

# AUDIT COMMITTEE AGENDA



**Thursday, 14 May 2009**

**at 2.00 pm**

**in Committee Room B, Civic Centre, Hartlepool**

AUDIT COMMITTEE:

Councillors Hall, McKenna, Plant, Preece, Richardson, Turner and Wallace

**1. APOLOGIES FOR ABSENCE**

**2. TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**

**3. MINUTES**

3.1 To confirm the minutes of the meeting held on 19 March 2009

**4. ITEMS FOR DISCUSSION/DECISION**

- 4.1 Audit Commission Report - Audit Fee Letter - *Chief Financial Officer*
- 4.2 Audit Commission Report - Fraud Letter – *Chief Financial Officer*
- 4.3 Internal Audit Outcome Report 2008/09 – *Head of Audit and Governance*
- 4.4 Review Of The Effectiveness Of The System Of Internal Audit – *Chief Financial Officer*
- 4.5 Annual Governance Statement 2008/09 – *Chief Financial Officer*

**5. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

## **AUDIT COMMITTEE**

**14th May 2009**



**Report of:** Chief Financial Officer

**Subject:** AUDIT COMMISSION REPORT- AUDIT FEE LETTER

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### **1. PURPOSE OF REPORT**

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commission Fee Letter attached as Appendix A.

### **2. BACKGROUND**

- 2.1 The Audit Committee's terms of reference include reviewing the annual audit plan.

### **3. KEY ISSUES**

- 3.1 The Audit Commission planning process has changed from previous years, and at this stage they now produce a Fee Letter rather than a detailed Audit Plan. This recognises that many of the audit risks will not be apparent until they have completed their audit of the Authority's 2008/09 financial statements. As such, a more detailed plan for the audit of the 2009/10 financial statements will be issued later in 2009, which will detail the risks identified, planned audit procedures and any changes in fee.
- 3.2 The audit is undertaken in the context of the Audit Commission's NHS Code of Audit Practice and the Statement of Responsibilities of Auditors and Audited Bodies; members can find both of these documents on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)
- 3.3 When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The Audit Commission therefore confirm that:

- They are not aware of any relationships that may affect the independence and objectivity of the audit team, which they are required by auditing and ethical standards to communicate to the Committee;
- They comply with the ethical standards issued by the APB and with the Audit Commission's requirements in respect of independence and objectivity.

#### **4. RECOMMENDATIONS**

- 4.1 The Audit Committee review the Authority's 2009/10 Fee Letter which proposes a fee of £262,322.00.

27 April 2009

Mr Paul Walker  
Chief Executive  
Hartlepool Borough Council  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY

**Direct line** 0844 798 1670 /  
07971 513 714

— Dear Paul

## Annual audit fee 2009/10

Further to our discussions, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Hartlepool Borough Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on these fees on behalf of the other inspectorates.

As I have not yet completed my audit for 2008/09 the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £262,322 which compares to the planned fee of £253,605 for 2008/09. A summary of this is shown in the table below.

### Audit fee

Audit area	Planned fee 2008/09 £	Planned fee 2009/10 £
Financial statements	168,268	169,983
Use of Resources/VFM Conclusion [including risk based work]	82,837	90,729
WGA	2,500	1,610
<b>Total audit fee</b>	<b>253,605</b>	<b>262,322</b>
Certification of claims and returns (estimate)	21,000	23,000

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The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for Hartlepool Borough Council is £218,700. The fee proposed for 2009/10 is 20 per cent above the scale fee and represents a 3.4% increase on the previous year fee.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Chief Financial Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
Inadequate governance arrangements to manage the Business Transformation programme effectively and deliver envisaged outcomes.	On-going monitoring of the Business Transformation programme.	On-going monitoring
Impact of current economic climate.	On-going monitoring of the Council's actions.	On-going monitoring
Quality of data is not reliable or relevant.	Additional data quality spot checks of performance indicators	April-August 2009
Financial reporting is not timely or accurate.	On-going monitoring of action being taken to improve arrangements.	By September 2009
Financial Management	Follow-up up of our 2008 Medium-Term Financial	By August 2009

<b>Risk</b>	<b>Planned work</b>	<b>Timing of work</b>
	Strategy Review (Effective Financial Management)	
Building Schools for the Future programme.	On-going monitoring.	On-going monitoring

There are no major projects planned, but additional work, related to Use of Resources themes will be carried out in the specified risk areas above. Reports will be issued where appropriate. I

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager – Diane Harold                      0844 798 1614 / 07971 513 714

Team Leader – Catherine Eddowes            0844 798 1639

I am 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 me in the first instance. Alternatively you may wish to contact the North East, Yorkshire & Humberside Head of Operations, Dave Allsop ([d-allsop@audit-commission.gov.uk](mailto:d-allsop@audit-commission.gov.uk) ).

Yours sincerely

Lynne Snowball  
District Auditor

cc Mike Ward, Chief Financial Officer  
Audit and Governance Committee

## Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit committee.

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	December 2009
Annual governance report	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report	October 2010
Final accounts report (to the Chief Financial Officer)	October 2010
Annual audit letter	November 2010

## AUDIT COMMITTEE

14th May 2009



**Report of:** Chief Financial Officer

**Subject:** AUDIT COMMISSION REPORT- FRAUD LETTER

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commission Fraud Letter attached as Appendix A.

### 2. BACKGROUND

- 2.1 In order to comply with International Standards on Auditing, attached is a pro-forma letter for the consideration of the Chair of the Audit Committee to respond to on behalf of the Audit Committee.

### 3. KEY ISSUES

- 3.1 In order for the Audit Commission to comply with International Standard on Auditing (UK&I)240, they are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

As such the Audit Commission is seeking to confirm:

- (i) How the Audit Committee oversees management processes to identify and respond to such risks, and
  - (ii) Whether the Audit Committee has knowledge of any actual, suspected or alleged frauds affecting the Council.
- 3.2 A second International Standard on Auditing (ISA (UK&I) 250) requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.



**4. RECOMMENDATIONS**

- 4.1 That the Chair of the Audit Committee respond by Letter or Email to the Audit Commissions request in relation to its requirement to comply with International Standards on Auditing.

Dear XXXXX

### **Compliance with International Auditing Standards**

This is a request for your assistance as Chair of the *[Audit Committee/committee identified as those charged with governance]* with our current work on the Council's accounts for 2008/09.

In order to comply with International Standard on Auditing (UK&I)240 we are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. I should be grateful if you would confirm:

(i) how the Audit Committee oversees management processes to identify and respond to such risks, and

(ii) whether you have knowledge of any actual, suspected or alleged frauds affecting the Council.

Management's processes include:

- Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- Identifying and responding to risks of fraud in the organisation;
- Communication to employees of views on business practice and ethical behavior; and
- Communication to those charged with governance the processes for identifying and responding to fraud.

A second International Standard on Auditing (ISA(UK&I)250) requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

A brief response by letter (or email), by *[insert date]* will suffice. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

XXXXX XXXXX

## **AUDIT COMMITTEE**

**14th May 2009**



**Report of:** Head of Audit and Governance

**Subject:** INTERNAL AUDIT OUTCOME REPORT  
2008/09

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### **1. PURPOSE OF REPORT**

To inform members of the outcomes of audit work covering the period April 2008 to March 2009.

### **2. BACKGROUND**

- 2.1 This report provides accountability for Internal Audit delivery and performance and allows Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function. All audit work carried out during the year has been in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, as reflected in the Internal Audit Manual. Auditors are instructed to declare if they have any links to the subject matter of any audits undertaken or relationships with auditees that could compromise the impartiality or objectivity of the work undertaken.
- 2.2 Information for Members on the standards of financial administration and management arrangements operating within the Authority is detailed in this report, together with a progress report on the extent of implementation of audit recommendations. The consideration and effective implementation of audit recommendations is fundamental in ensuring effective financial stewardship and robust financial systems, controls and procedures.
- 2.3 This report also details the performance of Internal Audit in 2008/09 on a range of key performance indicators.
- 2.4 Hartlepool Borough Council also provides the audit services to the Cleveland Fire Authority. In addition to the audits detailed in Appendix A, Internal Audit completed 14 major systems and probity reviews for the CFA during 2008/09.

### **3. AUDIT INPUTS 2008/09**

- 3.1 There were 1483 audit days allocated at 1.04.08 to planned and responsive activities during 2008/09.
- 3.2 Staffing resources were lower than anticipated in the plan because of the death of a member of the audit team. A contingency is in place to address unanticipated shortfalls by use of overtime and/or agency staff. Prudent management of the in-house audit resources, the use of contingency days and the willingness of auditors to work overtime avoided the requirement for external assistance and the audit plan was delivered in line with the key performance indicators.
- 3.3 Careful adjustment and revision to the audit plan ensured that all high-risk functions were reviewed and a balanced program of work covering all Council departments was achieved for 2008/09.

### **4 OUTCOMES**

- 4.1 Appendix A schedules all the planned audits undertaken in 2008/09. Due to the timing of the closure of the Councils capital accounts reliance is placed on work undertaken on 2007/08 capital accounts, which was completed early in 2008/09. At the time this report was completed work was being finalised on the Main Accounting System, however sufficient reliance could be placed on testing completed for the purposes of the 2008/09 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. From the work undertaken during the year 2008/09, the Head of Audit and Governance has reached the opinion that reliance can be placed on the adequacy and effectiveness of the organisations control environment. Key systems are operating soundly and that there is no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Hartlepool Borough Council's financial affairs.
- 4.3 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance. These risks are reflected in the audit plan and are the subject of separate reports issued during the course of 2008/09.

### **5. FOLLOW UP**

- 5.1 Due to the sudden and unexpected loss of a member of the audit team, the deadlines for Internal Audit to follow up work have not been met in all instances. This is reflected in the follow up performance indicator in paragraph 6.1. In order to address this situation auditors are working overtime to undertaking those follow ups deemed to be higher risk. This

will rectify the backlog and ensure all follows are completed. Those follow ups that have been carried out has revealed that management has taken action, and improvements to controls, processes and procedures have been made.

## 6 MONITORING INTERNAL AUDIT PERFORMANCE

- 6.1 Internal Audit is committed to the delivery of a quality service, which accords with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and to being responsive to the needs of service departments. In common with other central service providers, a number of core performance indicators for Internal Audit Services have been determined for 2008/09. Performance against these targets is detailed below:

### Internal Audit Performance Indicators

Indicator	Target Set for 2008/09	Actual Performance 2008/09
Completion of High Risk Audits provides assurance that financial procedures are operating effectively and has direct impact on CPA result.	90%	92%
In addition to the managing auditor reviews, quality reviews of working paper files and evidence by the Head of Audit and Governance to ensure compliance with the standards laid down in Codes of Practice and adopted in the Internal Audit Manual.	10%	10%
Percentage of Audit Reports issued within 10 working days of audit completion.	87.5%	100%
Percentage of Audit Recommendations followed up within 6 months of completion of the audit.	100%	21%
Annual Report to Members by 30 <sup>th</sup> June following year-end.	30.06.09	14.05.09

## 7. RECOMMENDATION

- 7.1 That Members note the contents of the report.

## APPENDIX A

### **Summary of Internal Audit Planned Work Undertaken for 2008/09**

#### **Fundamental Systems**

Payroll System Monthly Paid  
Payroll System Weekly Paid  
Budgetary Control  
Capital Accounting  
Creditor System  
Council Tax System  
Debtors  
Main Accounting System  
National Non Domestic Rates System  
Housing & Council Tax Benefits System  
Procurement  
Loans & Investments  
Cash/Bank System

#### **Governance Issues**

Data Protection Act  
Fraud Awareness  
Freedom of Information Act  
Proceeds of Crime Act

#### **Other Systems**

Attendance Management  
Contracts  
National Fraud Initiative  
Performance Management Systems  
VAT

#### **Partnerships**

Local Safeguarding Children Board  
Integrated Mental Health Partnership  
LAA

#### **Annual Audits**

BVPI's  
Supporting People

### **Two Yearly Audits**

Brierton Secondary School  
Direct Payments  
Emergency Planning  
Employees Register of Interests  
Housing Aid  
Members Allowances  
Highways  
Millhouse Leisure Centre  
Nursing and Residential Accommodation Charges  
Pensions, Allowances and Client Property  
Pest Control, Licences, Public Health Income  
Children Centres  
Stores

### **Three Yearly Audits**

Adult Education  
Allotment Rental  
Brougham Primary  
Court of Protection  
Hire of Community and Public Halls  
Jesmond Road Primary  
Kingsley Primary  
Libraries  
Lynnfield Primary  
Market Rents  
Parks Income  
Rift House Primary  
Rossmere Primary  
Seaton Carew Nursery  
St Cuthbert's Primary  
St Helen's Primary  
St John Vianney Primary  
St Joseph's Primary  
St Teresa's Primary  
Trade Refuse/Special Collections  
Warren Road

## AUDIT COMMITTEE

14th May 2009



**Report of:** Chief Financial Officer

**Subject:** REVIEW OF THE EFFECTIVENESS OF THE  
SYSTEM OF INTERNAL AUDIT

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the outcome of the review of the effectiveness of the system of Internal Audit in compliance with the Accounts and Audit Regulations (England) 2003 as amended 2006.

### 2. Background

- 2.1 Regulation 4 of the Accounts and Audit Regulations (2003) was amended in 2006 with new reporting requirements, applicable to local authorities in England, on the effectiveness of the system of internal audit. The Regulations came into force on 1 April 2006 and applied for the 2006/07 reporting year. From 2007/08, the new reporting requirements have been included in the Annual Governance Statement.
- 2.2 The Department for Communities and Local Government issued guidance on the amended Regulations in August 2006. This Guidance covers the significant changes made to the 2003 Regulations. Apart from simplifying and streamlining the 2003 regulations, the changes were intended to strengthen governance and accountability through a new requirement to carry out and consider the findings of a review of the effectiveness of the system of internal audit in Regulations 6 (3) and 6 (4) of the amended 2003 Regulations.

The Guidance on the new requirements relating to the review of the effectiveness of the system internal audit states:

*“Regulation 6 of the 2003 Regulations was amended in 2006 to require relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings. This process is also part of the wider annual review of the system of internal control. As with Regulation 4, this does not require the establishment of an audit committee, although such a committee would provide an appropriate means*



*through which to carry out the review of internal audit as it has a role in monitoring internal audit but is independent from it.”*

- 2.3 The Guidance cites the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom as proper practice in relation to internal audit in local authorities. The Guidance did not provide a definition of the system of internal audit nor did it address how relevant bodies should undertake an annual review of its effectiveness.

- 2.4 After lengthy consultation amongst practitioners, the CIPFA Audit Panel has interpreted the system of internal audit as follows:

***“The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation”***

- 2.5 CIPFA Audit panel interpretation and subsequent guidance states the framework of assurance will comprise a variety of sources and not only the authority's internal audit service. It goes on to state that the Head of Internal Audit holds a unique role within a local authority as the only independent source of assurance on all internal controls. As such the Head of Internal Audit is therefore central to this framework of assurance and should acquire an understanding not only of the authority's risks and its overall whole control environment but also all sources of assurance. In this way, the Head of Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. This role will include responsibility both for assessing the assurance available to the authority from other sources, whether internal or external, and for implementing a plan of internal audit work to obtain the required assurance.

- 2.6 CIPFA Audit Panel states that the outcome of the system of internal audit will be the annual report by the Head of Internal Audit and Governance to the authority which will, as required by the Code, include an opinion on the overall adequacy and effectiveness of the organisation's control environment. This opinion will be reported to the Audit Committee for consideration.

- 2.7 At its meeting of 19.03.09, the Audit Committee agreed that the Chief Financial Officer would undertake the review and the committee would receive and considers a report on the findings of the review.

### **3. Carrying Out the Review**

- 3.1 In order to assess whether the system of internal audit has been effective, the definition of effective for the purpose of the review was the satisfactory operation of the framework of assurance that is available to the council in identifying and mitigating the risks it faces in pursuit of its objectives. The review will be an ongoing process that will address new and emerging risks to the authority as they arise and take into consideration different aspects of the system of internal audit on an annual basis.
- 3.2 As a major part of the system of assurance is the role played by the Internal Audit section and the independent opinion given by the Head of Audit and Governance, I carried out the following tasks;
- Reviewed the planning and development work undertaken by Internal Audit in producing an annual audit plan,
  - Reviewed the use of new audit software,
  - Undertook monthly performance reviews with Head of Audit and Governance.
- 3.3 The role played by the Audit Committee is pivotal to the assurance framework in place at the Council. As such the reports and information provided to the committee were reviewed to ensure they supported the committee in meeting its remit.
- 3.4 The procedures in place in relation to the internal control element of the Use of Resources assessment were reviewed to ensure they are fit for purpose. The production of the Annual Governance Statement was reviewed to ensure that it reflects the practices in place at the council.

### **4 Result of Review**

- 4.1 From the tasks undertaken as described above I am satisfied that the system of internal audit, as defined by the CIPFA Audit Panel in respect of the requirements of the Accounts and Audit Regulations 2003 (amended 2006), is operating effectively in accordance with that described in the Annual Governance Statement.
- 4.2 The Internal Audit annual plan is more closely aligned to the risks faced by the Council in achieving its objectives and Internal Audit's own performance management and quality assurance programme ensures CIPFA code of practice requirements are met. The use of new audit software has also enabled Internal Audit to provide a wider opinion on the control environment within existing resources.
- 4.3 The role of the Audit Committee continues to develop and is supported through the reports and information provided by both internal and external sources.

- 4.4 The score for the internal control element of the Use of Resources assessment has risen from 2 to 3, indicating an improvement in the overall arrangements in place. This can be particularly seen in the areas of business continuity, where more robust plans and arrangements are now in place, the adoption of a Code of Corporate Governance and the procedures in place to manage partnership arrangements.
- 4.5 The process of compiling the Annual Governance Statement ensures that officers across the authority are involved in its production and that Corporate Management Team formally approves the contents of the statement.

## **5 Recommendations**

- 5.1 That members consider and approve the findings of the review of the effectiveness of the system of internal audit.

## AUDIT COMMITTEE

14th May 2009



**Report of:** Chief Financial Officer

**Subject:** ANNUAL GOVERNANCE STATEMENT  
2008/09

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### 1. PURPOSE OF REPORT

1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish an Annual Governance Statement (AGS) with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.

1.2 The report considers the following areas:

- Why the Council needs an AGS,
- Who is responsible,
- How the AGS was produced.

### 2. Why

2.1 To clearly demonstrate to stakeholders, that the Council has adequate arrangements in place to ensure that it effectively manages and controls its financial and operational responsibilities in accordance with acknowledged best practice. Paragraphs 2.2 to 2.4 detail positive benefits to the Council of achieving this end.

#### 2.2 Statutory Requirement

The Accounts and Audit Regulations require that: “the Council ensures that its financial management is adequate and effective and that there is a sound system of internal control which effectively facilitates its functions and which includes arrangements for the management of risk.

The Council shall conduct a review at least once a year of the effectiveness of its internal controls and shall include a statement on internal control with any statement of accounts it is obliged to publish”.

## 2.3 Good Governance

Production and publication of an AGS are the final stages of an ongoing review of internal control and are not activities which can be planned and viewed in isolation. Compilation of an AGS involved the Council in:

- Reviewing the adequacy of its governance arrangements,
- Knowing where it needs to improve those arrangements, and
- Communicating to users and stakeholders how better governance leads to better quality public services.

## 2.4 Comprehensive Performance Assessment

Assurance derived from the monitoring of processes, including risk management, provides evidence, which allows assessors to form conclusions on the efficiency and effectiveness of the Council's operations. The AGS provides assurance that the Council has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for managing risk.

# 3 Who

## 3.1 Corporate Responsibility

The Council's system of internal control must reflect its overall control environment, not just financial, which encompasses its organisational structure. Internal control is a corporate responsibility and the scope of internal control accordingly spans the whole range of the Council's activities and includes controls designed to ensure:

- The Council's policies are put into practice and its values are met,
- Laws and regulations are complied with,
- Required processes are adhered to,
- Financial statements and other information are accurate and reliable,
- Human, financial and other resources are managed efficiently and effectively, and
- High quality services are delivered efficiently and effectively.

## 3.2 Contributors to the AGS

- Cabinet
- Portfolio Holders
- Audit Committee
- CMT
- Corporate Risk Management Group
- CFO
- Monitoring Officer
- External Auditors and other Review Bodies

- Internal Audit and
- Management.

#### **4 How**

- 4.1 Having established a system of internal control, it is then necessary to consider which of these controls are key in mitigating against significant risk. By obtaining assurance on the effective operation of these key controls the Council is able to conclude on the effectiveness of the systems and identify where improvement is needed.

The review of internal control and AGS assurance gathering included:

- Establishing obligations and objectives,
- Identifying principal risks,
- Identifying and evaluating key controls to manage risks,
- Obtaining assurances on the effectiveness of controls,
- Evaluating assurances,
- Action planning to correct issues and continuously improve.

- 4.2 In practice the Council already had most of the necessary internal controls in place, what was required was to incorporate them into a framework for producing an AGS that met the requirements of the Regulations. In order to do this the Council has:

- Identified roles and responsibilities,
- Provided training,
- Gone through a process of establishing objectives, identifying risks and recording controls,
- Gathered and retained evidence for inspection,
- Drafted the AGS.

#### **5. Recommendations**

That Members review and approve the attached 2008/09 Annual Governance Statement.

## Appendix A

## **HARTLEPOOL BOROUGH COUNCIL** **ANNUAL GOVERNANCE STATEMENT**

### **1 Scope of Responsibility**

1.1 Hartlepool Borough Council is responsible for ensuring that:

- Its business is conducted in accordance with the law and proper standards,
- Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2 The 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.

1.3 In discharging these overall responsibilities, Hartlepool Borough Council is also 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.

1.4 The Council has a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### **2 The Purpose of the Governance Framework**

2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with 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.

2.2 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 risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not 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 the Council's 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. The governance framework has been in place at the Council for the year ended 31 March 2009 and up to the date of approval of the annual report and statement of accounts.

- 2.3 In order to facilitate the completion of the Statement, an officer working group has been formed and a programme of work developed. To ensure that the Statement has been given sufficient corporate priority and profile, the working group included both the Chief Financial Officer and the Assistant Chief Executive. As part of the process presentations have been made to departmental management teams and regular updates given to both the Chief Executives Management Team and Corporate Management Team (CMT).

### **3 Significant Internal Control Issues Update from 2007/08 Statement**

- 3.1 Progress has been made over the course of 2008/09 to address weakness in the system of internal control identified as part of the 2007/08 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
Disaster Recovery/Business Continuity	The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every 6 months. HBC reviews business continuity annually, testing different areas annually, the results of which have fed into the development and review of the plan and lead and develop the plan over time. HBC has a corporate business continuity group integrated with ERMT and undertakes tests as part of ERMT also. HBC is working with other Tees Valley authorities to test the robustness of plans against others. HBC is working as part of the Local Resilience Forum with senior officials representing all Category 1 Responders, as defined under the Civil Contingencies Act, together with key partners such as Housing Hartlepool who provides critical services in relation to business continuity to enhance and develop plans.
Adoption of a Code of	Code of Corporate Governance



Corporate Governance	endorsed by Audit Committee 19.03.09 and reported to and agreed by Council 16.04.09.
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#### **4 The Internal Control Environment**

- 4.1 The key elements of the Council's internal control environment are as follows:

Hartlepool Borough Council has adopted a constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Portfolio and Committee structure. The constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to Key Officers such as the Monitoring Officer and Section 151 Officer.

- 4.2 Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Human Resources (HR) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by HR for all staff, departments have responsibility to provide induction training specific to their departmental needs. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. Legal personnel participate in training events.
- 4.3 Portfolio and Committee terms of reference are included in the constitution. A procedure is in place to ensure that all Portfolio and Committee agendas, minutes and supporting material are available to all staff on the Council's intranet, and to the public on the Council's Internet site.
- 4.4 The constitution contains financial and contract procedure rules, and code of conduct for Members, which have been formally approved. Financial procedure rules have been updated and agreed by Council and contract procedure rules have also been updated to take into account new procurement procedures. The Authority has adopted the CIPFA Code on Treasury Management and complies with the Prudential Code. The constitution is available to all employees on the intranet and hard copy and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers.
- 4.5 The full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.
- 4.6 HR has drawn up policies to ensure suitably qualified employees are employed in key areas, and supporting terms and conditions of

employment for all employees cover all aspects of good employment. Induction courses for key new officers and all new members incorporate suitable training on corporate governance issues according to responsibilities and there is a general staff awareness programme in place.

- 4.7 A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.
- 4.8 The Authority has adopted the Community Strategy aims as its own corporate objectives. The development of the Community Strategy by the Local Strategic Partnership followed an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. The Local Area Agreement (LAA) (signed on 23/03/06) further develops these arrangements and is the action plan for achieving the community strategy aims. LAA outcomes relating to the Council have been integrated into the council's corporate plan, service plans and performance management arrangements to enhance management and political accountability.
- 4.9 CMT has defined what it considers to be a partnership and an assurance framework has been developed to ensure that adequate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership. The Authority has an ongoing programme of monitoring and reviewing arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides annual audit coverage of partnership arrangements. The Audit Committee has highlighted partnerships as a key area of interest and the Authority's control framework will be developed further and the committee regularly updated on progress. As the areas of Corporate Governance and Partnerships evolve, further changes to internal controls are envisaged to meet future requirements under the revised Code of Corporate Governance and the Government's white paper on the role and function of Local Government. The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.
- 4.10 All departments produce departmental and service plans using a corporate framework to ensure that they reflect the corporate objectives. Departments also complete extensive consultation with service users, forums, partners and the Viewpoint panel. Consultation with communities has been strengthened as part of diversity and equalities work. The feedback from these exercises is used to link service and departmental objectives to both the planning process for service delivery and to the corporate objectives. In order to further embed the process of risk management, control identification and the production of the AGS into the culture and management processes at the council, risks to meeting departmental objectives and the controls

to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together service planning, risk management and control identification which has enabled a much more focussed and joined up approach to the use of management information and the production of the AGS. Progress against the Corporate Plan and departmental plans is reported to CMT, Cabinet and the Portfolio Holders on a quarterly basis.

- 4.11 A corporate performance management framework approved by CMT and the Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Quality assurance / PI collection framework is in place with Internal Audit conducting an annual review of PIs assessed as high risk. The Council's Performance Management system (Covalent) includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues. The Council's Performance Management system includes plans, risks and performance indicators enabling clearer links between corporate and service planning objectives, actions, risks and PI measures.
- 4.12 Key performance indicators are identified in the corporate and departmental plans. Regular reports are presented to members on the delivery of performance targets and these include national and local comparisons. The Audit Commission rated Hartlepool as "Improving Strongly" in its most recent Direction of Travel Statement.
- 4.13 Key policies such as the Corporate Complaints Procedure, Proceeds of Crime (Money Laundering), Whistle blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. Reports are made to portfolio holders every six months summarising, for example, the complaints dealt with and the outcome. The Authority is a member of the IPF Better Governance Forum, the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews.
- 4.14 The Council agreed a Risk Management Strategy in December 2004 and this has been improved on an annual basis. The Strategy is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the strategy to all relevant staff in their departments.
- 4.15 An annual review of the risk strategy has been completed by Corporate Risk Management Group (CRMG) and approved by, CMT and Cabinet on 21 July 2008. The Risk Management annual work programme for 2008/9 was approved by CRMG in May 2008 and incorporated within the service plan (Chief Execs). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was also completed in July 2008. Following on from previous training given to cabinet and elected

members a risk management briefing note was circulated to all elected members in April 2008.

- 4.16 There is corporate support at senior management level for development of Risk Management with risk assessment procedures published and training given to officers. Following on from previous training given to officers a series of sessions in March/April 2008 briefed officers on using the new Covalent system. Regular risk introduction/refresher sessions are delivered as part of the Council's Learning Management and Development Programme.
- 4.17 Planned control measures in SRR/DRR are in Service Plans, linked as part of business planning for Departments as described in paragraph 4.10. The Performance Portfolio Holder is Hartlepool Borough Council's risk 'champion' and is involved in delivery of training to other Members. Each department also has a risk co-ordinator. Risks and control measures relating to corporate and departmental plans are considered as part of the preparation of the AGS.
- 4.18 The Council's Performance Management system (Covalent) holds the departmental and strategic risk registers. Officers that manage risks are notified risks need to be reviewed and progress is monitored on a quarterly basis by the CRMG, who then report to CMT and Cabinet. Departments may use a central funding pot for risk management to assist in the financing of risk mitigation.
- 4.19 The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every 6 months.
- 4.20 Departmental business continuity plans have been developed and specific property and flu pandemic plans are in place. ICT resilience has been improved by remote access to Email and calendars and upgrading the UPS system.
- 4.21 Flu pandemic planning has identified critical services particularly in respect of vulnerable people, with alternative service provision arrangements identified as part of that process.
- 4.22 The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23<sup>rd</sup> October 2006. The principles for the development of the Business Continuity Plan have been agreed. Each department has a lead officer responsible for business continuity. All senior managers have been briefed about business continuity. The initial strategy as set out in 2006 has now been achieved. In the coming year a testing and review programme has been set out.

- 4.23 The Council has undergone external assessment and has been accredited with the Equality Mark certificate for the successful validation of the Level 3 of the Equality standard for Local Government. The Council is now working towards the Excellence stage of the new Equality framework for Local Government developed by I&DeA. Action plans to reflect this are being developed and incorporated into the Council's service planning process.
- All departments completed an annual review of Equality Impact Assessments and ensure that adverse impacts are addressed and further steps to improve accessibility to services incorporated in their plans.
- All departmental diversity groups report to the Corporate Diversity Steering Group (DSG) which in turn reports to Corporate Management Team on a regular basis. The Council's progress on diversity is reported half yearly and annually to the Performance Portfolio Holder and the Corporate Equality and Diversity Scheme (2008-11) has Cabinet approval.
- 4.24 Internal Audit reports on a regular basis to the Audit Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audits performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.
- 4.25 Other review bodies external to the Authority also make regular reports on efficiency, effectiveness and compliance with regulations. These reviews include major inspections by the Commission for Social Care, Department for Children, Schools and Families, Ofsted and the Planning Inspectorate of the relevant section of the Authority. The Audit Commission has also undertaken a Comprehensive Performance Assessment and the Council has been assessed as "four star" and "improvingly strongly", the highest possible ranking. The results of these reviews are reflected in the Council's own development and improvement plans. Some services within the Authority have been accredited by Investors in People and Chartermark.

## **5 Review of Effectiveness**

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

5.2 The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- Corporate Management Team agreed process for the review of the internal control environment. The risk inherent in meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together risk management, control identification and the process for compiling the evidence needed to produce the AGS. This enables managers to provide documented evidence regarding the controls within their service units as part of the service planning process. The controls in place are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.
- Chief Financial Officer – The CFO carries out a review of the effectiveness of the system of internal audit and reports the findings to the Audit Committee.
- Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
  - Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
  - Internal Audit reports to the Section 151 Officer and Audit Committee.
  - The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the system of internal control, quarterly update reports and an annual internal audit performance report to the audit committee.
  - Internal audit plans are formulated from an approved risk assessment package.
- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken.
- Other review and assurance mechanisms: for example, Department for Further Education and Skills, Commission for Social Care, Investors in People, Chartermark.

- In the Comprehensive Performance Assessment by the Audit Commission, the overall report placed the Council in the “four star” category.

5.3 HBC business continuity group meets quarterly and co-ordinates the Councils business continuity strategy. The group has undertaken testing of the plan within departments and is moving to test the BCP in conjunction with other plans.

5.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 6 Significant Internal Control Issues

6.1 The following significant internal control issue has been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Data Quality	Raise awareness through continued officer training.	2009/2010	Andrew Atkin
2	Employees Code of Conduct	Awaiting formal legislation upon the Code, following on from consultation exercise undertaken.	2009/2010	Peter Devlin/ Joanne Machers

6.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

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Mayor & Chief Executive on behalf of Hartlepool Borough Council.