

Report to: Audit Committee

Date of Meeting: 29 July 2021

Report Title: Audit Committee Report to Council 2020/21

Report By: Tom Davies
Chief Auditor

Purpose of Report

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

Recommendation(s)

- 1. That the Audit Committee Report to Council 2020/21 is approved for presentation 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.

Background

1. 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 the 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 "Public Sector Internal Audit Standards". We have carried out a self-assessment and believe we are generally 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.
6. Assistant Directors are accountable for ensuring that responsibilities, authorities and any limits to authorities are appropriately and clearly established within their Service Areas. 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 Assistant Directors to Service Managers.
8. There is a Local Code of Corporate Governance which is undergoing review and will be presented in due course to the Audit Committee for comment and then Cabinet for approval. 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 Committee.

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 2020/21 both the Strategic Risk Register and Operational Risk Registers were kept under review and started to be migrate to Dashboard towards the end of the period. This is still a work in progress but the new format has many advantages including efficiency and control.
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 Councillors 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 Councillors and Officers.
- e. Registers of Interests for Councillors 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 Councillors.
 - l. Codes of Conduct for Councillors 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 Assistant Directors and Managers retain ownership of the risks and internal controls associated with their areas of responsibility. Assistant 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 (Chief Finance Officer) 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 Grant Thornton LLP inspects internal audit work at each annual external audit.

Evaluation of assurances and identification of gaps

Internal Audit

21. It is not possible to state a supported statement that all control systems are 'satisfactory'. However, based on the:

limited audit work carried out where controls were 'satisfactory' or better

fact that 100% of staff were able to work from home in a secure way within less than a week of the first lock down being announced (apart from a handful whose home internet had problems)

enquiries made with service managers, for example, that we are not facing any significant litigation and that controls against cyber attacks are being continually improved.

review of the risk registers

22. There is not any reason to believe that controls are unsatisfactory or worse.
23. There 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 the audits that were published as a final report in 2020/21.

24.

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	1
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns	2
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	3

25. This compares with previous years as follows:

Audit Conclusion	2017-18	2018-19	2019-20	2020-2021
	No of audits	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	7	8	1	3
C, D: Adequate / Poor	0	0	0	0

26. The Internal Audit Service was able to complete only a small portion of the audit plan before 31 March 2021 partly due to:

1 member of staff working on secondment to the 'Income Manager' project

the effect of Covid19, for example, staff needing to self-isolate

unexpected long term absence and

the need for audit to perform pre-assurance checks and post assurance checks on business grants payments

27. It has been recognised that there is a need to take remedial action and catch-up with the core work not discharged from the audit plan. This is captured on both the Strategic and Operational Risk Registers.
28. Further resource has been allocated and enquiries made for support.
29. The audit conclusions are defined in the service's own Internal Audit Manual.
30. Based on the audit work, observations and enquiries undertaken by Internal Audit, it is still not possible to give a supported audit opinion but there is no reason to believe it is unsatisfactory or worse.

External Audit

31. External audit is carried out by Grant Thornton LLP and is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2020/21 the Audit Committee received the following reports:

32. Report Title	Date Issued
External Audit Plan Update - Year Ending 31 March 2020 *	January 2021
External Audit Completion Report - Audit for the Year Ended 31 March 2020 *	February 2021

33. * Both of the above reports were 'situation reports' explaining what the impact of covid19 had on completion of their work.
34. Grant Thornton said it needed to reserve its final opinion in the report above issued in February 2021, but it stated that on the Financial Statements:

"Our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to property, plant and equipment valuation and property investments held by the pension fund".

And on its value for money opinion stated:

"We therefore anticipate issuing an unqualified value for money conclusion".

Areas of audit concern arising from internally conducted audits

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

Risk Management

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

Additional Information

External Audit Plan Update - Year Ending 31 March 2020

External Audit Completion Report - Audit for the Year Ended 31 March 2020 (not final)

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