

Agenda Item No: -

Report to: Audit Committee

Date of Meeting: 5 July 2012

Report Title: Annual Audit Report 2011/12 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. To approve the report for presentation to Council.

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.

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. 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.
3. 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

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

7. 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.
8. 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

9. 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

10. '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.
11. By identifying high-risk groups or areas, corporate policies and service resources can be targeted on those groups or areas.
12. 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.
13. The council continues to ensure the identification of key risks from both a strategic and operational perspective. Using a process of self-assessment, top management re-assessed the strategic risks (those to service provision, statutory compliance, and reputation) and services assessed operational risks (financial, physical and contractual risks).
14. During 2011-12 both the Strategic Risk Register and Operational Risk Registers were regularly updated but the Operational Risk Registers have been significantly refreshed.
15. 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"
16. A large part of the internal audit plan is risk-driven.

Key controls for managing principal risks

17. 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.
18. 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 (that is in the process of being updated)
- 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

19. 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 service that is independent in planning, operating, and reporting, and that reports to the Audit Committee
 - c. A Chief Finance Officer 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

- 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 Head of Finance in his role provides a source of assurance that the requirements of the Local Government Act 1972 section 151 are being met
- r. The 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 Service

- 20. 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 2011-12, 83% of the Council’s operations that were audited incorporate control systems that are ‘Satisfactory’ or better.
- 21. 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 2011-12.

Audit Conclusion	No of 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	2
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns	3
C: Adequate but with reservations in some areas Some controls in place are adequate but there are audit concerns in some areas	1
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0
Total audits	6

22. This compares with previous years as follows:

Audit Conclusion	2009-10	2010-11	2011-12
	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	6	8	5
C, D: Adequate / Poor	1	0	1

23. The audit conclusions are defined in the service's own Internal Audit Manual.

24. The agreed audit findings reported in the Internal Audit report that had an adequate opinion, will be followed up and reported to the Audit Committee.
25. Based on the audit work undertaken by Internal Audit, the Authority's overall internal control system is considered to be satisfactory.

External Audit

26. 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 2011-12 the Audit Committee received the following reports:

Report Title	Date issued
External Audit Report on final Accounts	Sept 2011
Annual Audit Letter 2010-11	Nov 2011
Grant Claim Certification for the year ended 31 March 2011	Jan 2012
External Annual Audit Plan 2011-12	Mar 2012
Update on outsourcing of External Audit Services	Mar 2012

PKF gave an unqualified opinion on the Council's accounts for 2010-11 and unqualified opinion on value for money and concluded that the Council's 2010/11 expenditure plans were met.

Areas of audit concern arising from internally conducted audits

27. Although risk levels changed, there were hardly any concerns arising from internally conducted audits.

Areas of audit concern arising from External Audit

28. No significant areas of audit concern have been highlighted in the Annual Audit Letter (November 2011).

29. The key findings reported in it were:

(i) Local Authorities prepared financial statements, and restated prior year accounts, in accordance with International Financial Reporting Standards (IFRS) for the first time in 2010/11. The Council managed the transition to IFRS effectively and an unqualified opinion was given on the accounts. This was a major undertaking but due to accuracy and well documented working papers, Hastings Borough Council was the only Council in East Sussex not to incur additional external audit charges.

(ii) The Council continued to manage its finances well in the year, and has taken action to refresh its priorities and identify the scope to reduce its expenditure following the Government's Comprehensive Spending Review and financial settlement for the 2011/12 and 2012/13 years.

Policy Implications

Risk Management

30. 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
Local People's Views	No

Background Information

PKF Annual Governance Report 2010-11
PKF Annual Audit Letter 2010-11

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