

Agenda Item No:

Report to: Audit Committee

Date of Meeting: 28 June 2010

Report Title: Audit Committee 2009-10 Report to Council

Report By: Tom Davies
Chief Auditor

Purpose of Report

Report from the Audit Committee on its annual review of effectiveness of Internal Audit to Council.

Recommendation(s)

1. For approval.

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 (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.
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 almost completely compliant. A significant piece of work involved producing a more comprehensive Strategy for Internal Audit that was approved by the Audit Committee in January 2010. The minor areas remaining to attain full compliance are concerned with documenting Internal Audit's role in relation to consultancy work and the task to complete this is in the Chief Auditor's personal objectives for 2010/11 in parallel with a review of all audit documentation.

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.
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. There is a strategic Corporate Plan setting out the Council's priorities, which cascades to operational plans at service and project level, including consideration of risks.
9. There is a Local Code of Corporate Governance. Audit Committee Terms of Reference clearly assign responsibility for the scrutiny of corporate governance arrangements to the Audit Committee.

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. 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. The risk management process is led by the Corporate Director for Environment and is the Council's Risk Champion.
12. '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.
13. By identifying high-risk groups or areas, corporate policies and service resources can be targeted on those groups or areas.
14. 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 service 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.
15. During 2009-10, 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).
16. An independent review of the Council's operational risks was commissioned but the field work has taken much longer than expected. Receipt of its report is scheduled for the end of July 2010 where it will be considered by the Corporate Risk Management Group and then taken to the Audit Committee.
17. During 2009-10 the Strategic risk register was significantly refreshed.

18. 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"

19. Throughout 2009-10 the Audit and Investigations service has continued to develop the programme of Risk Reviews.

20. A large part of the internal audit plan is risk-driven.

21. An independent strategic review of our risk management arrangements was carried out by ZM and presented to the June 2009 Audit Committee. The report was complimentary.

22. We have made good progress in embedding risk management in to the Council during 2009/10 but it is acknowledged that further work is required to become a 'risk managed' organisation.

Key controls for managing principal risks

23. To ensure that its controls are fully up to date with the current operating environment, Financial Operating Procedures provide the framework within which Members and officers must operate and compliance is routinely checked through audit reports to the Audit Committee.

24. 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. A major overhaul of these procedures is in progress and management are being trained in their use.
- j. A Corporate complaints procedure was revised during 2009 and operates

Sources of assurance

25. 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 & 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. An annual budget and quarterly reviews of actual expenditure to budget
 - g. A Local Code of Corporate Governance agreed by Cabinet
 - h. A project management system for major projects
 - i. A Risk Management Framework that was extensively revised and approved by Cabinet in 2009.
 - j. A Counter-fraud and Confidential Reporting ("Whistleblowing") Policy
 - k. Codes of Conduct for Members and Officers
 - l. A Staff Health & Safety Group that monitors insurable and public liability risks
 - m. A Corporate Risk Management Group that meets regularly
 - n. 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
 - o. The Audit and Investigations service 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 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

- q. External audit provides a source of assurance on the operation of internal controls in that PKF inspects internal audit work at each annual external audit

Evaluation of assurances and identification of gaps

The Audit and Investigations Division

26. 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 2009-10, 86% of the Council's operations that were audited incorporate control systems that are 'Satisfactory' or better.
27. Owing to an unanticipated resignation in the team, the published annual plan was not quite fully discharged this year. An audit of Partnership Risks has been carried forward in to the 2010/11 Audit Plan and is in the Annual Audit Plan for completion during August and September 2010. The risk review of Housing Services - Bed & Breakfast had been partially worked on and will be completed in July 2010.
28. 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 2009-10 including an IT Disaster Recovery audit of AGRESSO carried out by Lewes DC.

Summary of Audit Conclusions		
Audit Conclusion	No of Audits	% of total audits
<p>A: Good</p> <p>More than the key controls are in place and work effectively. While improvement may be possible, there are no significant audit concerns</p>	4	58%
<p>B: Satisfactory</p> <p>The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns</p>	2	28%
<p>C: Adequate but with reservations in some areas</p> <p>Some controls in place are adequate but there are</p>		

audit concerns in some areas	1	14%
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0	0
Total audits	7	100%

29. The audit with an adequate opinion was the Museum Shop presented to Audit Committee in January 2010. The outstanding recommendations are being addressed in conjunction with Internal Audit.

30. This compares with previous years as follows:

Audit Conclusion	2007-08		2008-09		2009-10	
	No of audits	% of total	No of audits	% of total	No of audits	% of total
A: Good	0	0%	3	50%	4	58%
B,C: Satisfactory	5	100%	2	33%	3	42%
D: Poor	0	0%	1	17%	0	0%

31. 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

32. External audit is carried out by PKF and is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2009-10 the Audit Committee received the following reports:

33. Report Title	Date issued
Use of resources assessment	Sept 2009
External Audit Report on final Accounts	Sept 2009
Annual Audit & Inspection Letter 2008-09	Dec 2009
External Annual Audit Plan 2009-10	Jan 2010
Grant Claim Certification for the year ended 31 March 2009	Mar 2010
Audit of Accounts 2008-09 change to final audit fee	Mar 2010

34. PKF gave an unqualified opinion on the Council's accounts for 2008-09. In December 2009, PKF's overall Use of Resources judgement scored Hastings Borough Council as a 3 (out of a possible 4) that is performing "consistently above minimum requirements – performing well". No areas covered by the appointed auditor's judgements deteriorated and arrangements for preparing and governing the business improved.

Areas of audit concern arising from internally conducted audits

35. There International Auditing Standards testing requires every fundamental financial control to be tested. There were no significant audit concerns arising from this or other internal reviews.

36. PKF identified key areas for the Council to take action on in its Annual Audit and Inspection Letter published December 2009. The key findings were that the Council should continue to focus on:

- balancing the overall financial position over the medium term while planning For a reduced resource base
- delivering planned efficiencies identified through the Priorities Income and Efficiencies Review (PIER) process
- successfully completing those measures funded by direct grant from the Government
- embedding new organisational structures and delivering the refreshed Workforce development plan
- improving performance against the Equalities Framework for local government

37. It should be noted that the Council has undergone a self assessment process with a critical friend and attained the Equalities Framework standard. This will be externally assessed within the next 2 years.

Policy Implications

Risk Management

37. This report refers to the way that the council manages its risks.

Wards Affected

None

Area(s) Affected

None

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	No
Human Rights Act	No
Organisational Consequences	No

Supporting Documents

None

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