

**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

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### **Purpose of Report**

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

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### **Recommendation(s)**

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

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### **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.

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## 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.

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### **Wards Affected**

None

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### **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

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### **Additional Information**

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

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### **Officer to Contact**

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