

Agenda Item No: 7

Report to: Audit Committee

Date of Meeting: 30 June 2008

Report Title: Draft Audit Committee 2007-08 Report to Council

Report By: Tom Davies
Chief Auditor

Purpose of Report

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

Recommendation(s)

1. That the Audit Committee's Annual Report to Council 2007-08 is agreed.

Reasons for Recommendations

Regulation 6 of the Accounts and Audit Regulations 2003 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.

Background

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 (paragraph17) 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.
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 circa. 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 Corporate Director to senior managers.
7. 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

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 principles and priorities underpinning the Corporate Plan. The priority areas were then devolved through Corporate Directors to Service Managers in the form of Service Delivery Plans and Scrutiny of Corporate Governance Arrangements.
9. Cabinet adopted a Local Code of Corporate Governance in April 2003. 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 Committees.

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 updates the risk database and provides quarterly summaries of Risk Review findings to the Audit Committee.
14. During 2007-08, 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 2007-08 the Audit and Investigations Division installed a new Risk Management Computer System called GRACE. Risks from the previous Risk Register were migrated to GRACE which has greater functionality and comprehensive libraries of generic risks to better assist managers in their risk assessment process. Audit started a programme of 1:1 risk management training and in conjunction with this, has been 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,

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



18. Throughout 2007-08, the Audit and Investigations Division has continued to develop the programme of Risk Reviews.
19. During 2008-09, the programme of Risk Reviews will continue, and in addition, Audit will continue 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 underwent a full review and were re-published during April 2007 and 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 updated on an ongoing basis
 - h. Each service produces a Service Delivery Plan and performance is 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
- c. A Chief Finance Officer (the Deputy Chief Executive and Director of Corporate Resources) 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 Staff Health & Safety Group that monitors insurable and public liability risks
- n. A Risk Management Group that monitors strategic and operational risks
- 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 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
- q. The Deputy Chief Executive and Director of Corporate Resources 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
- r. 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



- s. 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

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 2007-08, 100% of the Council's operations that were audited incorporate control systems that are 'Good' or 'Satisfactory'. This is consistent with the results for 2006-07 (100%) and 2005-06 (89%).
24. The published annual plan was not fully discharged this year although all audits were started with the exception of a joint audit with Rother DC and Lewes DC of the main accounting system (AGRESSO). The audits that were started but could not be completed were mainly due to time constraints within the departments being audited but they are all due for completion at the earliest opportunity. A way forward on assurance over controls over AGRESSO is planned to be resolved at the next external user group meeting on 17th July 2008. The audit programme included International Auditing Standards (IAS) end of year support work that covered nearly all key financial controls. There were no major issues to report.
25. 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 2007-08:

Summary of Audit Conclusions		
Audit Conclusion	No of Audits	% of total 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	0	-
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no	5	100%



significant audit concerns		
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	100%

26. This compares with previous years as follows:

Audit Conclusion	2005-06		2006-07		2007-08	
	No of audits	% of total	No of audits	% of total	No of audits	% of total
A: Good	2	11%	0	0%	0	0%
B,C: Satisfactory	12	78%	5	100%	5	100%
D: Poor	2	11%	0	0%	0	0%

27. The audit conclusions are defined in the service's own Internal Audit Manual. Whilst the audit plan is mainly formed on risk based selection, we have also been moving towards Risk Based Internal Auditing which should lead to greater efficiency and increased number of audits in future years.

External Audit

28. PKF (UK) LLP are external auditors and were appointed by the Audit Commission to undertake external audit of Hastings Borough Council with effect from 1st April 2007. External audit is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2007-08 the Audit Committee received the following reports:



Report Title	Date issued
Audit Commission and PKF (UK) LLP Audit and Inspection Plan	June 2007
Audit Commission's Annual Governance Report	Sept 2007
PKF (UK) LLP Review of Data Quality	Jan 2008
Audit Commission Annual Audit and Inspection Letter	March 2008
PKF (UK) LLP Joint arrangements between Hastings BC and PKF	March 2008

29. The Audit Commission gave an unqualified opinion on the Council's accounts for 2006-07. In March 2008, 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

30. 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.
31. 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 2008-09 Internal Audit Plan. The exception to this has been on 'Cash Collection' and the situation with the current cash collection service provider as well as our internal processes is kept under continuous review. It is known that there are overspends in the Museum project and Audit will be taking a report to the next Audit Committee with actions to strengthen project management. There is also an Officer task group examining how best to improve capital programme expenditure forecasting and management.

Areas of audit concern arising from External Audit

32. The Audit Commission identified 3 key areas for the Council to take action on in its Annual Audit and Inspection Letter published March 2008. One of those areas related to cash reconciliations not being regularly carried out and whilst the Council is still not totally up to date, it has focussed its effort and is now nearly up to date. Another identified area related to improving services in line with its priorities and in those areas which matter to local people, for example, increasing council tax collection rate, homelessness prevention, recycling rates and days lost within the Council to sickness absence. Performance following that review has improved in all those areas and thirdly, it was recommended that arrangements for Value For Money (VFM) might be strengthened by linking more closely the cost and performance of services in performance monitoring (it having been acknowledged that overall, Hastings Borough Council delivers good value for money). The Council has commissioned 3 cost benchmarking surveys and is continuing to improve arrangements for VFM in many ways, for example, joint working on benefit fraud and joint procurement on insurance.



Policy Implications

Risk Management

33. This report refers to the way that the council manages its risks and the main implication for the future is that the Council manages its contract management risk such as with its cash collection provider.

Economic/Financial implications

34. This report highlights those controls in place to manage financial risk which are assessed as part of external audit's use of resources inspection.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

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	Yes
Human Rights Act	No
Organisational Consequences	No

Supporting Documents

CIPFA Code of Audit Practice for Internal Audit in Local Government in the United Kingdom 2006

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The Code of Audit Practice for Internal Audit in Local Government in the United Kingdom 2006 contains a checklist for best practice. The 6 areas listed below are those areas where Hastings BC Internal Audit considers itself to need improvement and is resolved to be fully compliant within the current year.

Action Plan to improve compliance with the Cipfa Code of Audit Practice

Adherence to standard	Comment
Do the ToR define Internal Audit's role in : (a) fraud and corruption work? (b) consultancy work?	The ToR partially defines Internal Audit's role but will look to revise and enhance it
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) and a possible peer review, are still to be carried out
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?	A formal protocol exists with the external auditors and an informal protocol works with each of the other parties satisfactorily but will need to define the informal ones within the audit manual
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
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
Has the Chief Auditor established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	Follow-up procedures are currently being reviewed and opportunity will be taken to incorporate this standard within them

