, and may change. Final score will be published on 5 October 2009**

## Appendix 4: Proposed audit report

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### Independent auditors' report to the Members of Woking Borough Council

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Woking Borough Council and its Group for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Authority and Group Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Woking Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Woking Borough Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Woking Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Finance Officer and auditors

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year;

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

## Appendix 4: Proposed audit report (continued)

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### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### Opinion

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its Group as at 31 March 2009 and its income and expenditure for the year then ended

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Greg McIntosh

Appointed Auditor

**for and on behalf of KPMG LLP**

Chartered Accountants

Statutory Auditor

London

September 2009

## Appendix 5: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

The following table sets out the audit differences identified by our audit of Woking Council's financial statements for the year ended 31 March 2009. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

The Housing Benefits provision is currently included in the CEPS expenditure line. Since this relates to housing benefit it should be included in the housing services expenditure line. This adjustment should also be reflected in the group income and expenditure account.

	Original	Amendment	Revised
Cultural, Environmental and Planning Services	23,197	(271)	22,926
Housing Services Expenditure	35,426	271	35,697

### Presentation Adjustments

**Statement of accounting policies**, Fixed Assets. Page 18. Numbering of the bullet points is incorrect.

**Statement of accounting policies**, Pensions. Page 21. 'summarized' - American spelling.

**Note reconciling items for the Statement of Movement to the General Fund**, Net additional amount required to be credited to the general fund balance for the year. Page 24. Does not agree to prior year.

**Statement of Total Recognised Gains and Losses**, Total recognised gains and losses for the year. Page 25. Does not agree to prior year.

**Balance Sheet**, Total Net Worth. Page 27. Does not agree to prior year.

**Cash Flow Statement**, Capital grants received. Page 28. Does not agree to the note.

**Income and Expenditure Account Explanatory notes**, Note 4. Contribution from Capital Reserves. Page 31. Missing capital letter in 'the'.

**Income and Expenditure Account Explanatory notes**, Note 5. Expenditure under section 137, Local Government Act. Page 31. Does not agree to prior year

**Income and Expenditure Account Explanatory notes**, Note 7. Pensions. Reconciliation of Defined Benefit Obligation. Page 32. 'Liabilities Assumed in a Business Combination' and 'Exchange differences' are zero for both years so should be removed.

**Income and Expenditure Account Explanatory notes**, Note 7. Pensions. Reconciliation Fair Value of Employer Assets. Page 32. 'Assets Acquired in a Business Combination' is zero for both years so should be removed.

**Income and Expenditure Account Explanatory notes**, Note 7. Pensions. Recognition in the Income and Expenditure account. Page 32. Does not cast

**Income and Expenditure Account Explanatory notes**, Note 7. Pensions. Recognition in the Income and Expenditure account, Summary of Balances, ref to Note 7. Page 33. Incorrect note reference, numbered as note 7 should be note 6.

**Income and Expenditure Account Explanatory notes**, Note 7. Pensions. Recognition in the Income and Expenditure account, Summary of Balances. Page 33. Spelling mistake "Further information on Pensions is set out in th " (missing an e )

**Income and Expenditure Account Explanatory notes**: Note 11, page 34. To also make reference to the sale of Brookwood Farm Buildings for £275k to WBH, in addition to the £7.6m already disclosed. To correct the grammatical errors in the third paragraph: to include 'of' between '(TCMK)' and '£9 million'; to include 'to' between 'and' and 'Woking Borough Homes Ltd'; to include 'of' between 'Ltd' and '(WBH) and to delete 'to' between 'million to' and 'provide'.

**Presentation Adjustments (cont)**

**Income and Expenditure Account Explanatory notes:** Note 15, page 35. To provide more detail on Impairments. For example to quantify the classes of assets impaired and to add in how the impairment was calculated and valued on beacon properties.

**Statement of Total Recognised Gains and Losses Explanatory Notes:** Note 3, page 37. To spell out ADC as 'Write down of Association of District Councils'.

**Statement of Total Recognised Gains and Losses Explanatory Notes,** Note 6. Pensions Reserve. Page 39. Does not cast.

**Statement of Total Recognised Gains and Losses Explanatory Notes,** Note 6. Pensions Reserve. Page 39. Spelling mistake, 'Actuarial' should be Actuarial

**Statement of Total Recognised Gains and Losses Explanatory Notes:** Note 7, page 39. To amend line 2 to 'HRA Depreciation transferred from Capital Adjustment Account' not Capital Financing Account.

**Balance Sheet Explanatory Notes,** Note 1. Movement of Fixed Assets. Internal transfers line to be revised to reclassification, in accordance with SORP.

**Balance Sheet Explanatory Notes:** Note 2, page 41. The note should include a description of community assets not already accounted for within the B/S (e.g. other miscellaneous community assets as disclosed).

**Balance Sheet Explanatory Notes:** Note 5, page 42. The first paragraph should be amended to: "The freehold and leasehold properties which make up the authority's property portfolio have been valued on a five year rolling programme by qualified officers of the Council's Valuation Section, the District Valuer and independent Consultants."

**Balance Sheet Explanatory Notes:** Note 5, page 42. As per the SORP, for each class of tangible asset included at current value, the date and amounts of the valuations should be disclosed.

**Balance Sheet Explanatory Notes,** Note 5. Fixed Asset Valuation. "since October 1989" to be removed.

**Balance Sheet Explanatory Notes,** Note 6. Leases. To be removed.

**Balance Sheet Explanatory Notes,** Note 7. Deferred Charges. To be removed.

**Balance Sheet Explanatory Notes,** Note 8. Long Term Investments. (iv) Woking Borough Homes Limited (WBH). Page 44. Extra full stop.

**Balance Sheet Explanatory Notes,** Note 9 Long Term Debtors: Currently the total value disclosed in the Long Term Debtors note only includes group company debtors. This means that the note does not match the total long term debtors figure as per the balance sheet. The note should include a figure for the other long term debtors so that the total of the note matches that disclosed in the balance sheet.

**Balance Sheet Explanatory Notes:** Note 10, page 45. To remove WIP from Note. To rename title Stocks.

**Balance Sheet Explanatory Notes,** Note 11. Debtors and Prepayments. Page 45. Formatting, Unaligned negative sign.

**Balance Sheet Explanatory Notes,** Note 11. Debtors and Prepayments. Page 46. Missing comma in the total figure.

**Balance Sheet Explanatory Notes:** Note 11: NB Although material prepayments are not disclosed separately in the Debtors Note. Prepayments should be drawn out separately in Note 11 to distinguish between true debtors and prepayments.

**Balance Sheet Explanatory Notes,** Note 15. Provisions. Newlands Avenue Provision does not constitute a provision as per SORP to be treated as a year end creditor.

**Balance Sheet Explanatory Notes,** Note 16. Pensions. Page 49. Spelling Mistake, 'Mortality' should be Mortality.

**Balance Sheet Explanatory Notes,** Note 19. Commitments. Additional disclosure of value of underlying assets and extent of any liabilities required as per SORP.

**Balance Sheet Explanatory Notes,** Note 23. Financial Instrument Balances, Long-term Borrowings. Page 51. These should agree to the prior year figures.

## Appendix 5: Audit differences

### Presentation Adjustments (cont)

**Balance Sheet Explanatory Notes**, Note 23. Financial Instrument Balances, Long-term Investments. Page 51. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 23. Financial Instrument Balances, Current Borrowings. Page 51. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 23. Financial Instrument Balances, Current Investments. Page 51. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 25. Fair Value of Assets and Liabilities at Amortised Cost, Financial Liabilities, Carrying amount. Page 52. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 25. Fair Value of Assets and Liabilities at Amortised Cost, Financial Liabilities, Fair Value. Page 52. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 25. Fair Value of Assets and Liabilities at Amortised Cost, Financial Assets, Carrying amount. Page 52. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 25. Fair Value of Assets and Liabilities at Amortised Cost, Financial Assets, Fair Value. Page 52. These should agree to the prior year figures.

**Balance Sheet Explanatory Notes**, Note 26. Nature and Extent of Risks arising from Financial Instruments, Liquidity risk. Page 54. These should agree to the prior year figures.

**Income Statement and Balance Sheet Explanatory Notes**, Notes 7 and 16 respectively. Pages 31 and 34. To provide the following information as per the SORP (specific note to be agreed as I&E or B/S): narrative description on the basis used to determine the overall expected return on assets, including the effect of the major categories of scheme assets is needed; the actual return on scheme assets has not been given; amounts for the previous four accounting periods is needed for the PV, FV of liabilities and surplus of deficit in the scheme and experience adjustments arising on scheme liabilities and assets as a % of the liabilities/scheme assets at the B/S date and there is no estimate of contributions expected to be paid to the scheme in the accounting period following the B/S date.

**Housing Revenue Account & Explanatory Notes**: Clearer formatting of the bracketing of numbers to avoid confusion

**Housing Revenue Account Explanatory Notes**: Note of additional items... pg 59 This note is not disclosed in compliance with SORP

**Housing Revenue Account Explanatory Notes**: Note 1 Stock numbers, page 60. Stock numbers to be increased to 3,503 from 3,502. Reconciliation at <N106> was re-performed by client at year end when it couldn't be agreed in testing which resulted in an increase of 1 property to stock number count.

**Housing Revenue Account Explanatory Notes**: Note 2. Property under development line to be removed.

**Housing Revenue Account Explanatory Notes**: Note 2. Stock Values. Page 65. Unaligned negative sign.

**Notes to the Collection Fund**, Note 1. Yield from Council Tax, Council Tax Base and Expected yield. Does not cast.

**Group Balance Sheet**, Total Balances and Reserves. Page 70. Does not agree to prior year.

**Group Cash Flow Statement**, Financing. Page 73. Does not agree to prior year.

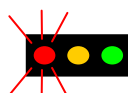
**Group Balance Sheet Explanatory Notes**, Note 1. Fixed Assets. Page 75. Incorrectly numbered note, should be note 2.

## Appendix 6: Accounts recommendations for 2008-09

This appendix summarises our recommendations relating to the accounts production process. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

### Priority rating for performance improvement observations raised

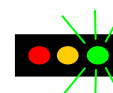
**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



#	Risk	Issue and recommendation	Management response	Officer and due date
1	● (three)	<p><b>HR document scanning backlog</b></p> <p>There is a backlog of documents to be scanned to the HR document management system, in some cases dating from April 2008. This presents the risk that HR staff are unable to refer back to supporting documents for payroll changes, and that an inadequate audit trail is available to internal and external audit.</p> <p>The Council should ensure that the payroll scanning backlog is cleared as soon as possible: in the interim, documents for scanning should be filed in such a way as to be easily accessible for inspection.</p>	Agreed	HR Manager 31 December 2009
2	● (three)	<p><b>Monitoring of payroll verification reports</b></p> <p>Payroll verification reports have been produced but not reliably reviewed and signed by heads of service in the year to date. Although an electronic record of returns is maintained, this has not always been used to ensure that payroll reports are reviewed and returned in a timely manner.</p> <p>This increases the risk that error or fraud may lead to overpayments which are not detected sufficiently quickly.</p> <p>The Council should ensure that the return of payroll verification reports is monitored closely, and that late returns are followed up with service heads as soon as is practical.</p>	Agreed	Financial Service Manager Immediate
3	● (three)	<p><b>Circularisation of nominal rolls and positive confirmations</b></p> <p>Nominal rolls are not circulated to Business Managers in advance of the payment run and as such, there is a risk that the payment run is inaccurate, leading to under or overpayments.</p> <p>Nominal rolls would act as a positive confirmation that planned payments are correct and in line with the budgeted establishment.</p> <p>Nominal rolls should be sent to all Business Managers on a monthly basis and positive confirmations are received prior to the payment run.</p>	Not agreed	Any matters will be picked up through existing budgetary control procedures.

**Appendix 6: Accounts recommendations for 2008-09**

#	Risk	Issue and recommendation	Management response	Officer and due date
4	● (two)	<p><b>Formal review of actuarial assumptions</b></p> <p>Although the actuary's report used to compile FRS17 disclosures is informally checked, this process is not documented to ensure that a full review takes place. This presents the risk that pensions disclosures are based on assumptions (for example, the predicted number of leavers) which significantly differ from the Council's own expectation, and are therefore misstated.</p> <p>We recommend that the actuarial assumptions used to determine FRS17 disclosures are reviewed in detail annually for reasonableness by a suitably senior council officer. This will help to ensure that the Council's local knowledge of relevant variables is communicated to the actuary where appropriate.</p>	Agreed	Financial Services Manager 2009/10 accounts
5	● (three)	<p><b>Segregation of Duties – invoice raising</b></p> <p>There is no segregation of duties between the authorisation of invoices and the raising of invoice when performed by devolved users. This could potentially result in appropriate invoices bring raised.</p> <p>There should be segregation of duties between raising and authorising invoices.</p>	Any inappropriate invoices would be identified through other controls (budget monitoring/ aged listings), therefore it is not considered necessary to change the current process.	
6	● (three)	<p><b>Review of Cash –Debtors Reconciliations</b></p> <p>This cash receipting to debtor's system reconciliation is not currently signed by the preparer, nor is it reviewed. This could potentially result in discrepancies between the two systems that are not appropriately followed up. The reconciliations should be signed by the preparer, appropriately reviewed and signed by the reviewer as evidence of this.</p>	Any unresolved discrepancy would be a difference between the control report and integra general ledger the following morning. The control report is signed by the preparer daily and reviewed monthly. Signing off individual cash files is therefore not considered necessary.	
7	● (three)	<p><b>Bad Debt Provision – Sundry Debtors</b></p> <p>A general provision is in place for sundry debts of £24,416. This is 5.3% of the debts at year-end. And only debts over a year old are provided for.</p> <p>The Council should review the methodology for calculation of bad debt, such that the age of all debts is factored into the provision calculation. Typically we would expect a provision to be calculated for all debts, which are not specifically provided for, within the ranges of 30 to 60 days in arrears, 60 to 90 in arrears and greater than 90 days.</p>	Collection of sundry debts has been consistently high for a number of years with only a small amount not collected within twelve months. The methodology will be reviewed for the 2009/10 accounts .	Financial Services Manager 2009/10 accounts
8	● (three)	<p><b>Date of valuation on FAR</b></p> <p>The Council's fixed asset register used throughout 2008/09, replaced by the Institute of Public Finance (IPF) application, did not contain a field for the last valuation date of individual fixed assets and so could not be used to monitor the completeness of the 5-year asset revaluation programme. Whilst this information is recorded in the database held by Valuation Services, it could not be monitored by the Business Support Manager. We have been informed that the IPF system will have such a function.</p> <p>The Council should take advantage of the new fixed asset register system to record the date of valuation of each asset and to generate monitoring reports which will enable the Council to show that all relevant assets have been included in the rolling 5-year revaluation programme.</p>	Agreed. Use of the IPF application is being developed so that in time the details of valuations will be included.	Asset Manager 31 March 2010

**Appendix 6: Accounts recommendations for 2008-09**

#	Risk	Issue and recommendation	Management response	Officer and due date
9	● (three)	<p><b>Capital transactions in year</b></p> <p>Capital transactions are reviewed at year end, when they are downloaded from the new IPF system and uploaded into the GL. As such, there is a lack of asset information throughout the year; for example depreciation feeding into an accurate I&amp;E or asset values feeding into a complete balance sheet. There is a risk that the Council does not hold comprehensive financial information on assets and so can not monitor the data on a timely basis.</p> <p>Capital transactions should be reviewed on a quarterly basis and reported back to the Senior Management Team.</p>	<p>Depreciation charges are shown in the I&amp;E account during the year. Capital expenditure is reported quarterly through the work together project reporting process. The asset information uploaded at the year end relates to asset valuation. It is not considered necessary to update valuations on a quarterly basis.</p>	
10	● (two)	<p><b>Lease disclosures</b></p> <p>A central list of leases is not held by the Council and so lease disclosures require significant preparation by the Financial Service Manager. This raises the risk that not all information is obtained and accurately disclosed in the accounts. We recommend that a central list of operating and financial leases is held and reviewed prior to year end, to provide sufficient time for the collation of lease disclosure notes and in preparation of conversion to IFRS.</p>	<p>Agreed</p>	<p>Financial Services Manager 31 December 2009</p>
11	● (three)	<p><b>Open Order s Information</b></p> <p>The Council currently does not have a mechanism for identifying and monitoring open orders. Our review of a list of open orders recorded on Market Place identified that a number of orders had been received but not receipted on the Market Place system.</p> <p>The Council should ensure that the Market Place system is kept up to date and that all goods received are receipted on the system.</p>	<p>Agreed</p>	<p>Corporate Services Manager 31 October 2009</p>
12	● (two)	<p><b>Group Accounts Information</b></p> <p>The Council currently has no arrangements in place to ensure the timely completion of the Group Accounts audit for inclusion within the Council's Statement of Accounts.</p> <p>In addition there are currently no mechanisms in place by which the Council gains assurance over the financial and operational performance of the group companies.</p> <p>The Council should ensure that it receives monthly financial and performance reporting of the subsidiary and group reporting. In addition the Council should put in place a formal deadline for receipt of the audited Group Accounts to facilitate the timely inclusion within the Council's Statement of Accounts.</p>	<p>These matters will be progressed in accordance with the approved improvement plan following the appointment of the Thamesway Group Finance Director at the beginning of September 2009.</p> <p>A formal deadline for receipt of the accounts was in place for 2008/09.</p>	<p>Chief Financial Officer in accordance with agreed improvement plan.</p>

## Appendix 6: Use of Resources recommendations for 2008-09

#	Risk	Issue and recommendation	Management response	Officer and due date
13	● (one)	<p><b>Implementation of Thamesway review recommendations</b></p> <p>The group was reviewed by PwC at the start of 2009. A number of business critical recommendations were raised, but have not yet been fully implemented.</p> <p>We believe that the implementation of these recommendations are fundamental to the demonstration of robust governance procedures within the Authority and should be implemented as a matter of urgency.</p>	<p>Following the review by PwC and improvement plan was agreed. As reported to the Executive on 3 September 2009 in the Thamesway Business plan a number of these recommendations have been progressed. The remainder of the Improvement plan will be progressed following the appointment of the Group Finance Director</p>	<p>Chief Financial Officer in accordance with agreed improvement plan.</p>
14	● (three)	<p><b>Accounts production process</b></p> <p>Accounting deadlines for the preparation of accounts have been complied with in 2009. However, the year end compilation of supporting documentation could be more robust, specifically around the identification of leases and rigour attached to the close down of the group accounts audit and the provision of final documentation.</p> <p>This would help ensure a more timely completion and close down to the audit</p>	<p>Agreed as indicated above in recommendations 10/12.</p>	<p>Financial Services Manager 2009/10 Accounts</p>
15	● (three)	<p><b>Dissemination of information</b></p> <p>We have dealt with a number of questions and objections from stakeholders during the year which indicated that further work could be done in ensuring that stakeholders and local people have confidence in the Authority's standards of conduct for members and staff and specifically in governance arrangements.</p> <p>The Council needs to proactively disseminate information to local people and communities that highlights the importance of the ethical agenda and in particular the importance of maintaining high standards of conduct within the council to ensure probity.</p>	<p>Detail of enquiries to be provided by KPMG to Strategic Director of Finance</p>	<p>On receipt of details of questions and complaints the approach to providing information to stakeholders will be reviewed Chief Finance Officer</p> <p>31 December 2009</p>
16	● (three)	<p><b>Risk Management – Business continuity</b></p> <p>Where business continuity plans are in place, these should be tested on a periodic and regular basis.</p>	<p>Agreed</p>	<p>Corporate Strategy Manager Ongoing</p>

## Appendix 7: Follow up of previous recommendations

This appendix summarises the progress made to implement the recommendations identified in our previous reports.

#	Risk	Issue and recommendation	Management response	Update as at Sept 2009
1	● (one)	<p><b>Estimation of depreciation</b></p> <p>Our review of your asset management procedures and the asset related balances included within the accounts identified that you are estimating current year depreciation based on prior year opening balances. Using this methodology means that your estimate does not relate to the consumption of economic benefit and does not take into consideration the asset movements for the relevant in the financial year, in compliance with FRS 15.</p> <p>We recommend that future depreciation estimates be calculated based on the current year asset balances, to ensure that your accounting treatment is compliant with the relevant accounting principles and that the Net Book Values held on the Balance Sheet are not significantly misstated.</p>	<p>Agreed.</p> <p>Leigh Clarke</p> <p>For 2008/09 accounts</p>	<p><b>Recommendation implemented</b></p> <p>The Council has revised this policy such that new additions in 2008-09 will start to be depreciated in 2009-10.</p> <p>For existing assets, the remaining useful economic life will be reduced by 1 year for 2008-09 and subsequent depreciation calculations in order to eliminate the existing overstatement of the carrying value of the remaining useful economic lives of these assets.</p>
2	● (two)	<p><b>Review of access rights</b></p> <p>There is no formal evidenced process to review and inhibit the Integra user accounts or payroll administration rights on the chris21 payroll system of staff no longer employed by the Council. This poses the risk of inappropriate access being maintained to key systems.</p> <p>Currently, Business Support Managers receive routine lists of leavers but there is limited evidence that this is reviewed and access terminated within a reasonable timeframe of the individual leaving the Council.</p> <p>You should ensure that a nominated officer reviews the regular list of leavers distributed by HR against personnel with access rights to key systems. If leavers with access rights are identified the leavers' accounts should be disabled in a timely manner. The review should be evidenced.</p> <p>Where it is necessary to reactivate the Network user account of an ex-employee, you should ensure that the account is activated for a limited time only (e.g. 30 days) and only upon authorisation from a senior manager. Evidence of this authorisation should then be retained by ICT for as long as the account is enabled.</p>	<p>When a member of staff leaves the Council they are placed into a folder called 'Leavers' on the active directory which prevents access to the Council's IT network. The risk associated with inappropriate access is therefore significantly reduced. Integra users are now being deleted from the Integra system using the leavers listing. A record will be kept of these deletions.</p> <p>We will review the arrangements to record and evidence the reactivation of accounts and the closure of access to the HR system.</p> <p>HR Manager</p> <p>End of December 2008</p>	<p><b>Recommendation implemented</b></p> <p>Integra leavers are actioned by the Business Support Manager for that particular Business Area. This utilises the knowledge the BSM has of the service area and ensures that knowledge of how to disable access rights is not restricted to a single officer.</p>

## Appendix 7: Follow up of previous recommendations

#	Risk	Issue and recommendation	Management response	Update as at Sept 2009
3	● (two)	<p><b>Review of refund payments</b></p> <p>Our testing identified that a clear audit trail demonstrating the review and investigation of Council Tax and NNDR refunds is not in place. This creates the risk that erroneous payments may be made</p> <p>Individual refunds should be reviewed and evidence of review including the action taken noted. Consideration should also be given to implementing procedures whereby all refunds over a pre-determined limit are additionally examined to ensure that the risk of large errors going unidentified is minimised.</p>	<p>A sample of cases is currently reviewed and this is considered adequate. A record of those accounts reviewed will be retained for future reference.</p> <p>We will consider the introduction of a predetermined level above which all refunds are reviewed.</p> <p>David Ripley, Revenues and Benefits Manager</p>	<p><b>Recommendation implemented</b></p> <p>Our review confirmed that a sample of refund payments has been reviewed and a sufficient audit trail is in place.</p>
4	● (two)	<p><b>Aged debt monitoring</b></p> <p>Our testing identified that aged debt monitoring for HRA debtors is not evidenced. We also noted that the aged debt provision is estimated independently of the level of arrears at year end and the same level of provision has been applied in the past three years.</p> <p>We recommend that HRA aged debt be actively monitored on a routine basis and that records are maintained to evidence this process.</p> <p>Though we are content that the HRA debt provision is not materially inaccurate, we suggest that the HRA bad debt provision be determined in reference to the level of arrears at year end. This will help enhance the accuracy of the bad debt provision.</p>	<p>The year end position has been reviewed and the existing provision was considered sufficient. We will ensure evidence of the review is recorded in future.</p> <p>Leigh Clarke, Financial Services Manager</p> <p>Incorporate requirement in 2008/09 accounts process</p>	<p><b>Recommendation implemented</b></p> <p>The provision is established with regard to the level of arrears, but not the age of the debt.</p>
5	● (three)	<p><b>Review of Valuation Office reconciliations</b></p> <p>Reconciliations for NNDR between the VO listings and Academy had not been signed and dated by the preparer in two of the five cases sampled.</p> <p>There is not a clear audit trail demonstrating that reconciliations have been prepared in a timely manner nor is it apparent who was responsible for preparing the reconciliations</p> <p>As a matter of best practice all reconciliations should be signed and dated by the preparer to demonstrate that they had been prepared in a timely manner. This is particularly important given that responsibility for the reconciliations is rotated within the Revenues Team.</p>	<p>Agreed. This practice is now being followed with each schedule being signed off.</p> <p>Complete</p>	<p><b>Recommendation implemented</b></p> <p>Our testing of Valuation Office reconciliations confirmed evidence of review.</p>

## Appendix 7: Follow up of previous recommendations

#	Risk	Issue and recommendation	Management response	Update as at Sept 2009
5	● (three)	<p><b>Authorisation of new users</b></p> <p>There is currently no formal process in place to authorise new users of the Integra general ledger system. This creates the risk that new users are provided with access to key systems or processes for which they are not sufficiently trained or permitted to access.</p> <p>There is no evidence to suggest that inappropriate access has been granted. Business Support Managers currently provide a general access profile to new joiners who need access. An enhanced approach would be for line managers to complete a pro forma highlighting access levels required for each new post holder. This would give the Council greater assurance that access to Integra was granted only to appropriate members of staff.</p>	<p>A corporate form is completed for each new member of staff requesting access to the network. The form also records where access to individual systems is required by that member of staff. This form is authorised by their business or line manager. The Integra system administrator will establish with a line manager the level of access required by that member of staff before setting up new users with a user id and password. Business support managers will provide the user id and password and they train the new member of staff in the use of Integra.</p> <p>For Integra the general access profile used for the majority of staff provides read only access not update access.</p> <p>We will review the procedures to ensure that an adequate record is kept of these staff and appropriate training has been given.</p> <p>Chris White</p> <p>31 December 2008</p>	<p><b>Recommendation implemented</b></p> <p>New members of staff are set up on the system and given access to Integra by the line manager completing the corporate e-form (as described in last years management response)</p>

## Appendix 8: Audit reports issued

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A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	28 May 2008

### Appendix 9: Declaration of independence and objectivity

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#### Declaration of Independence and Objectivity 2008/09

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Standards and Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

#### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

### **Appendix 9: Declaration of independence and objectivity (cont'd)**

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KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor Declaration**

In relation to the audit of the financial statements of Woking Borough Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Woking Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

### Appendix 10: Draft management representation letter

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Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Woking Borough Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Woking Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

## Appendix 10: Draft management representation letter (continued)

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With reference to the specific issues on which you have requested assurances from Members, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.
- We confirm that we have reviewed the financial viability of the Thameswey Group and confirm that it is a going concern. Outstanding liabilities of the Group do not present a financial risk to the Council.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Standards and Audit Committee on the 17 September 2009.

Yours faithfully

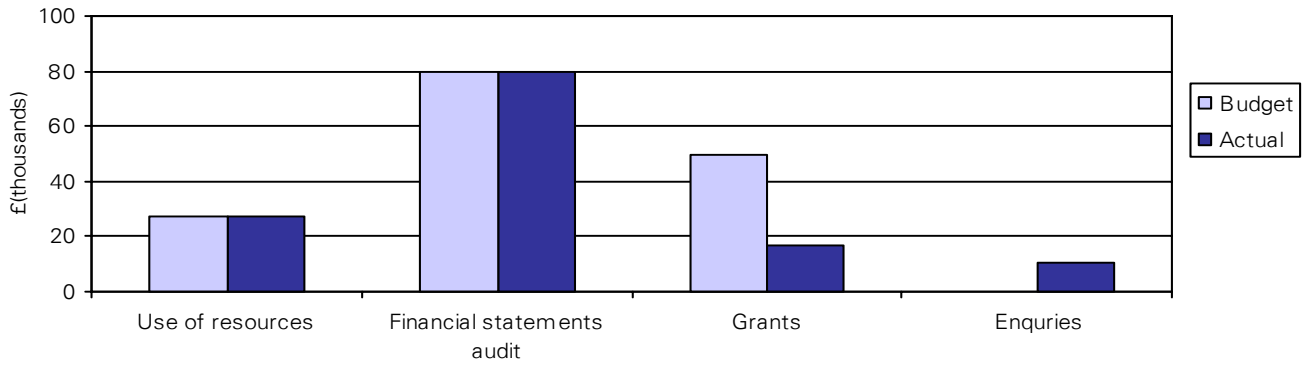
[Steve Bonsor, Chief Finance Officer signing letter on behalf of Woking Borough Council]

On behalf of Woking Borough Council

**Appendix 11: Audit Fee**

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

**External audit fee for 2008/09**



Note that the grants fee reflects the fees billed to date for the audit of 2008-09 grants. We would expect to bill the planned fee. The enquiries fee relate to one question raised by a stakeholder.