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Audit Committee Agenda

Wednesday, 29 June 2016 at 6.00 pm

Council Chamber, Aquila House, Breeds Place, Hastings, TN34 3UY. Please enter the building via the Tourist Information Centre entrance.

For further information, please contact Emily Horne on 01424 451719 or email:
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AUDIT COMMITTEE

17 MARCH 2016

Present: Councillors Beaver (Chair), Clark (Vice-Chair), Chowney and Charman

Apologies for absence were noted for Councillor Westley

27. DECLARATIONS OF INTEREST

There were no declarations of interest made at this meeting.

28. APOLOGIES FOR ABSENCE

Apologies for lateness were noted for Councillor Clark and apologies for absence were noted for Councillor Westley.

29. MINUTES OF THE MEETING HELD ON 25 JANUARY 2016

RESOLVED – (unanimously) that the minutes of the meeting held on 25 January 2016 be approved and signed by the Chair as a true record.

30. BDO PLANNING REPORT TO THE AUDIT COMMITTEE (AUDIT FOR THE YEAR ENDED 31 MARCH 2016)

The Chief Auditor introduced his report to the Committee and informed members of BDO's audit plan for the audit of the Council's accounts and Value for Money arrangements. The BDO report highlights the risk-based approach to the audit and the main risks they have identified. The BDO Audit Plan to the Audit Committee (Audit for the year ending 31 March 2016) was appended to the report.

Zoe Thompson, BDO Director, presented the plan. She informed the committee that there was a slight change to the scope of the work; the explanatory forward had replaced the narrative report and there had also been a slight change to the VFM below a £57,000 threshold.

The same risks were reported as per the previous year in the audit plan.

Councillor Beaver asked if there was a risk to revenue recognition. The Assistant Director – Financial Services & Revenues advised that a set amount is received in the year, so it can be rebutted. There is a risk of payments to fictitious people, over-stated income and high value transactions.

The Assistant Director – Financial Services & Revenues added that the value for money assessment was different this year and there had been more interaction across the council.

Councillor Beaver queried the Pension Liability Assumption. He said the amount that needs to be put in is not a risk over other people's assurances, if it goes away it can't

AUDIT COMMITTEE

17 MARCH 2016

be altered. The BDO Director confirmed there are explicit actions that are undertaken in the course of their work to ensure information is accurate.

RESOLVED – (unanimously) that the Audit Committee accepts the External Auditor's Audit Plan.

31. PROPOSED INTERNAL AUDIT PLAN 2016/17

The Chief Auditor introduced his report to formally confirm that the internal audit plan for 2016/17 had been noted by the Audit Committee.

Councillor Clark arrived at this juncture and asked if the ethical report will come to the committee. The Assistant Director – Financial Services & Revenues said he will liaise with colleagues in Sussex.

RESOLVED – (unanimously) that the Audit Committee approves the internal Audit Plan 2016/17.

32. FEASIBILITY OF PRODUCING REWARD STATEMENTS FOR EMPLOYEES

The Chief Auditor presented his report to examine the feasibility of producing Reward Statements for employees.

The report was requested by the committee at its last meeting on 25th January 2016. Officers investigated the feasibility of producing reward statements electronically but concluded it was not possible without a significant amount of additional manual resources and it was also highlighted that staff in People, Customer and Business Support would not be able to advise on pensions queries.

People, Customer and Business Support are, however, producing a 'Employee Benefits Flyer' which will come to Members for comment soon.

The Assistant Director – Financial Services & Revenues said they were looking at the possibility of upgrading Agresso and visiting other authorities to view their Agresso/HR packages.

RESOLVED – (unanimously) that the Audit Committee note that an Employee Benefits Flyer is a work in progress.

33. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented his report on the key findings from the Council Tax, Treasury Management, Software Licence Controls and Creditors audits. He advised the committee that the Council Tax and Treasury Management audits had been outsourced to external auditors, Mazars LLP.

The report opinions were all either satisfactory or good and so there were no significant control issues that needed to be brought to the attention of the committee.

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Councillor Clark asked officers if they anticipated high arrears with the increase in council tax. The Assistant Director – Financial Services & Revenues said he did not anticipate a lower collection rate and that the council tax was affordable. We may see a difference when the benefit cap comes in.

Councillor Clark asked if officers were expecting to see a spike in collection rates. The Assistant Director – Financial Services & Revenues said it would be interesting to see what happens in other districts and whether this has an impact on the collection rate.

RESOLVED – (unanimously) that the Audit Committee accepts the report.

34. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

The Chief Auditor said the Risk Champion was looking to align the Operational Risk Registers more closely to Work Plans for Performance reporting. It would be extremely difficult to do this change and present the Operational Risk Registers to the Audit Committee in June and so he asked if the committee would agree to defer the Risk Registers to September.

The Chair said he was happy for both Risk Registers to be deferred.

RESOLVED – (unanimously) that the Audit Committee defer the Risk Management Policy and the Operation Risk Register.

(The Chair declared the meeting closed at. 7.04 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 29 June 2016

Report Title: BDO Grant Claims and Returns Certification, Year ended 31 March 2015

Report By: Peter Grace
Assistant Director Financial Services and Revenues

Purpose of Report

The BDO report summarises the matters arising from the certification of the Housing Benefit Subsidy Claim for the financial year ended 31 March 2015. The report also includes the amount of fees incurred.

Recommendation(s)

- 1. To accept the External Auditor's Report on the Audit of the Housing Benefit Subsidy Claim for the year ended 31 March 2015.**

Reasons for Recommendations

BDO undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. The work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

The Audit Committee role includes receipt and consideration of all reports produced by the External Auditors which are directed to Hastings Borough Council.

Introduction

1. The full report is attached as Appendix A to this document. A representative from BDO (the Council's auditors) is expected to be at the meeting to introduce the report.
2. BDO applied the 'Certification Instruction' issued by the Commission after its consultation with the Department for Work and Pensions. After completion of the tests contained within the Certification Instruction the subsidy claim can be certified with or without amendment or, where the correct amount cannot be determined, the claim is qualified based on the testing completed. Sample sizes used and the extent of audit procedures are prescribed by the Commission.
3. The fee for certifying the subsidy claim was £11,792 and is the level recommended by the Commission.
4. The claim for the year ended 31 March 2015 was qualified. The draft claim amounted to £52,304,772 and was amended to increase the Council's entitlement to subsidy by £644.

Wards 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	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix A - BDO Grant Claims and Returns Certification, year ended 31 March 2015

Officer to Contact

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HASTINGS BOROUGH COUNCIL

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GRANT CLAIMS AND RETURNS CERTIFICATION
Year ended 31 March 2015

30 March 2016

INTRODUCTION

Purpose of the report

This report summarises the main issues arising from the certification of grant claims and returns for the financial year ended 31 March 2015.

Audit Commission regime

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

For 2014/15, this included only the Housing benefit subsidy claim.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. Sample sizes used in the work on the housing benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

Other certification work

We have not undertaken any other certification work.

Fees

A summary of the fees charged for certification work for the year ended 31 March 2015 is shown to the right.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our certification work.

Fees

CLAIM OR RETURN	2013/14 FINAL FEE £	2014/15 PLANNED FEE £	2014/15 FINAL FEE £
Audit Commission regime			
Housing benefit subsidy	11,792	11,792	11,792
TOTAL AUDIT COMMISSION REGIME FEES	11,792	11,792	11,792

Key findings

Below are details of the certification of the housing benefits subsidy claim for the financial year ended 31 March 2015. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing benefit subsidy	52,305,416	Yes	Yes	Claim increased by £644 although see note below on qualification

HOUSING BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £52,304,772. The final submission increased the amount claimed by £644 to £52,305,416.

FINDINGS AND IMPACT ON RETURN

A number of errors were identified during the course of the initial testing of non-HRA rent rebates and rent allowances which resulted in additional testing to quantify the potential errors as noted below.

On completion of the additional testing, we concluded that the following entries in the subsidy return were incorrect and either required amendment or required extrapolation of the error over the relevant cell populations.

Non-HRA rent rebate misclassified overpayments

Initial testing found one case where an overpayment had been recorded as eligible but should have been included as local authority error and administrative delay. Testing of all cases with amounts included in eligible overpayments found seven further misclassified overpayments.

These errors totalled £1,073 and were corrected in the final subsidy form. Eligible overpayments attract subsidy at 40%, meaning that the Council has over claimed £429 of subsidy through the eligible overpayments cell. However, local authorities are given an allowance, based on a percentage of the total amount of benefit awarded, to recover local authority errors and administrative delay overpayments in full through the subsidy system. As a result, the net impact of this correction is to increase the final amount claimed by £644.

Arrangements for calculating non-HRA benefits

The Council applies the following guidance when calculating subsidy that could result in under claiming subsidy:

Adjustments are made to the subsidy claim so that only the amounts paid up to the relevant rent threshold are reported, since amounts above the threshold are not recovered through subsidy. This results in the understatement of amounts paid above threshold which is used by DWP for monitoring purposes, but has no impact on subsidy claimed.

Subsidy regulations apply a maximum weekly cap on benefits when determining the threshold level after which benefit is not recovered through subsidy. The Council incorrectly pro-rates the cap for the number of days in the week for part-week benefits awarded, but should apply the full weekly rate even for part-week benefits. As a result, the Council may be excluding amounts from the claim form where these are incorrectly assessed as being above the threshold. We have extrapolated the results of the work we performed in this area, and estimate that the under claim of subsidy this year as a result of this issue is approximately £2,320.

The Council also applies a fixed one-bedroom rate when determining the threshold rate, but may have actually provided accommodation that may have additional bedrooms. Again, the Council may be excluding amounts paid as above the threshold that could be recoverable through subsidy, although from the work we have performed it is not possible to quantify any potential under claim of subsidy.

Rent allowances earnings calculations

Initial testing found one case where the claimant's earnings had been incorrectly assessed resulting in overpaid benefit. Testing of an additional 40 overpayment cases found 11 further earnings errors, with 6 creating overpayments, 3 resulting in underpaid benefit and 2 that had no impact on benefit.

The overpayment errors were extrapolated across the total value of entitlement and we reported that local authority errors and administrative delay overpayments were potentially understated by £62,516. Local authority overpayments do not attract subsidy, meaning that the Council has over claimed £62,516 of subsidy through the overpayment cells. However, this has no impact on the overall subsidy amount claimed since this amount would be recovered through the overpayment allowance threshold.

We noted that the cases in which underpayment had occurred also had separately recorded overpayments caused by claimant errors during the period. Claimant errors are only recovered at 40% through subsidy, but the errors mean that some of these amounts are not in fact overpayments, and should have been recovered in full. We extrapolated the impact of this and reported that £51,737 could potentially be reclassified which would increase subsidy by £31,042 where recovered at full rate.

Rent allowances application of annual uplifts and ineligible service charges

Initial testing found one case where benefit had been overpaid as a result of applying an annual rent change on the wrong date, and also failing to deduct ineligible service charges when calculating entitlement. Following further investigation we were able to isolate this error to one particular accommodation block. Testing of all other rent allowance cases within this block identified 2 further cases where rent had been uplifted on the wrong date, and 4 further cases where ineligible service charges had not been deducted. The total overpayment resulting from these errors was £3,426. Local authority overpayments do not attract subsidy, meaning that the Council has over claimed £3,426 of subsidy through the overpayment cells. However, this has no overall impact on the amount claimed since this amount would be recovered through the overpayment allowance threshold.

Rent allowances misclassified overpayments

Initial testing found one case where an overpayment had been recorded as eligible but should have been included as local authority error and administrative delay. Testing of an additional 40 cases with amounts included in eligible overpayments found 2 further misclassified overpayments.

These errors were extrapolated across the total value included as eligible overpayments and we reported that eligible overpayments were potentially overstated by £3,025. Eligible overpayments attract subsidy at 40%, meaning that the Council has over claimed £1,210 of subsidy through the eligible overpayments cell. However, the overpayments should have been recovered in full using the local authority error allowance, and therefore the overall impact is that subsidy could have been under claimed by an estimated £1,815.

HOUSING BENEFIT SUBSIDY (CONTINUED)

FINDINGS AND IMPACT ON RETURN

Reconciliation to benefit paid

DWP requires that the amount of benefit entitlement generated, on which subsidy is calculated, be reconciled to the amounts paid out to claimants. The software supplier provides various tools to complete this reconciliation, and exception reports highlighting discrepancies for each claimant, so that these can be investigated and resolved.

The reconciliation suggests that the Council paid out £5,956 more than has been claimed through the subsidy form. The discrepancies in the reconciliation report have not been investigated.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item 5



Report to: Audit Committee

Date of Meeting: 29 June 2016

Report Title: BDO Planning Letter 2016/17

Report By: Peter Grace
Assistant Director Financial Services and Revenues

Purpose of Report

To inform members of BDO's Planning Letter 2016/17 showing the proposed fees and programme of work for the 2016/17 financial year.

Recommendation(s)

1. That the Audit Committee accepts the report.

Reasons for Recommendations

Under the Code of Audit Practice issued by the National Audit Office, BDO are required to report to the Audit Committee the proposed fees and programme of work for the 2016/17 financial year.

Introduction

1. The External Auditor's (BDO) Planning Letter illustrates the proposed fees and programme of work for the 2016/17 financial year.
2. The Code audit fee is based on the work required under the Code of Audit Practice issued by the National Audit Office and covers the audit of the financial statements and value for money conclusion.
3. Public Sector Audit Appointments Limited (PSAA) is responsible for setting the scale fees for local authorities and consulted on the proposed work programme and scale of fees in October 2015. There are no planned changes to the overall work programme for 2016/17 and the scale audit fees have been set at the same level as 2015/16. PSAA has the power to determine the fee above or below the scale fee where there has been a change that requires substantially more or less work than envisaged by the scale fee.
4. A senior manager from BDO will attend the Audit Committee meeting to explain the contents of the Planning Letter 2016/17.
5. The Planning Letter 2016/17 is attached at Appendix A of this report.

Wards 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	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix A: BDO Planning Letter 2016/17

Officer to Contact

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Planning Letter 2016/17

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PROPOSED FEES

Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2016/17 financial year.

Code audit fee

The Code audit fee is based on the work required under the Code of Audit Practice issued by the National Audit Office and covers the audit of the financial statements and value for money conclusion.

Public Sector Audit Appointments Limited (PSAA) is responsible for setting the scale fees for local authorities and consulted on the proposed work programme and scale of fees in October 2015. There are no planned changes to the overall work programme for 2016/17 and the scale audit fees have been set at the same level as 2015/16. PSAA has the power to determine the fee above or below the scale fee where there has been a change that requires substantially more or less work than envisaged by the scale fee.

Certification of housing benefits subsidy claim

CLG makes arrangements for certification of housing benefit subsidy claims. An indicative fee is set based on the latest actual certification fees available but this is reset annually and the 2016/17 indicative fee is not yet published as the 2014/15 claim has only recently been concluded.

Audit related services

Audit related services are those non-audit services that are largely carried out by members of the engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

Other non-audit services

Other non-audit services are those services not closely related to the work performed in the audit that could be provided by a number of firms. Auditors are prevented from undertaking such work if it would present a threat to independence for which no adequate safeguards are available. Independence concerns may arise due to the nature of the work or from the value of fees derived.

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Fees

AUDIT AREA	PROPOSED FEE 2016/17 (£)	SCALE FEE 2016/17 (£)	PROPOSED FEE 2015/16 (£)
Code audit fee	46,418	46,418	46,418
Certification fee	TBC	TBC	8,844
Audit related services			
- None	-	n/a	-
Non audit services			
- None	-	n/a	-
Total fees	46,418		55,262

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Assistant Director - Financial Services and Revenues (Chief Finance Officer). Where this requires a variation to the scale fee we will seek approval from the PSAA.

If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Arrangements from 2017/18

CLG has confirmed that the current contracts negotiated by the Audit Commission in April 2014 will be extended for one year. As a result, the Council will be required to make a local appointment for external audit services from 2018/19.

AUDIT ARRANGEMENTS

Planned outputs

We plan to issue the following reports and opinions over the course of the 2016/17 audit:

REPORT	DATE
Audit plan	March 2017
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	April 2017
Final report to those charged with governance	September 2017
Independent auditor's report including: Opinion on the financial statements Value for money conclusion Certificate	September 2017
Summary of findings from the audit in the annual audit letter	October 2017
Grant claims and returns certification report	December 2017

Audit team

The key members of the audit team will be:

Engagement Lead - Zoe Thompson

email: zoe.thompson@bdo.co.uk

Tel: 01473 320734

Zoe will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

Project Manager - Jody Etherington

email: jody.etherington@bdo.co.uk

Tel: 01473 320790

Jody will manage and co-ordinate each aspect of the audit and will be the key contact with the Finance team.

Senior - Hatidani ChadaMoyo

email: Hatidani.Chadamoyo@bdo.co.uk

Tel: 0207 893 3202

Hatidani will lead the delivery of the financial statements audit.

Client satisfaction

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Zoe Thompson in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the PSAA complaints handling procedure is detailed on their website <http://www.psaa.co.uk/about-us/contact-us/complaints/>.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item 6



Report to: Audit Committee

Date of Meeting: 29 June 2016

Report Title: Audit Committee Report 2015/16 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. Report from the Audit Committee on its annual review of the effectiveness of Internal Audit to Council.**

Reasons for Recommendations

Regulation 6 of the Accounts and Audit Regulations (England) 2015 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. Background Regulation 6 of the Accounts and Audit Regulations (England) 2015 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 for the period up to 31 March 2014 may be found in the "Public Sector Internal Audit Standards 2013". We are working with the Sussex Audit Group on a reciprocating basis to arrange a "peer" review of Internal Audit which must be completed by 31 March 2018.

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.
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 large 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 Directors to Service Managers in the form of Work Plan Summaries.
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. This 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, senior 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 2015/16 both the Strategic Risk Register and Operational Risk Registers were regularly updated.
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. An Anti-Fraud and Anti-Corruption Strategy (Fighting Fraud Locally)

- c. A Whistle-blowing Policy
- d. Codes of Conduct for Members and Officers
- e. Registers of Interests for Members and Officers
- f. Risk Registers (reviewed by Audit Committee) are updated on an ongoing basis
- g. Performance is monitored through quarterly Performance Reviews
- h. A Corporate Health and Safety system of monitoring and review is in place
- i. A Corporate compliments and complaints procedure operates

Sources of assurance

- 19. Sources of assurance on the adequacy and effectiveness of the Council's controls over key risks include:
- 20. 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 methodology for major projects
- j. A Risk Management Framework
- k. Declaration of related party transactions forms for members
- 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 periodically
- 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 Internal Audit 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 Assistant Director Financial Services and Revenues 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 BDO inspects internal audit work at each annual external audit

Evaluation of assurances and identification of gaps

Internal Audit

21. On the basis of the audits reported to the Audit Committee by Internal Audit, the audit conclusion is that during the year 2015/16, all 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 2015/16.

23.

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	5
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	0
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0
Total audits	8

24. This compares with previous years as follows:

Audit Conclusion	2012-13	2013-14	2014-15	2015-2016
	No of audits	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	8	4	7	8
C, D: Adequate / Poor	0	1	0	0

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

26. All of the International Auditing Standards work was completed within the deadlines and the Housing Benefit Subsidy Grant work was accomplished.
27. Ethical audit consisted of work carried out over Members and staff travel and subsistence expenses.
28. Based on the audit work undertaken by Internal Audit, the Authority's overall internal control system is considered to be satisfactory.

External Audit

External audit is carried out by BDO and is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2015/16 the Audit Committee received the following reports:

29.

Report Title	Date issued
Report on Final Accounts	September 2015
Annual Audit Letter 2014/15	October 2015
Audit Plan to the Audit Committee	March 2016
Housing Benefit Grant Subsidy	March 2016
Planning Letter 2016/17	April 2016

30. BDO gave an unqualified opinion on the Council's accounts for 2014/15 and an unqualified opinion on value for money.

Areas of audit concern arising from internally conducted audits

31. There were no major concerns arising from internally conducted audits.

Areas of audit concern arising from External Audit

32. No significant areas of audit concern have been highlighted in the Annual Audit Letter (October 2015).

33. The key findings reported in it were:

- (i) "We issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015 on 30 September 2015. The Council met the Government's deadline for submitting its financial statements to us. We completed our audit in accordance with our plans.
- (ii) We issued an unqualified value for money conclusion on 30 September 2015.
- (iii) The Council has balanced its budget over the medium term through its PIER saving programme and planned drawdown of reserves built up over recent years. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the medium term.
- (ii) We have not exercised our statutory powers and have no matters to report.
- (iii) We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and it complies with relevant guidance.
- (iv) The Council's Whole of Government Accounts (WGA) return was below the threshold for a detailed audit and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure".

Policy Implications

Risk Management

34. This report has referred to the way that the council manages its risks.

Wards 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	Yes
Local People's Views	No
Anti-Poverty	No

Additional Information

External Audit Annual Governance Report 2014/15

Annual Audit Letter 2014/15

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Agenda Item 7



Report to: Audit Committee

Date of Meeting: 29 June 2016

Report Title: Annual Governance Statement

Report By: Peter Grace
Assistant Director Financial Services and Revenues

Purpose of Report

For publication alongside the Financial Statements in compliance with the Accounts and Audit Regulations 2011.

Recommendation(s)

- 1. That the Audit Committee recommends that the Leader and the Director of Corporate Services and Governance sign the Annual Governance Statement.**

Reasons for Recommendations

To comply with the legal requirement that the Council produces an annual statement on its governance arrangements.

Under the duty imposed by the Accounts and Audits (England) Regulations 2015, Councils are under a duty to produce an Annual Governance Statement. This requirement is reflected in the 'Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA/LASAAC)'. The purpose of this document is to provide an assurance on the adequacy of the Council's control and governance mechanisms.

It is a requirement that the Leader and Director of Corporate Services and Governance sign the Annual Governance Statement before publication on the website.

Wards 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	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No

Additional Information

CIPFA/SOLACE guidance entitled 'Delivering Good Governance in Local Government (Guidance Note for English Authorities)' 2012 Edition

Delivering Good Governance in Local Government - Addendum December 2012

Previous year's Annual Governance Statement 2014/15

Annual Governance Statement 2014/15 - Appendix A

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APPENDIX A

Hastings Borough Council

Annual Governance Statement 2015/2016

Scope of responsibility

1. Hastings Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Hastings Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Hastings Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. Hastings Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework "Delivering good governance in local government" (2012 Edition).
3. A copy of the code is on our website at www.hastings.gov.uk.
4. This statement explains how Hastings Borough Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The purpose of the governance framework

5. The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks to the achievement of policies, aims and objectives and therefore provides a reasonable rather than an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hastings Borough Council policies, aims and objectives, to evaluate the likelihood of those

risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

7. The governance framework has been in place for a number of years at Hastings Borough Council and, in particular, for the year ended 31 March 2016, up to the date of approval of the Statement of Accounts.

The governance framework

8. The key elements of the systems and processes that comprise the authority's governance arrangements include arrangements for the following:
 - Hastings Borough Council continues to have an established Corporate Plan setting out a strategic overview and the priorities that guide our investment and activities. Part II of the Corporate Plan sets out the Council's work plan for the current financial year with targets and performance indicators which are monitored and reported on publicly every quarter.
 - Hastings Borough Council facilitates policy and decision-making via a Cabinet Structure with Cabinet Member portfolios. There are two Overview and Scrutiny Committees which cover all portfolios. An Audit Committee provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. It undertakes the core functions of an Audit Committee as identified in 'CIPFA's Audit Committees: Practical Guidance for Local Authorities'. The Constitution is reviewed at least annually by the Monitoring Officer and is codified into one document that is available on the external web pages.
 - Hastings Borough Council ensures compliance with established policies, procedures, laws and regulations – including risk management. There is a corporate induction programme and service induction routines are in place for new staff. This now includes an e-learning module. Information regarding policies and procedures are held on the intranet which continues to be enhanced and developed.
 - The Council has an Internal Audit function and informal protocols for working with External Audit. External Audit also reviews compliance with policies, procedures, laws and regulations within their remit.
 - Hastings Borough Council has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures.
 - Following the retirement of the previous Risk Champion on 31 March 2015, the new Risk Champion is the Director of Corporate Services and Governance.

- The Corporate Risk Management Group also incorporates the Health & Safety framework.
- The Council has a Whistle Blowing Policy based on the British Standards model that enables staff, contractors or members of the public to confidentially raise with the Council any suspicions they may have. There is also a customer compliments and complaints system that is monitored by management.
- Hastings Borough Council's Internal Audit function continues to support managers at all levels to give a better understanding of how to enhance risk management in their area of responsibility and to have some understanding of the process throughout the Council. The high-level risk management methodology was designed to provide more focus to member and senior officer management of risk. The Strategic Risk Register is formally reviewed at least once a quarter by Corporate Management Group (CMG) and the Operational Risk Registers are regularly reviewed at Directorate Management Team (DMT) meetings.
- The Audit Committee perform an annual rigorous review of the Strategic and Operational Risk Registers and also when new emerging risks arise.
- Hastings Borough Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The External Auditor passed an unqualified audit opinion on value for money providing assurance to the public over its financial resilience and that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.
- Financial management in Hastings Borough Council and the reporting of financial standing is undertaken through a general ledger and management information system, Agresso, which integrates the general ledger function with those of budgetary control and payments. These are supported by the Finance Operating Procedures (FOPs) manual held on the Council's intranet which contains information on financial and business procedures and processes to be followed in all areas of the Council.
- A scheme of delegation which sets out the powers of Directors, the Financial rules and Contract Standing Orders form part of the Constitution. A rigorous system of monthly risk based financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated if necessary.
- Performance management in Hastings Borough Council and the reporting of performance management continues to show good results. In response to the de-regulation of Performance Management the Council has focussed its quarterly reporting of data on 30 Key Indicators that can be used to assess the 'health' of the organisation.

This, together with the reporting on each of the Service's Part II commitments, enables a rounded view of how the Council is performing against key issues of concern to local people. Performance indicators are recorded and monitored using an in-house developed spreadsheet system.

- A Senior Information Officer is responsible for information security.
- The Director of Corporate Services and Governance has assumed the role of Senior Information Risk Owner (SIRO).
- Hastings Borough Council is the Trustee for all purposes to the Foreshore Trust. Its business is conducted through the Charity Committee which meets every quarter. The charity has a Protector to protect the charity from conflicts of interest, financial and otherwise, arising from the Council's position as charitable trustee and local authority with its own priorities. At Annual Council, the Leader of the Council allocates responsibilities of the Cabinet to include Chair of the Charity Committee.
- Service Reviews – The Council's transformation programme has undertaken intensive business process mapping of a range of services to (where possible) move services online to realise efficiencies and improve processes for our customers and staff. Progress against the transformation programme is detailed in our quarterly performance reports. These coincide with existing plans for service reviews being planned through the Priorities, Income & Efficiency Reviews (PIER) process.
- Member Development – Before Members can undertake their roles all Members have to undertake the appropriate training. This includes full induction for all new Members, a range of compulsory training so that members can fulfil their roles on our committees, and leadership training where appropriate provided in conjunction with the LGA. Member training and development is monitored and evaluated quarterly by the Member Training and Development Group.
- Consultation – The Council undertakes a range of consultation throughout the year subject to activities identified in the corporate plan. The Council also consults annually on its corporate plan and budget with a variety of stakeholders.
- The Hastings and St. Leonards Local Strategic Partnership (LSP) Board is a body that brings together key representatives from the private/business, community/voluntary and public sector. The Board is currently chaired by the Leader of Hastings Borough Council. The LSP Board meet quarterly to address key issues affecting the town as a whole improve the quality of life for those who live and work in the town. They are supported by an Executive Delivery Group (EDG) which also meets quarterly, chaired by the Director of Operational Services.

- The key role of the Local Strategic Partnership (LSP) is to:
 - i Identify and report strategic issues, which key partners should be aware of.
 - ii Provide strategic leadership on any Borough wide issue, identified by partners and agreed by the LSP, where no other appropriate existing organisation or partnership can be identified.
 - iii Act to bring together intelligence, expertise and community and business support to identify priorities and develop solutions to maximise the town's economic opportunities and address barriers to regeneration.
- We have acquired Aquila House which is now the Council's administrative centre and all committee meetings are now held there.

Changes to the Council's Structure and Governance arrangements

- Following the untimely death of the Chair of the Charity Committee, the incumbent Chair was appointed by Cabinet with effect from 7 March 2016.

Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Chief Finance Officer in Local Government (2010)'

9. The Assistant Director Financial Services and Revenues, is the Section 151 Officer who leads and directs the Finance function that continues to be sufficiently resourced and fit for purpose and is also professionally qualified and suitably experienced.

Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Head of Internal Audit in Local Government (2010)'

10. The role of the Chief Auditor at Hastings Borough Council complies with the CIPFA statement.

Review of effectiveness

11. Hastings Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and effectiveness of Internal Audit. The review of effectiveness is informed by the work of the Directors within

the authority who have responsibility for the development and maintenance of the governance environment, the Audit Committee's annual report to Council and also by comments made by the external auditors and other review agencies and inspectorates.

12. The Council contributes to the delivery of the town's Sustainable Community Strategy through its membership of the Local Strategic Partnership and via targets included in the Corporate Plan. The Council monitors and reports publicly on progress so residents can see how issues that matter to them are being tackled. The plan is monitored on a quarterly basis by Overview and Scrutiny Committees.
13. The Council's constitution sets out the responsibilities of both Members and their senior managers. In particular, the Council has identified the three statutory posts as follows:

Head of Paid Service	- Director of Corporate Services & Governance
Monitoring Officer	- Chief Legal Officer
Section 151 officer	- Assistant Director Financial Services and Revenues
14. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/SOLACE guidance and has developed a local code of corporate governance. This was last updated and approved by Cabinet on 6 October 2014.
15. The arrangements for the provision of internal audit are contained within the Council's Financial Rules, which are included within the Constitution. The Assistant Director Financial Services and Revenues is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2011. The Internal Audit service is managed, independently, by the Assistant Director and operates in accordance with the Public Sector Internal Audit Standards. The Hastings audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Hastings Internal Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.
16. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management and performance information
 - Scrutiny reports covering a planned scrutiny review programme but also any item can be subject to a scrutiny review
 - Work undertaken by Hastings BC Internal Audit during the year and summarised in the Annual Internal Audit Report
 - Work undertaken by the external auditor reported in their Annual Audit Letter and particularly their audit opinion on the Financial Statements and on Value for Money
 - Other work undertaken by independent inspection bodies.
 - Corporate Management Group and Audit Committee review of the Strategic and Operational Risk Registers
17. From the work undertaken by Hastings Audit in 2015/16 the Chief Auditor was able to give the following assurance "I am able to provide a reasonable assurance on the key areas of risk management, corporate governance and financial control". In this context "reasonable assurance" means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts.
- Significant governance issues**
18. The Council follows the CIPFA/SOLACE guidance entitled 'Delivering Good Governance in Local Government (Guidance Note for English Authorities)'. In accordance with its categorisation of significant issues, there are no new issues to report, however, provided is an update to an ongoing risk on which progress was reported last year.
19. In the last Annual Governance Statement, it was reported that there was a significant emerging risk relating to the reduction in Government grant funding. A balanced budget for 2016/17 was achieved whilst retaining an appropriate level of reserves but indications are that funding will continue to be under extreme pressure as the Government seeks to reduce public spending into the future.
20. This year has again, been a period of change and development. There have been continuing financial pressures. Despite this challenging environment there have been significant achievements and continuing improvement in the Council's overall governance arrangements.
21. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.

Signed:.....

Leader of the Council

Signed:.....

Director of Corporate Services
& Governance