

Audit Committee

26 June 2007

**REPORT OF THE AUDIT COMMITTEE**

**Report to:** Audit Committee

**Date:** 26 June 2007

**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 and Audit Regulations 2003

**Recommendations:** That the Audit Committee approves the Statement Of Assurance on Corporate Governance and Internal Control 2006-07

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 of 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, regular monitoring of actual expenditure compared to budget and quarterly review reports to all internal stakeholders.
- 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**

A new financial management system was introduced in June 2005 and is now bedded in. There is improved financial control and real time financial information including monitoring available to all users.

Work was done to update Finance Operating Procedures and these were published in April 2007 to ensure the full accountability of all Members and Officers.

The council is complying with new International Standards on Auditing and this comprehensively enhances internal control.

**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. The Audit Committee provide an annual report to Council on the adequacy and effectiveness of the Corporate Governance arrangements and systems of internal control.

**Statement of Assurance on Corporate Governance and Internal Control****Assessment of the adequacy and effectiveness of the Corporate Governance arrangements and systems of internal control**

For internal audit work carried out during 2006-07, 80% of the systems audited, controls were evaluated as “good” or “satisfactory”.

**Weaknesses in internal control**

There had been a budget overspend on a Recycling project and a review was undertaken to ascertain the reasons for the overspend, to attempt as far as is possible, to prevent this from happening again. As a consequence, 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. Furthermore, it is the intention to undertake an external peer review of financial and performance management systems later in the current financial year. The average level of sick leave taken per employee has been higher than average for the sector. We have recently introduced a comprehensive sickness absence procedure (Bradford factor) and all managers are regularly apprised as to current sickness levels. Ongoing training for managers takes place to make them responsible for managing sickness levels within their teams. Managers are working in partnership with their HR partner to tackle persistent short-term absence and actively manage long-term cases.

**Signatures**

On the basis of the Audit Committee’s 2006-07 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

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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"/>

Report written by

Tom Davies, Chief Auditor

Ext 1524