

AGENDA ITEM NO: 7

AUDIT COMMITTEE

27 June 2006

REPORT OF THE AUDIT COMMITTEE

Report to: Audit Committee

Date: 26 June 2007

Report from: Chief Auditor

Title of report: **Draft Audit Committee's 2006-07 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 2006-07 is agreed

Audit Committee's Annual Report to Council 2006-07

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.
4. In addition, Regulation 6 of the 2003 Regulations was amended in 2006 to require 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 "Code of Practice for internal audit in local government in the United Kingdom 2006". We have assessed ourselves against the checklist contained therein and are about 89% compliant. An improvement action plan is shown at Appendix A.

Principal statutory obligations and organisational objectives

Responsibility for Statutory Obligations

5. 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.
6. Detailed officer responsibilities are set out in job descriptions and structure charts. Each directorate has written delegations from the Executive Director to senior managers.
7. 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

8. The multi-functional nature of the council means that there are a vast number of mandatory and discretionary requirements and powers. 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

Audit Committee's Annual Report to Council 2006-07

Directors to Service Managers in the form of Service Delivery Plans. Scrutiny of Corporate Governance Arrangements

9. Cabinet adopted a Local Code of Corporate Governance 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

10. 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

11. '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.
12. By identifying high-risk groups or areas, corporate policies and service resources can be targeted on those groups or areas.
13. 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. 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.
14. During 2006-07, 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, services assessed the strategic risks (those to service provision, statutory compliance, and reputation) and operational risks (financial, physical and contractual risks).
15. During 2006-07 the Audit and Investigations Division carried out five 'Risk Reviews' (specialised audits that focus on ensuring that principal risks are identified and managed).
16. 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"

17. At officer level, the Chief Auditor's job description states,

- 1.

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

Audit Committee's Annual Report to Council 2006-07

“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.”

18. Throughout 2006-07, the Audit and Investigations Division has continued to develop the programme of Risk Reviews.
19. During 2007-08, the programme 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

20. 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.
21. 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

22. 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 Division that is independent in planning, operating, and reporting, and that reports to the Audit Committee

Audit Committee's Annual Report to Council 2006-07

- 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.
- i. A project management system for major projects
- j. A Risk Management Framework approved by Cabinet
- 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 annual external audit.

Audit Committee's Annual Report to Council 2006-07**Evaluation of assurances and identification of gaps****The Audit and Investigations Division**

23. 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 2006-07, 80% 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%) and 2005-6 (89%).
24. 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 2006-07:

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.	0	-	
B: Satisfactory The key controls are in place and work effectively. Improvement is possible, but there are no significant audit concerns	4	80%	Progress on Agresso Financial Systems Report on Fundamental Financial Systems to comply with International Standards on Auditing Creditors Debtors
C: Adequate but with reservations in some areas Some controls in place are adequate, but there are audit concerns in some areas.	1	20%	Implementation of Midland TRENT Payroll and Human Resources
D: Poor Controls are not adequate, or not present, or not adequately complied with. Improvement is essential.	0	-	
Total audits	5	100%	

Audit Committee's Annual Report to Council 2006-07

25. This compares with previous years as follows:

Audit Conclusion	2004-05		2005-06		2006-07	
	Number of audits	% of total	Number of audits	% of total	Number of audits	% of total
A: Good	4	22%	2	11%	0	0%
B,C: Satisfactory	12	67%	12	78%	5	100%
D: Poor	2	11%	2	11%	0	0%

The Audit Commission

26. 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 2006-07 the Audit Committee received the following reports:

Report title**Date issued**

Annual Audit and Inspection Letter

June 2006

Audit Commission Audit and Inspection Plan

June 2006

Audit Commission's Statutory ISA 260 Plus Report

September 2006

Audit Commission's Cultural Services Inspection

September 2006

Annual Audit and Inspection Letter

March 2007

27. The Audit Commission gave an unqualified opinion on the Council's accounts for 2005-06. In March 2007, the Audit Commission's overall Use of Resources judgement concluded that the Council is performing "consistently above minimum requirements – performing well".

Areas of audit concern arising from internally conducted audits

28. 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.

29. Although risk levels changed, there were hardly any concerns arising from internally conducted audits and those that needed to be raised have been incorporated in the 2007-08 Internal Audit Plan.

30. In accordance with the resolutions made at the 31 January 2005 Audit Committee meeting, Internal Audit conducted a follow up risk review of Waste Recycling and reported to the January 2007 Audit Committee which then resolved that the appropriate Overview and Scrutiny Committees are kept informed of all projects that are not performing as expected and any appropriate adjustments to performance monitoring; management and reporting and budgetary processes are reported to the Audit Committee.

Audit Committee's Annual Report to Council 2006-07**Areas of audit concern arising from External Audit**

31. Despite initiatives to strengthen the management of sickness absence, the Audit Commission identified a comparatively high levels sickness absences reducing capacity to deliver on corporate priorities. All levels of management have been made aware and are actively engaged in attendance management through compliance with the sickness absence policy.

7. Statement of Assurance on Corporate Governance and Internal Control

32. 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 2006-07.

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"/>

Report written by

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Appendix A

Compliance with CIPFA Code of Audit Practice

Ref	Adherence to standard	Comment
1.3.2	Do the ToR define Internal Audit's role in: (a) fraud and corruption? (b) Consultancy work	The ToR partially defines internal audit's role but will look to revise and enhance.
2.1.1	Is internal audit independent of the activities it audits?	There is a potential procurement risk (that also exists in a number of other authorities) but this has been carefully considered and an action plan including Control Risk Self Assessment (CRSA) has been put in place.
5.1.2	Is there a protocol that defines the working relationship for internal audit with: - management - other internal auditors - external auditors - other regulators and inspectors - elected members	An informal protocol works with each of these parties satisfactorily but will need to define it within the audit manual.
7.1.3	Has the strategy been approved by the audit committee?	We have a; service delivery plan, risk management strategy, audit strategy and IT audit strategy. Of these, the service delivery plan is the most important and has been reviewed by senior management.
8.3.3	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	No – Chief Auditor to produce a document retention and destruction policy for internal audit documentation
10.3.2	Has the Chief Auditor established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	Follow-up audit procedures are currently being reviewed and the opportunity will be taken to incorporate this standard in them.

Hastings Borough Council

Audit and Investigations Division June 2007

Audit Committee's Annual Report to Council 2006-07