

**Report to:** Audit Committee

**Date:** 27 June 2006

**Report from:** Chief Auditor

**Title of report:** **Draft Statement of Assurance on Corporate Governance and Internal Control**

**Purpose of report:** For publication in the Financial Statements in compliance with the Accounts Audit Regulations 2003

**Recommendations:** That the Audit Committee approves the Statement Of Assurance on Corporate Governance and Internal Control 2005-06

That the Audit Committee recommends that the Leader, Chief Executive, and Deputy Chief Executive sign the Statement Of Assurance on Corporate Governance and Internal Control

That the Statement Of Assurance on Corporate Governance and Internal Control is included in the Financial Statements as required by the Accounts and Audit Regulations 2003

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## **Statement of Assurance on Corporate Governance and Internal Control**

### **Scope of responsibility**

Hastings Borough Council acknowledges its responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money and assets are safeguarded, properly accounted for, and used economically, efficiently, and effectively. In discharging this accountability, Members and Senior Officers are responsible for ensuring proper arrangements for the accountability of the Council's affairs and the stewardship of the resources at its disposal. The Council's corporate governance arrangements are set out in a Local Code of Corporate Governance, which was agreed by Cabinet on 28<sup>th</sup> April 2003. The Local Code is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework *Corporate Governance in Local Government: A Keystone for Community Governance*

Hastings Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

### **Purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure. It can, therefore, provide reasonable (but not absolute) assurance of effectiveness. The system of internal control is based on ongoing processes designed to identify and prioritise the risks to the achievement of Hastings Borough Council's policies, priorities, and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically. Increasingly, the emphasis is on 'positive' controls to ensure the achievement policies, priorities, and objectives, rather than 'negative' controls for the avoidance of risk.

### **The internal control environment**

Key elements of the Council's internal control environment include:

- An Audit Committee that is a fully constituted Committee of the Council and an internal Audit and Investigations Division that reports to it
- 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
- 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
- A Risk Management Framework approved by Cabinet on 28<sup>th</sup> April 2003
- A Counter-fraud and Confidential Reporting ("Whistleblowing") Policy
- Codes of Conduct for Members and Officers
- A Risk Management Group that monitors insurable and public liability risks

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- 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
- A strategic Corporate Plan setting out the Council's priorities and operational plans at service and project level, that include consideration of risks
- An annual budget and quarterly reviews of actual expenditure to budget
- A Local Code of Corporate Governance agreed by Cabinet on 28<sup>th</sup> April 2003
- A project management system for minimising key risks in the delivery of major projects

**Commitment to continuous improvement**

In accordance with its commitment to continuous improvement, during 2005-06 the Council changed the status of the Audit Committee from a Committee of Cabinet to a fully constituted committee of the Council. New Terms of Reference for the Audit Committee were approved in order to ensure compliance with current guidance (CIPFA 2005), and specifically stating the Audit Committee's responsibility for the scrutiny of the Council's corporate governance arrangements, including risk management and internal control.

In addition, new Financial Rules and Finance Operating Procedures, that bring together and replace the current Financial Regulations, Contracts Standing Orders, and Financial Authorisations, were approved by Council in December 2005 to ensure the full accountability of all Members and Officers.

**Processes for reviewing the effectiveness of the system of internal control**

The key process for review is the Council's Audit Committee, which receives reports from internal and external auditors. The Audit and Investigations Division operates to the standards of the Institute of Internal Auditors, the Institute of Chartered Accountants, and the Chartered Institute of Public Finance and Accountancy. The Audit Commission monitors compliance with standards and stated in its Annual Audit and Inspection letter that the internal audit function provides an effective service to the Council.

The risk-driven internal audit programme provides a continuous programme of review of corporate governance and risk management arrangements, together with the audit of the systems of internal control, including the accounting systems.

The Chief Auditor reports the findings of each audit review to the Chief Executive, Deputy Chief Executive, and the Audit Committee and provides an opinion on the adequacy and effectiveness of the Corporate Governance arrangements and systems of internal control to the Audit Committee. With effect from 2005-06, the Audit Committee will provide an annual report to Council on the adequacy and effectiveness of the Corporate Governance arrangements and systems of internal control.

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**Assessment of the adequacy and effectiveness of the Corporate Governance arrangements and systems of internal control**

For internal audit work carried out during 2005-06, 89% of the systems audited, controls were evaluated as “good” or “satisfactory”.

**Weaknesses in internal control**

The assurance that all cash received and payments made are included in the Council 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.

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.

**Signatures**

On the basis of the Audit Committee’s 2005-06 report to Council, we are satisfied that the Council’s Corporate Governance arrangements and internal control systems are adequate and operating effectively.

Chief Executive

Deputy Chief Executive and Director of Finance

Leader

**Statement of Assurance on Corporate Governance and Internal Control**

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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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