

Audit Committee Agenda

Thursday, 22 June 2017 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.
Please enter the building via the Tourist Information Centre entrance.

For further information, please contact Emily Horne on 01424 451719 or email:
ehorne@hastings.gov.uk

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Agenda Item 3 Public Document Pack

AUDIT COMMITTEE

16 MARCH 2017

Present: Councillors Rankin (Chair), Webb (Vice-Chair), Charman, Chowney and Sinden

59. DECLARATIONS OF INTEREST

The following Councillors declared their interests in the minutes indicated: -

Councillor	Minute	Interest
Webb	44. BDO Planning Report to the Audit Committee (Audit for the Year Ended 31 March 2017) - Pension Fund Liability Assumptions	Personal – A member of East Sussex County Council

60. APOLOGIES FOR ABSENCE

None.

61. MINUTES OF THE MEETING HELD ON 25 JANUARY 2017

RESOLVED – (unanimously) that the minutes of the meeting held on 25 January 2017 be approved and signed by the Chair as a true record

62. BDO PLANNING REPORT TO THE AUDIT COMMITTEE (AUDIT FOR THE YEAR ENDED 31 MARCH 2017)

The Chief Auditor introduced his report to the Committee and informed members of BDO's audit plan for the audit of the Council's accounts and Value for Money arrangements. The BDO report highlights the risk-based approach to the audit and the main risks they have identified. It also shows the proposed audit fees. The BDO Audit Plan to the Audit Committee (Audit for the year ending 31 March 2017) was appended to the report.

Leigh Lloyd-Thomas, Engagement Lead, BDO, presented the plan. He explained the threshold and materiality limits for the audit and the risks estimated and advised of the changes to this year's report. He referred to the absence of a museum piece which for the last two years had been on tour to other museums. He said that its existence needed to be verified because of its value.

The Chartered Institute of Public Finance and Accountancy has changed the way that the statutory accounts will now look. BDO will look at related party transactions and assessing our reserves. BDO's Engagement Lead said that the Council has

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significant reserves but we are not receiving enough funding to cover some services and for several years there has been a run on these. There is also committed spend earmarked against reserves. Hastings Borough Council finds a way to use its money wisely, in medium term though; something has to change for the Council's finances to remain sustainable.

Fees are set by external body that BDO is obliged to follow. BDO's Engagement Lead said he will bring a report to the committee in mid-September which will cover all of the conclusions from their audit testing.

Councillor Sinden asked how much the museum piece that was loaned on tour had been valued at. The BDO Engagement Lead confirmed the insurance team's significant valuation of the item. The Assistant Director Financial Services and Revenues added that requisite security measures as advised by our insurer were in place.

Councillor Chowney sought clarification on the red risk highlighted by BDO called management override. The BDO officer explained that towards closure of year end accounts there are necessary adjustments that are proper to be made. However, there is sometimes pressure on management for adjustments to be made that could show the accounts more favourably unless adequate controls are in place. Hence BDO scrutinise all significant adjustments made at year end close down to ensure that the figures and transactions are bonafide.

Councillor Chowney asked if there is anything Hastings Borough Council should be doing that we are not. The BDO Engagement Lead referred to the underlying controls and advised that the quarterly financial report should be in line with expenditure so that the final set stacks up against the quarterly reports. If the final set of accounts look nothing like expectations it will need to be addressed. The Assistant Director Financial Services and Revenues said the revised budget was set in in February and the outcome will be available in July. At that time, any differences will be apparent and there will be a variances statement.

Councillor Webb said if it was consistently wrong there would be a pattern. The Assistant Director Financial Services and Revenues said last year's outturn will give a full list of variances in the July report and comparison to previous years. Cllr Webb then asked if most years were accurate? The Assistant Director Financial Services and Revenues confirmed yes, except for sometimes on the Housing Benefit outturn figure where just a small percentage change from assumption can have a large financial impact.

Councillor Chowney asked the BDO Engagement Lead whether the risks that the Council were having to take on income generation concerned him? The BDO Engagement Lead said that they were careful to recognise the position. Many Councils are now needing a more commercially balanced risk portfolio but where we have a new scheme in place, he would expect us to have taken due diligence. He said that he knew of a Council that was exceptionally aggressively borrowing £300m (taking advantage of the PWLB current low borrowing rate) but also of another Council that had placed £1m with the Churches and Charities Local Authority Property Fund.

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He said BDO look at the approach in relation to each individual Council and not comparing it with what everyone else is doing.

Councillor Rankin asked BDO what revenue reserves we should carry? The BDO Engagement Lead explained that external audit's role is not to act as a Financial Adviser but instead let audit committee members know when the level of reserves being carried is not right. He went on to say that you want a good buffer and could set range more aggressively. You want enough cover so that you never have to liquidate at short notice. He gave some examples of a formulaic approach undertaken by some councils and it was seen that our level of reserves was consistent with those. Councillor Rankin commented that this was encouraging.

The Assistant Director Financial Services and Revenues said we have £7m in general un-earmarked reserves. The Council had set and agreed £1m in the budget in respect of a downturn in income. 5% has been put into a reserve in case of an overrun in capital expenditure giving £2m. In addition to this another £2m has been put into a reserve in case of unforeseen expenditure making a grand total of £5m set aside in earmarked reserves. For reference, £2.2m has been set aside in earmarked reserves for some years but not had to call on it. Next year there is a call of £555,000 from reserves but this is significantly less than the £950,000 that was predicted last year. It is hoped that through the performance, income and efficiency review process and the income generation board will see a process in place to see the sustainability of the Council's budget b 2019/2020

Councillor Rankin asked BDO if the legal claim on pier should be taken into account as it could take out our reserves? The BDO Engagement Lead said the level of uninsured claim is huge but it is not a proven loss. If they increase their claim level, regardless of resources it could wipe out the reserves. All the Council could do in this situation was taken expert legal advice.

The Assistant Director Financial Services and Revenues said that if the level of the Pier legal claim was unfavourable and wiped out the reserve, the Council would use its transitional reserve and have to more rapidly make savings or generate income. We would then bring a report to Cabinet to pay the bill and decide on what actions we need to take. We would be forced into making risky/quicker decisions. The Assistant Director Financial Services and Revenues said he was hopeful the settlement won't be as much as they are seeking. He added that we had employed forensic accountants and that our in-house legal Services team had done well.

Councillor Rankin referred to the land and building valuations, venture into the property market. He stated that if properties are down valued for companies, the loss goes through their profit and loss. He asked whether the same will impinge on our revenue situation? The BDO Engagement Lead Officer confirmed that Cllr Rankin's assertion was correct but explained how for a local authority, the situation is different and doesn't impact on its financial sustainability in the same way.

Councillor Rankin sought clarification on what the materiality limit is. The BDO Engagement Lead explained that this is determined at 2% of gross expenditure. It indicates that if there were errors on the accounts that exceeded this materiality limit, they would not be able to say that the accounts presented a true and fair view. He

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emphasised though that they do look at all the errors smaller than this and highlight them to the audit committee if appropriate.

The Assistant Director Financial Services and Revenues – informed the committee of an emerging development to do with property valuations. Regarding property funds CCLA invested in 18/19, there may be a requirement to revalue in year. At the moment it doesn't go through the revenue accounts but there may be a new accounting standard for it to go through revenue accounts. This uncertainty is in the pipeline and likely to be addressed in the 2018/19 or 2019/20 accounts.

RESOLVED (unanimously) to accept the External Auditor's Audit Plan.

The reason for this decision was:

The Audit Committee, as required by the Constitution, receives and notes the External Auditor's Audit Plan on behalf of the Council.

63. PROPOSED INTERNAL AUDIT PLAN 2017/18

The Chief Auditor introduced his report to formally confirm that the internal audit plan for 2017/18 had been noted by the Audit Committee.

Councillor Sinden queried the progress of the car park machines for operating the new coinage. The Chief Auditor advised that Cale Briparc is managing the work to reconfigure the machines. A number of the machines have already been upgraded and reconfigured. Software will advise when the machines are full. The last two upgrades for 5p and 50p coins were successful and there are no problems.

Councillor Chowney asked what the Euro Grant Audit involved. The Chief Auditor said there were a lot of other grants which were not euro grants as well as CAN and Shine that are. The Assistant Director Financial Services and Revenues added that we make provision in the audit plan for euro grant work which covers its costs. It does impact on audit plan but is helpful to have in house experience.

Councillor Rankin asked how the work on Syrian refugees was shared. He said part of the audit plan involves handling large amounts of cash. Controls are there at the beginning before cash is given to refugees, however we need to see the whole system and test how the cash is spent and not past around other people. To see evidence that the money is spent for the purpose it is intended.

Councillor Charman said people will automatically know what they entitled to – leading to a risk of exploitation. The Assistant Director Financial Services and Revenues said that government has provided guidance on housing and spending. Refugees are entitled to £200 in cash for which they sign for. The audit will see if it achieves its objective of balance of funds and how spent. We will determine terms of reference and overall controls and individual controls for protection of staff. It will be a full and thorough audit as the Syrian refugee scheme will last for next 5 years.

Councillor Chowney stated that the refugees cannot get a bank account because they don't have the credentials. Providing a plastic card to withdraw money is an

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expensive process. I raise this as something you look at. Having raised this with the local MP/Home Secretary, she said she will look into this.

Councillor Webb asked if Hastings were having these discussions with Credit Union. The Assistant Director Financial Services and Revenues said there was an issue regarding the bank account and universal credit bank account holding up all the payments which their total support depends on, which the council support during that period.

Councillor Chowney said he believes the Credit Union is involved in loading up cards. However, they are a volunteer organisation, and so there is only so much they can do.

Councillor Rankin referred to the services which he felt had a reputation and audit risk - drill down at another meeting. He said he was concerned cash was sent out and not reaching its destination, vulnerable people. It is something that needs to be looked in a lot of detail. The Assistant Director Financial Services and Revenues said he would bring a report back to the committee which members could follow up with independent questions. Members said they were interested in having the services here at a separate seminar. The Assistant Director Financial Services and Revenues said he would bring the item forward and join together on the forward plan.

RESOLVED (unanimously) that the report be noted.

The reason for this decision was:

The Annual Audit Letter is for all members and posted to the Council's website. It is of particular interest to those charged with governance.

64. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented his report on the key findings from the payroll audit.

He advised that particular focus was spent on staff mileage claims but there were no concerns to report.

The overall audit assessment was good. The controls were in place and there were no significant audit concerns that needed to be brought to the attention of the committee.

RESOLVED (unanimously) that the Audit Committee accepts the report

The reason for the decision was: To monitor the levels of control within the organisation.

65. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 6.58 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 22 June 2016

Report Title: Audit Committee Report 2016/17 to Council

Report By: Tom Davies
Chief Auditor

Purpose of Report

To agree the report from the Audit Committee to Council on its annual review of the effectiveness of Internal Audit.

Recommendation(s)

- 1. To agree the report from the Audit Committee to Council on the annual review of the effectiveness of Internal Audit.**

Reasons for Recommendations

Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings.

Introduction

1. Background Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires Local Authorities to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control each year with the authority's financial statements.
2. This report, which follows the format recommended by the Chartered Institute of Public Finance and Accountancy, sets out the review of internal control and the assurance gathering process as required by the statute and accompanying guidance.
3. In addition, Regulation 6 of the Regulations requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings. Proper practices in relation to internal audit for relevant bodies may be found in the "Public Sector Internal Audit Standards". We are working with the Sussex Audit Group on a reciprocating basis to arrange a "peer" review of Internal Audit which must be completed by 31 March 2018.

Principal statutory obligations and organisational objectives

Responsibility for Statutory Obligations

4. The Council has formally established responsibilities for its statutory obligations through the Constitution that sets out individual officer and member responsibilities, delegations to officers and committees, and committee terms of reference. These records are accessible on the Council's website and through the Monitoring Officer.
5. Detailed officer responsibilities are set out in job descriptions and structure charts.
6. Directors are accountable for ensuring that responsibilities, authorities and any limits to authorities are appropriately and clearly established within their directorates. The Audit Committee receives internal and external audit reports and ensures that any non-compliance is remedied through appropriate recommendations, and where necessary, requires assurance that recommendations have been implemented.

Organisational objectives and priorities

7. The multi-functional nature of the Council means that there are a large number of mandatory and discretionary requirements and powers. Hastings Borough Council took action to identify its priority objectives resulting in a list of principles and priorities underpinning the Corporate Plan. The priority areas were then devolved through Directors to Service Managers in the form of Work Plan Summaries.
8. There is a Local Code of Corporate Governance. Audit Committee Terms of Reference clearly assign responsibility for the scrutiny of corporate governance arrangements to the Audit Committee.

Performance against planned outcomes

9. The Authority knows how well it is performing against its planned outcomes through a comprehensive and effective performance management system. This system monitors performance against plans, targets, and financial budgets, with quarterly reports to the Overview and Scrutiny Committee.

Identifying principal risks to achieving the objectives

10. 'Risk' is any obstacle, or potential obstacle, to the achievement of the Council's priority objectives or statutory duties. The purpose of risk management is to ensure the achievement of the Council's objectives with efficient use of resources.
11. By identifying high-risk groups or areas, corporate policies and service resources can be targeted on those groups or areas.
12. The Council has a formal Risk Management Framework that was approved by Cabinet. The Framework is designed to encourage managers to 'own' the risks associated with their areas of responsibility. Managers use a corporately agreed matrix for identifying and assessing risks and controls.
13. The council continues to ensure the identification of key risks from both a strategic and operational perspective. Using a process of self-assessment, senior management re-assessed the strategic risks (those to service provision, statutory compliance, and reputation) and services assessed operational risks (financial, physical and contractual risks).
14. During 2016/17 both the Strategic Risk Register and Operational Risk Registers were regularly updated.
15. Council has approved Terms of Reference for the Audit Committee giving it a clear remit to,

"Review, evaluate and approve: The effectiveness of the Council's process for assessing significant risk exposures and the measures taken by management to mitigate risks to an acceptable level".
16. A large part of the internal audit plan is risk-driven.

Key controls for managing principal risks

17. To ensure that its controls are fully up to date with the current operating environment, Financial Operating Procedures provide the framework within which Members and Officers must operate and compliance is routinely checked through audit reports to the Audit Committee.
18. In addition, the Council has these controls in place:
 - a. The Council has adopted the CIPFA Code on Treasury Management to ensure compliance with the Prudential Code.
 - b. An Anti-Fraud and Anti-Corruption Strategy (Fighting Fraud Locally).

- c. A Whistle-blowing Policy.
- d. Codes of Conduct for Members and Officers.
- e. Registers of Interests for Members and Officers.
- f. Risk Registers (reviewed by Audit Committee) are updated on an ongoing basis.
- g. Performance is monitored through quarterly Performance Reviews.
- h. A Corporate Health and Safety system of monitoring and review is in place.
- i. A Corporate compliments and complaints procedure operates.

Sources of assurance

19. Sources of assurance on the adequacy and effectiveness of the Council's controls over key risks include:
 - a. An Audit Committee that is a fully constituted Committee of the Council.
 - b. An Internal Audit and Investigations service that is independent in planning, operating, and reporting, and that reports to the Audit Committee.
 - c. A Chief Finance Officer with responsibility for ensuring the proper administration of the Council's financial affairs.
 - d. Processes for maintaining internal control include a framework of regular management information, Financial Rules and Finance Operating Procedures, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.
 - e. A performance management system that includes commentary on service-level risk, the setting of targets for service delivery and monitoring of performance against targets and plans.
 - f. A strategic Corporate Plan setting out the Council's priorities, which cascades to operational plans at service and project level, including consideration of risks.
 - g. An annual budget and quarterly reviews of actual expenditure to budget.
 - h. A Local Code of Corporate Governance agreed by Cabinet.
 - i. A project management methodology for major projects.
 - j. A Risk Management Framework.
 - k. Declaration of related party transactions forms for members.
 - l. Codes of Conduct for Members and Officers.
 - m. A Staff Health & Safety Group that monitors insurable and public liability risks.

- n. A Corporate Risk Management Group that meets periodically.
- o. Risk management processes designed to ensure that Directors and Managers retain ownership of the risks and internal controls associated with their areas of responsibility. Directors and Managers are therefore an important source of assurance on the effectiveness of controls for managing risks.
- p. The Internal Audit service carries out audit and risk reviews of high-risk areas to provide assurance that major risks have been identified and are being actively managed, and that the internal control environment is adequate.
- q. The Assistant Director Financial Services and Revenues in his role provides a source of assurance that the requirements of the Local Government Act 1972 Section 151 are being met.
- r. The Monitoring Officer, undertakes the relevant statutory duties and provides a source of assurance that the Council's affairs are conducted in compliance with relevant legislation and Codes of Conduct.
- s. External audit provides a source of assurance on the operation of internal controls in that BDO inspects internal audit work at each annual external audit.

Evaluation of assurances and identification of gaps

Internal Audit

- 20. On the basis of the audits reported to the Audit Committee by Internal Audit, the audit conclusion is that during the year 2016/17, all of the Council's operations that were audited incorporate control systems that are 'Satisfactory' or better.
- 21. In financial systems, the audit aims to evaluate the strength of controls for ensuring the proper administration of financial resources. In the audit of non-financial areas, the audit aims to evaluate the strength of controls for ensuring that external obligations are met and that the success criteria of the activity under review are achieved. The following table shows the audit conclusion for each of the main audits carried out in 2016/17.

22.

Audit Conclusion	No of Audits
A: Good More than the key controls are in place and work effectively. While improvement may be possible, there are no significant audit concerns	3
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns	2
C: Adequate but with reservations in some areas Some controls in place are adequate but there are audit concerns in some areas	0
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0
Total audits	5

23. This compares with previous years as follows:

Audit Conclusion	2013-14	2014-15	2015-16	2016-2017
	No of audits	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	4	7	8	5
C, D: Adequate / Poor	1	0	0	0

24. The Internal Audit Service was unable to complete the whole audit plan before 31 March 2017 due to long term unanticipated sick leave in the last quarter. It has moved the audit of Cash & Bank to 2017-2018. Two others, Selective Licensing and Homelessness were outsourced to PricewaterhouseCoopers where the fieldwork was completed by 31 March 2017 and both reports are in the process of being finalised.

25. The audit conclusions are defined in the service's own Internal Audit Manual.

26. Ethical audit consisted of work carried out over staff travel and subsistence expenses.

27. Based on the audit work undertaken by Internal Audit, the Authority's overall internal control system is considered to be satisfactory.

External Audit

External audit is carried out by BDO and is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2016/17 the Audit Committee received the following reports:

28. Report Title	Date Issued
Report on Final Accounts	September 2016
Annual Audit Letter 2015/16	October 2016
Audit Plan to the Audit Committee	March 2017

29. BDO gave an unqualified opinion on the Council's accounts for 2015/16 and an unqualified opinion on value for money.

Areas of audit concern arising from internally conducted audits

30. There were no major concerns arising from internally conducted audits.

Areas of audit concern arising from External Audit

31. No significant areas of audit concern have been highlighted in the Annual Audit Letter (October 2016).

32. The key findings reported in it were:

- (i) "We issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016 on 30 September 2016.
- (ii) We reported our detailed findings to the Audit Committee on 22 September 2016. A small number of corrections were made to the final published accounts.
- (iii) We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.
- (iv) While the Council still has some work to do to close the funding gap in future years and the planned use of earmarked and other reserves of £4.2 million over the next three years is clearly not sustainable in the longer term, this should be seen in the context of the Council having a high level of earmarked reserves (£7 million general reserves and £13 million earmarked at 31 March 2016) to manage the transition to becoming a lower spending authority
- (v) We have not exercised our statutory powers and have no matters to report.
- (vi) We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit.

- (vii) Our review of your housing benefits subsidy claim 2015/2016 is in progress and the results will be reported upon completion of this work".

Policy Implications

Risk Management

33. This report has referred to the way that the council manages its risks.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No

Additional Information

External Audit Annual Governance Report 2015/16
Annual Audit Letter 2015/16

Officer to Contact

Tom Davies
Email: tdavies@hastings.gov.uk
Telephone: 01424 451524

Agenda Item 5



Report to: Audit Committee

Date of Meeting: 22 June 2017

Report Title: Annual Governance Statement 2016/17

Report By: Peter Grace
Assistant Director Financial Services and Revenues

Purpose of Report

For publication alongside the Financial Statements in compliance with the Accounts and Audit Regulations 2015.

Recommendation(s)

- 1. That the Audit Committee recommends that the Leader and the Director of Corporate Services and Governance sign the Annual Governance Statement on behalf of the Council.**

Reasons for Recommendations

To comply with the legal requirement that the Council produces an annual statement on its governance arrangements.

Under the duty imposed by the Accounts and Audits (England) Regulations 2015, Councils are under a duty to produce an Annual Governance Statement. This requirement is reflected in the 'Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC)'. The purpose of this document is to provide an assurance on the adequacy of the Council's control and governance mechanisms.

It is a requirement that the Leader and Director of Corporate Services and Governance sign the Annual Governance Statement on behalf of the Council before publication on the website.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No

Additional Information

CIPFA/SOLACE guidance entitled 'Delivering Good Governance in Local Government (Guidance Note for English Authorities)' 2012 Edition

Delivering Good Governance in Local Government - Addendum December 2012

Delivering Good Governance in Local Government - (Framework) 2016 Edition

Previous year's Annual Governance Statement 2015/16

Annual Governance Statement 2016/17 - Appendix A

Officer to Contact

Tom Davies
tdavies@hastings.gov.uk
Telephone: 01424 451524

Hastings Borough Council

Annual Governance Statement 2016/2017

Scope of responsibility

1. Hastings Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Hastings Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Hastings Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. Hastings Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework "Delivering good governance in local government" (2012 Edition).
3. In 2016, the Chartered Institute for Public Finance and Accountancy / Society of Local Authority Chief Executives, issued updated guidance for delivering good governance in local government. A review of the Council's Code of Corporate Governance is underway to take account of the revised principles. The aim is for this work to have been completed and allow time to adapt and then report this time next year.
4. A copy of the code is on our website at www.hastings.gov.uk.
5. This statement explains how Hastings Borough Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The purpose of the governance framework

6. The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks to the achievement of policies, aims and objectives and therefore provides a reasonable rather than an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hastings Borough Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
8. The governance framework has been in place for a number of years at Hastings Borough Council and, in particular, for the year ended 31 March 2017, up to the date of approval of the Statement of Accounts.

The governance framework

9. The key elements of the systems and processes that comprise the authority's governance arrangements include arrangements for the following:
 - Hastings Borough Council continues to have an established Corporate Plan setting out a strategic overview and the priorities that guide our investment and activities. Part II of the Corporate Plan sets out the Council's work plan for the current financial year with targets and performance indicators which are monitored and reported on publicly every quarter.
 - Hastings Borough Council facilitates policy and decision-making via a Cabinet Structure with Cabinet Member portfolios. There is an Overview and Scrutiny Committee which covers all portfolios. An Audit Committee provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. It undertakes the core functions of an Audit Committee as identified in 'CIPFA's Audit Committees: Practical Guidance for Local Authorities'. The Constitution is reviewed at least annually by the Monitoring Officer and is codified into one document that is available on the external web pages.
 - Hastings Borough Council ensures compliance with established policies, procedures, laws and regulations – including risk management. There is a corporate induction programme and service induction routines are in place for new staff. This now includes an e-learning module. Information regarding policies and procedures are held on the intranet which continues to be enhanced and developed.
 - The Council has an Internal Audit function and informal protocols for working with External Audit. External Audit also reviews compliance with policies, procedures, laws and regulations within their remit.

- Hastings Borough Council has continued to enhance and strengthen its internal control environment through the introduction and updating of new policies and procedures.
- The Risk Champion is the Director of Corporate Services and Governance.
- The Corporate Risk Management Group also incorporates the Health & Safety framework.
- The Council has a Whistle Blowing Policy based on the British Standards model that enables staff, contractors or members of the public to confidentially raise with the Council any suspicions they may have. There is also a customer comments and complaints system that is monitored by management.
- Hastings Borough Council's Internal Audit function continues to support managers at all levels to give a better understanding of how to enhance risk management in their area of responsibility and to have some understanding of the process throughout the Council. The high-level risk management methodology was designed to provide more focus to member and senior officer management of risk. The Strategic Risk Register is formally reviewed at the Corporate Risk Management meetings and the Operational Risk Registers are reviewed at Directorate Management Team (DMT) meetings.
- The Audit Committee perform an annual rigorous review of the Strategic and Operational Risk Registers and also when new emerging risks arise.
- Hastings Borough Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The External Auditor passed an unqualified audit opinion on value for money providing assurance to the public over its financial resilience and that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.
- Financial management in Hastings Borough Council and the reporting of financial standing is undertaken through a general ledger and management information system, Agresso, which integrates the general ledger function with those of budgetary control and payments. These are supported by the Finance Operating Procedures (FOPs) manual held on the Council's intranet which contains information on financial and business procedures and processes to be followed in all areas of the Council.
- A scheme of delegation which sets out the powers of Directors, the Financial rules and Contract Standing Orders form part of the Constitution. A rigorous system of monthly risk based financial

monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated if necessary.

- Performance management in Hastings Borough Council and the reporting of performance management continues to show good results. The Council has focussed its quarterly reporting of data on 28 Key Indicators that can be used to assess the 'health' of the organisation. This, together with the reporting on each of the service's commitments set out in the Corporate Plan, enables a rounded view of how the Council is performing against key issues of concern to local people. Performance indicators are recorded and monitored using an in-house developed spreadsheet system.
- The Director of Corporate Services and Governance has assumed the role of Senior Information Risk Owner (SIRO) who has overall responsibility for the Council's information risk policy.
- Hastings Borough Council is the Trustee for all purposes to the Foreshore Trust. Its business is conducted through the Charity Committee which meets every quarter. The charity has a Protector to protect the charity from conflicts of interest, financial and otherwise, arising from the Council's position as charitable trustee and local authority with its own priorities. At Annual Council, the Leader of the Council allocates responsibilities of the Cabinet to include Chair of the Charity Committee.
- Service Reviews – The Council's transformation programme has undertaken intensive business process mapping of a range of services to (where possible) move services online to realise efficiencies and improve processes for our customers and staff. Progress against the transformation programme is detailed in our quarterly performance reports. These coincide with existing plans for service reviews being planned through the Priorities, Income & Efficiency Reviews (PIER) process.
- Member Development – Before Members can undertake their roles all Members have to undertake the appropriate training. This includes full induction for all new Members, a range of compulsory training so that members can fulfil their roles on our committees, and leadership training where appropriate provided in conjunction with the LGA. Member training and development is monitored and evaluated quarterly by the Member Training and Development Group.
- Consultation – The Council undertakes a range of consultation throughout the year subject to activities identified in the corporate plan. The Council also consults annually on its corporate plan and budget with a variety of stakeholders.
- The Hastings and St. Leonards Local Strategic Partnership (LSP) Board is a body that brings together key representatives from the

private/business, community/voluntary and public sector and has a rotating chair person. The LSP Board meet quarterly to address key issues affecting the town as a whole improve the quality of life for those who live and work in the town. They are supported by an Executive Delivery Group (EDG) which also meets quarterly, chaired by the Director of Operational Services.

- The key role of the Local Strategic Partnership (LSP) is to:
 - i Identify and report strategic issues, which key partners should be aware of.
 - ii Provide strategic leadership on any Borough wide issue, identified by partners and agreed by the LSP, where no other appropriate existing organisation or partnership can be identified.
 - iii Act to bring together intelligence, expertise and community and business support to identify priorities and develop solutions to maximise the town's economic opportunities and address barriers to regeneration.

Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Chief Finance Officer in Local Government (2010)'

10. The Assistant Director Financial Services and Revenues, is the Council's Chief Finance Officer and Section 151 Officer who leads and directs the Finance function that continues to be sufficiently resourced and fit for purpose and is also professionally qualified and suitably experienced.

Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Head of Internal Audit in Local Government (2010)'

11. The role of the Chief Auditor at Hastings Borough Council complies with the CIPFA statement.

Review of effectiveness

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

13. The Council contributes to the delivery of the town's Sustainable Community Strategy through its membership of the Local Strategic Partnership and via targets included in the Corporate Plan. The Council monitors and reports publicly on progress so residents can see how issues that matter to them are being tackled. The plan is monitored on a quarterly basis by the Overview and Scrutiny Committee.
14. The Council's constitution sets out the responsibilities of both Members and their senior managers. In particular, the Council has identified the three statutory posts as follows:

Head of Paid Service	-	Director of Corporate Services & Governance
Monitoring Officer	-	Chief Legal Officer
Section 151 officer	-	Assistant Director Financial Services and Revenues
15. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/SOLACE guidance and has developed a local code of corporate governance. This was last updated and approved by Cabinet on 6 October 2014.
16. The arrangements for the provision of internal audit are contained within the Council's Financial Rules, which are included within the Constitution. The Assistant Director Financial Services and Revenues is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2011. The Internal Audit service is managed, independently, by the Assistant Director and operates in accordance with the Public Sector Internal Audit Standards. The Hastings audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Hastings Internal Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.
17. The Council's review of the effectiveness of the system of internal control is informed by:
 - Directorate assurance based on management and performance information

- Scrutiny reports covering a planned scrutiny review programme but also any item can be subject to a scrutiny review
 - Work undertaken by Hastings BC Internal Audit during the year and summarised in the Annual Internal Audit Report
 - Work undertaken by the external auditor reported in their Annual Audit Letter and particularly their audit opinion on the Financial Statements and on Value for Money
 - Other work undertaken by independent inspection bodies.
 - Corporate Management Group and Audit Committee review of the Strategic and Operational Risk Registers
18. From the work undertaken by Hastings Audit in 2015/16 the Chief Auditor was able to give the following assurance “I am able to provide a reasonable assurance on the key areas of risk management, corporate governance and financial control”. In this context “reasonable assurance” means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council’s standing or Annual Accounts.

Significant governance issues

19. The Council follows the CIPFA/SOLACE guidance entitled ‘Delivering Good Governance in Local Government (Guidance Note for English Authorities)’. In accordance with its categorisation of significant issues, there are no new issues to report, however, provided below is an update to an ongoing risk on which progress was reported last year.
20. In the last Annual Governance Statement, it was reported that there was still a significant risk relating to the reduction in Government grant funding. A balanced budget for 2017/18 was achieved whilst retaining an appropriate level of reserves but indications are that funding will continue to be under extreme pressure as the Government seeks to reduce public spending into the future.
21. This year has again, been a period of change and development. There have been continuing financial pressures. Despite this challenging environment there have been significant achievements and continuing improvement in the Council’s overall governance arrangements.
22. Also last year, it was reported that there was a new emerging issue to do with the implications arising from the national referendum and the vote to exit the EU. This still potentially has significant implications in the years ahead for the level of external funding that Hastings and the Council receives and the joint working that is undertaken with partner organisations both in this country and Europe. It may also have implications on the Council’s central government funding, business rate income, procurement arrangements and Treasury management strategy.

Councillors will be informed of the implications as and when sufficient detail becomes available.

23. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.

Signed:.....

Leader of the Council

Signed:.....

Director of Corporate Services
& Governance

Agenda Item 6



Report to: Audit Committee

Date of Meeting: 22 June 2017

Report Title: Chief Auditor's Summary Audit and Risk Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of the key findings from the recent National Fraud Initiative (Creditors/Payroll/Insurance/Licensing) matching exercise and Car Park Machines (New coinage) audit.

Recommendation(s)

1. That the Audit Committee accepts the report.

Reasons for Recommendations

To monitor levels of control within the organisation.

Summary Report
Report to Audit Committee
National Fraud Initiative (Creditors/Payroll/Insurance/Licensing)
matching exercise

Background

1. National Fraud Initiative data matching of Council Tax to Electoral Roll takes place every year whilst Creditors, Payroll, Insurance and Licensing records are data matched every 2 years. Creditors, Payroll, Insurance and Licensing records were matched this year and the recommended number of 38 exceptions were investigated during April and May.
2. All 38 exceptions were right to be investigated. It did highlight the presence of directorships and payments made to related parties and also a connection between someone requisitioning an order and the supplier in 2 separate instances but no duplicate or unauthorised payments.
3. The Housing Benefit matches and Council Tax Reduction Scheme matches continue to be investigated over the 2 year period as a separate ongoing exercise.

Audit Conclusion

Overall Audit Assessment: A – Good.

Controls are in place and are working effectively. There are no significant audit concerns.

Key Findings

Internal Audit has completed the investigation into the number of recommended (High) matches.

The matches identified a connection between someone requisitioning an order and the supplier in 2 separate instances. They were for once only payments and in each case had been independently authorised. Line management has been advised accordingly.

A new match was introduced for the first time this year that compared Payroll records to Directorships held. This resulted in 6 matches. In all cases, the directorships were for non paid roles but People, Customer and Business Support are looking at enhancing procedures for capturing and monitoring declaration of directorships which could in other cases be paid positions.

Summary Report
Report to Audit Committee
Car Park Machines (New coinage)

Background

1. The Council manages 18 car parks with a total of 45 car park machines. On 28 March 2017, a new pound coin entered circulation. At least 1 car park machine in each car park was re-calibrated and extensively tested before 28 March by specialist firm Cale Bri-Parc to accept the new pound coin. Suitable signage directed people to the machines that accepted the new pound coin.
2. The Council is upgrading 22 machines to accept contactless card payments. When these machine upgrades are installed then all of our machines will accept the new one pound coin. As it stands at this moment 5 machines out of all 45 machines do not accept the new £1.00 coin and they have stickers directing customers to other machines in the car park but when we begin upgrading to machines that accept card payments they will have new coin acceptors in them which accept the new £1.00 coin. Once the 22 machine upgrades have been carried out we will then have a stock of coin acceptors that take the new £1.00 coin which is useful to have when there are machine faults.
3. At the end of the upgrade programme, 32 machines will be on "Web Office" where it will be possible to monitor their filling up status remotely.
4. Technician staff were put on standby as more pound coins entered circulation and especially in the lead up to the Easter Bank Holiday week-end but no problems have been reported or customer complaints recorded.

Audit Conclusion

Overall Audit Assessment: A – Good.

Controls are in place and are working effectively. There are no significant audit concerns.

Key Findings

There were no issues or complaints reported.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	No
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

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Officer to Contact

Tom Davies
tdavies@hastings.gov.uk
Telephone: 01424 451524
