Agenda Item No:

Report to: Audit Committee

Date of Meeting: 27 June 2011

Report Title: Audit Committee 2010/11 Report to Council

Report By: Tom Davies

                      Chief Auditor

Purpose of Report

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

Recommendation(s)

1. **For approval.**

Reasons for Recommendations

Regulation 6 of the Accounts and Audit Regulations (England) 2011 requires 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 6 of the Accounts and Audit Regulations (England) 2011 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 Regulations requires 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 compliant.

   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.

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 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 service 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 2010-11, 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, top management assessed the strategic risks (those to service provision, statutory compliance, and reputation) and services assessed operational risks (financial, physical and contractual risks).

15.   During 2010-11 the Strategic Risk Register and Operational Risk Registers have been significantly refreshed.

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

Key controls for managing principal risks

18. 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.

19. 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. Risk Registers (reviewed by Audit Committee) are 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 system of monitoring and review is in place

   j. A Corporate complaints procedure operates

Sources of assurance

20. 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

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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

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 Corporate Risk Management Group that meets regularly

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 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

q. The Deputy Chief Executive & 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 PKF inspects internal audit work at each annual external audit

Evaluation of assurances and identification of gaps

The Audit and Investigations Division

21. 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 2010-11, 100%

of the Council's operations that were audited incorporate control systems that are 'Satisfactory' or better.

22. 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 2010-11.

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	3	38%
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns	5	62%
C: Adequate but with reservations in some areas Some controls in place are adequate but there are audit concerns in some areas	0	0
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0	0
Total audits	8	100%

23. This compares with previous years as follows:

Audit Conclusion	2008-09		2009-10		2010-11	
	No of audits	% of total	No of audits	% of total	No of audits	% of total
A, B: Good / Satisfactory	5	83%	6	86%	8	100%
C, D: Adequate / Poor	1	17%	1	14%	0	0%

24. 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 Lean Systems thinking and Risk Based Internal Auditing which should lead to greater efficiency and increased number of audits in future years.

External Audit

25. 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 2010-11 the Audit Committee received the following reports:

26.   Report Title   Date issued

     External Audit Report on final Accounts   Sept 2010

     Annual Audit Letter 2009-10   Dec 2010

     External Annual Audit Plan 2008/09   Mar 2011

     Grant Claim Certification for the year ended 31 March 2010   Mar 2011

27. PKF gave an unqualified opinion on the Council's accounts for 2009-10 and unqualified opinion on value for money and concluded that the Council's 2009/10 expenditure plans were met.

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 2011-12 Internal Audit Plan.

Areas of audit concern arising from External Audit

30. In the previous year, the Audit Commission recommended that the Council continues to focus on embedding new organisational structures and delivering the refreshed workforce development plan. This was carried out.

31. No significant areas of audit concern have been highlighted in the Annual Audit Letter (December 2010).

Policy Implications

Risk Management

32. This report has referred 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

Annual Audit Letter 2009/10

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