

AGENDA ITEM NO:

Report to: Audit Committee

Date: 27 June 2006

Report from: Chief Auditor

Title of report: **Draft Audit Committee's 2005-06 Report to Council**

Purpose of report: To report on the Council's Corporate Governance arrangements as summarised in the Statement Of Assurance on Corporate Governance and Internal Control

Recommendations: That the Audit Committee's Annual Report to Council 2005-06 is agreed

Draft Audit Committee's Annual Report to Council 2005-06**Introduction**

1. Regulation 4 of the Accounts and Audit Regulations 2003 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. The Local Code of Corporate Governance (paragraph 17) adopted by Cabinet in April 2003 states:

"The Chief Auditor will report annually to the Audit Committee on the state of Corporate Governance within the Council. This report will form the basis of the annual Statement of Assurance on Corporate Governance and Internal Control Systems"

3. This report, which follows the format recommended by the Chartered Institute of Public Finance and Accountancy, sets out the review of internal control and assurance gathering process as required by the statute and accompanying guidance, and recommends that the Statement of Assurance on Corporate Governance and Internal Control Systems is signed by the Chief Executive, the Deputy Chief Executive and Director of Finance, and the Leader of the Council.

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 Borough Solicitor.
5. Detailed officer responsibilities are set out in job descriptions and structure charts. Each directorate has written delegations from the Executive Director to senior managers.
6. The Borough Solicitor monitors compliance through a system for reporting delegated decisions. 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 vast number of mandatory and discretionary requirements and powers. During 2003-04 Hastings Borough Council took action to identify its priority objectives resulting in a list of 10 priority areas. The 10 priority areas were then devolved through Executive Directors to Service Managers in the form of Service Delivery Plans. Due to the change in political control since the 2006 elections, organisational objectives and priorities will be reviewed during 2006-07.

Draft Audit Committee's Annual Report to Council 2005-06**Scrutiny of Corporate Governance Arrangements**

8. A Local Code of Corporate Governance was adopted by Cabinet in April 2003¹. Audit Committee Terms of Reference clearly assign responsibility for the scrutiny of corporate governance arrangements to the Audit Committee. The committee receives training as necessary.

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 managed by a team that is independent of operating responsibilities. The performance management 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 in on 28th April 2003. 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. The Audit and Investigations Division carries out Risk Reviews to verify, and if necessary challenge, managers' assessments. On the basis of the findings, the Audit and Investigations Division up-dates the risk database and provides quarterly summaries of Risk Review findings to the Audit Committee.
13. During 2003-04, in order to ensure the identification of key risks, consideration was given to risk from both a strategic and operational perspective. Using a process of self-assessment, each service assessed the strategic risks (those to service provision, statutory compliance, and reputation) and operational risks (financial, physical and contractual risks). The self-assessed risk scores were mathematically plotted to produce a Risk Map.
14. During 2004-05 the Audit and Investigations Division built on this foundation, carrying out the first 'Risk Reviews' (specialised audits that focus on ensuring that principal risks are identified and managed).
15. On 14th December 2005, Council approved new 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. At officer level, the Chief Auditor's job description has been up-dated to include,

- 1.

¹ Cabinet minute 174(c) 28th April 2003.

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“Jointly with the Chair of the Audit Committee, to act as ‘Risk Champion’ for the Council, responsible for the promotion of Risk Management, ensuring the development of management tools and techniques that are ‘owned’ by the Council’s managers.”

17. Throughout 2005-06, the Audit and Investigations Division has continued to develop the program of Risk Reviews.
18. During 2006-07, the program of Risk Reviews will continue, and in addition, the Audit Committee will begin the process of mapping Council priorities, risks, and controls to further enhance Risk Management throughout the Council. A large part of the internal audit plan is risk-driven.

Key controls for managing principal risks

19. To ensure that its controls are fully up to date with the current operating environment, on 14th December 2005 Council replaced the Financial Regulations, Contracts Standing Orders, and some parts of the Financial Delegations to Chief Officers with new Financial Rules and Finance Operating Procedures. These new Rules and Procedures provide the framework within which Members and officers must operate and compliance will be routinely checked through audit reports to the Audit Committee.
20. 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. A Confidential Reporting (“Whistleblowing”) Policy
 - c. A Counter-Fraud and Corruption Policy
 - d. Codes of Conduct for Members and Officers
 - e. Registers of Interests for Members and Officers
 - f. A Scheme of Delegation, including financial and budgetary responsibilities
 - g. A corporate Risk Database that is up-dated on an on-going basis
 - h. Each service produces a Service Delivery Plan that includes commentary on the key risks facing each service and how the risks are being managed. Plans, including arrangements for managing the key risks, are monitored through quarterly Performance Reviews
 - i. A corporate Health and Safety Policy and assessment procedures have been drawn up and formally approved
 - j. A corporate complaints procedure operates, and is administered by a dedicated officer

Sources of assurance

21. 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

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- b. An internal Audit and Investigations Division that is independent in planning, operating, and reporting, and that reports to the Audit Committee
- c. A Chief Finance Officer (the Deputy Chief Executive and Director of Finance) 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 on 28th April 2003
- i. A project management system for major projects
- j. A Risk Management Framework approved by Cabinet on 28th April 2003
- k. A Counter-fraud and Confidential Reporting ("Whistleblowing") Policy
- l. Codes of Conduct for Members and Officers
- m. A Risk Management Group that monitors insurable and public liability risks
- n. Risk management processes are 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
- o. The Audit and Investigations Division 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
- p. The Deputy Chief Executive and Director of Finance in his role as the Chief Financial Officer, provides a source of assurance that the requirements of the Local Government Act 1972 section 151 are being met
- q. The Borough Solicitor in her role as 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
- r. External audit provides a source of assurance on the operation of internal controls in that the Audit Commission inspects internal audit work at each

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annual external audit. However, the external audit does not cover the full range of activities and risks.

Evaluation of assurances and identification of gaps**The Audit and Investigations Division**

22. On the basis of the audits reported to the Audit Committee by the Audit and Investigations Division, the audit conclusion is that during the year 2005-06, 89% of the Council's operations that were audited incorporate control systems that are 'Good' or 'Satisfactory'. This is consistent with the results for 2002-03 (82%) and 2003-04 (83%) and 2004-05 (89%).
23. 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 audits carried out in 2005-06:

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Summary of Audit Conclusions			
Audit conclusion	No of audits	% of total audits	System
A: Good More than the key controls are in place and work effectively. While improvement may be possible, there are no significant audit concerns.	2	11%	Theatre Risk Management Sports Development Risk Management
B: Satisfactory The key controls are in place and work effectively. Improvement is possible, but there are no significant audit concerns	10	56%	Related Party Interests Parks and Open Spaces Risk Management Cemetery and Crematorium Risk Management Museums Risk Management Democratic Services Risk Management Housing Policy and Resources Risk Management Housing Advice Risk Management Project Management Homelessness Housing Benefit
C: Adequate but with reservations in some areas Some controls in place are adequate, but there are audit concerns in some areas.	4	22%	Stock Held at the Hastings Information Centre European Election Account 2004 'Agresso' (Financial Accounting System) 'Midland Trent' (Personnel and Payroll System)
D: Poor Controls are not adequate, or not present, or not adequately complied with. Improvement is essential.	2	11%	Recycling Improvement Project Hastings Trust Projects
Total audits	18	100%	

24. This compares with previous years as follows:

Audit Conclusion	2003-04		2004-05		2005-06	
	Number of audits	% of total	Number of audits	% of total	Number of audits	% of total
A: Good	5	28%	4	22%	2	11%
B,C: Satisfactory	10	55%	12	67%	12	78%
D: Poor	3	17%	2	11%	2	11%

Draft Audit Committee's Annual Report to Council 2005-06**The Audit Commission**

25. The Audit Commission is the Council's external auditor, and as such, is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2005-06 the Audit Committee received the following reports:

Report title	Date issued
Audit Plan	March 2005
Opinion on the statement of accounts	October 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	October 2005
Final accounts report	December 2005
Report and opinion on Best Value Performance Plan	December 2005
Use of Resources audit score feedback	March 2006
Annual Audit & Inspection Letter	March 2006

26. On 31st October 2005, the Audit Commission gave an unqualified opinion on the Council's accounts. In March 2006, the Use of Resources audit score feedback report concluded that the Council is performing "consistently above minimum requirements." Also in March 2006 the Annual Audit and Inspection Letter concluded that the Council's overall corporate governance arrangements are satisfactory.

Areas of audit concern arising from internally conducted audits

27. Under the approved risk-based audit planning strategy, risk assessments can be raised or lowered as appropriate during the course of the year when new issues come to light. Arising from this approach, the risk assessment was raised on the Recycling Improvement Project and Hastings Trust Projects.
28. The raising of the perceived level of risk triggered internal audits of these areas. The audit findings in both cases identified failures in project management controls.

Areas of audit concern arising from External Audit

29. The Audit Commission identified difficulties with the new Agresso financial system resulting in a key monthly reconciliation not being completed. Other areas of concern were also raised that are being dealt with elsewhere.

Draft Audit Committee's Annual Report to Council 2005-06**Action to address weaknesses****Hastings Trust Projects**

30. Where an internal audit has been carried out and the audit conclusion is that the internal control system is poor (audit conclusion D in the above table), the Audit Committee monitors progress in actioning the necessary improvements. Accordingly, an improvement action plan for Hastings Trust Projects was drawn up and agreed with the Executive Management of the Trust. The Audit Committee received a report from the Chief Executive of the Hastings Trust Ltd detailing the action that had been taken to improve control, and a further audit report by an external auditor confirming that the action taken by the Trust had been effective in raising the control environment to a satisfactory standard.

Recycling Improvement Project

31. On 31st January 2006, the Audit Committee held a special meeting to consider an Audit and Investigations Division report on the recycling improvement project. The Audit and Investigation Division report found that some controls are in place and functioning; however, some serious failures of control had occurred resulting in a significant budget overspend. It was reported to both Overview and Scrutiny Committees in May and Cabinet on 5 June there are further additional costs relating to recycling activities. The Chief Executive has commissioned independent reviews into this from service, financial and corporate perspectives.

Asset Register

32. The Audit and Investigations division has provided a short-term audit resource to the Estates division to assist in establishing the necessary controls. A full reconciliation of Estates data to the Asset Register is being completed.

New Financial Management System

33. The assurance that all cash received and payments made are included in the Council's accounts is achieved by completing a full cashbook reconciliation. 'Good practice' is to complete this exercise monthly. Due to the implementation of a new Financial Management System, full cashbook reconciliations were not completed on a monthly basis between 1st July 2005 and 31st March 2006. Work is currently in progress to complete this reconciliation as at the year end of 31st March 2006.
34. Throughout the year, daily reconciliations have been completed confirming that all income received and payments made through the bank accounts have been posted to the Council's general ledger. These daily reconciliations have provided a mitigating control. However, it is considered that a full cashbook reconciliation is necessary to provide assurance that any inaccuracies in the Council's accounts are identified and corrected at the earliest possible stage.

7. Statement of Assurance on Corporate Governance and Internal Control

35. On the basis of this report, the Audit Committee recommends that the Leader, the Chief Executive, and the Deputy Chief Executive and Director of Finance sign the Statement of Assurance on Corporate Governance and Internal Control for inclusion in the Statement of Accounts 2005-06.

Audit Committee's Annual Report to Council 2005-06

Appendices and background documents:

None

Policy implications

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

Equalities & Community Cohesiveness	<input type="checkbox"/>
Crime and Fear of Crime (Section 17)	<input type="checkbox"/>
Risk Management	<input type="checkbox"/>
Environmental issues	<input type="checkbox"/>
Economic / Financial implications	<input type="checkbox"/>
Human Rights Act	<input type="checkbox"/>
Organisational Consequences	<input type="checkbox"/>

Any ticked areas should be referred to in the text of the report under the heading "policy implications"

Report written by

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