

# AUDIT COMMITTEE AGENDA



**Tuesday, 18 May 2010**

**at 2.00 pm**

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

**MEMBERS: AUDIT COMMITTEE:**

Councillors C. Akers-Belcher, Barker, Hall, McKenna, Preece and Turner

**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 16 March 2010

**4. ITEMS FOR DISCUSSION/DECISION**

- 4.1 Internal Audit Outcome Report 2009/10 – *Head of Audit and Governance*
- 4.2 Role of the Chief Finance Officer (CFO) in Public Service Organisations – *Chief Finance Officer*
- 4.3 Responsibility for approving Statement of Accounts – *Chief Finance Officer*
- 4.4 Review of the Effectiveness of the System of Internal Audit – *Chief Finance Officer*
- 4.5 Annual Governance Statement 2009/10 – *Chief Finance Officer*

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

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

16 March 2010

The meeting commenced at 2.00 p.m. in the Civic Centre, Hartlepool

### **Present:**

Councillor Preece (In the Chair)

Councillors C Akers Belcher, Hall and Turner

Officers:     Mike Ward, Chief Financial Officer  
                  Noel Adamson, Head of Audit and Governance  
                  Joanne Smithson, Head of Performance and Partnerships  
                  Sandra Shears, Chief Accountant  
                  Jo Wilson, Democratic Services Officer

Audit Commission Representatives:  
                  Cathie Eddowes and Paul Heppell

### **21. Apologies for Absence**

Apologies were received from Councillor Caroline Barker.

### **22. Declarations of interest by members**

None

### **23. Confirmation of the minutes of the meeting held on 16 March 2010**

Agreed

### **24. Treasury Management Strategy 2010/11 – Chief Financial Officer**

#### **Purpose of Report**

To enable Members to review the approved Treasury Management Strategy 2010/11 as requested by the Council on the 29<sup>th</sup> January 2010.

### Issues for Consideration

The Treasury Management Strategy 2010/11 was approved by Council in February 2010 as part of the budget setting process. The new regulatory framework requires that a nominated body scrutinise the strategy prior to its approval by Council. However as the revised guidance was only received in December it was not possible to implement that requirement before the strategy was presented for Council approval. In future years the Committee will review the proposed strategy prior to Council approval. For 2010/11 Council approved the proposed strategy and referred it to the Committee for consideration. Any further issues regarding the strategy which were raised by the Committee could be considered by Council at its meeting on 15<sup>th</sup> April 2010.

The approved Treasury Management Strategy includes the Investment and Borrowing strategies in compliance with the revised CIPFA Prudential Code, CIPFA Treasury Management Code of Practice and draft Department of Communities and Local Government guidance. Due to the specialist nature of Treasury Management specific training would be provided to members. The Chief Financial Officer gave Members a brief introduction to the Treasury Management Framework at the meeting pending more specialist training which would take place after the May elections. Areas covered by the introduction included:

- Prudential Indicators and Treasury Limits for 2010/2011 to 2012/13
- Outlook for Interest Rates
- Borrowing Strategy
- Investment Strategy

The following issues were then raised by Members:

**What impact would the sale of Council-owned assets have on capital expenditure and Treasury Management?** – Current Council borrowings totalled tens of millions therefore the sale of assets valued in the lower millions would have very little short term impact.

**In the Audit Report and Letter there was an anomaly between the depreciation of assets. Had this been taken into account or was it the fixed nature of the depreciation that made it so low?** – The anomaly in question was an accounting entry and had no cash impact. Depreciation only needed to be taken into account at the detailed level.

**Who would assume delegated powers following the retirement of the Chief Financial Officer?** – The role of Section 151 Officer, including delegated powers, would be assumed by the Chief Finance Officer from 1<sup>st</sup> April 2010. The details contained within the report would be amended in the fullness of time however if Members were concerned they could ask Council to note this correction.

**Were officers potentially understating the risk of liabilities given previous issues with the Icelandic Banks?** – The Council currently had £30 million in investments and were borrowing £80 million. To alter that would be to create the impression that the Council had understated its position. Moving to a net position was in some ways safer but investments tended to have more liquidity. Councils used cash investments to protect themselves but if these could not be called back a situation might ensue whereby further borrowing would be needed to replace monies invested elsewhere.

**Could the Council be caught out on short term borrowing and long term interest rates? Interest rates tended to fluctuate and prudential calculations within the strategy were quite high** – This was always a risk therefore trigger points for borrowing and investing were built into the strategy. The financial markets were reviewed on a daily basis and only when interest rates were at a particular level would action be taken. These levels were set by Council.

The Development of a training programme in conjunction with Cleveland Fire Authority was discussed and approved for commencement following the Local Government elections and subsequent determination of the membership of the Committee.

### **Decision**

That the report be noted

## **25. Audit Commission Report – Annual Audit Letter – Chief Financial Officer**

### **Purpose of Report**

To inform Members of the Audit Committee that arrangements had been made for a representative from the Audit Commission to be in attendance at this meeting to present the content of the Audit Commission's Annual Audit Letter.

### **Issues for Consideration**

Paul Heppell, Interim Audit Manager, presented the findings of the Annual Audit Letter. The findings from the 2008/9 audit were summarised and messages included arising from the audit of financial statements. Details were also given of the results of the work undertaken to assess arrangements to secure value for money in the use of resources. A number of key messages were included in the main body of the report and the recommendations made to ensure value for money in the Council's use of resources. These recommendations had been agreed with the Council. Information on the fee charged for the audit was also provided, along with comparatives for the previous year.

The following issues were then raised:

**Health inequalities had been specifically raised. Was this a concern?**

– As this was already part of the Council's agenda the Audit Commission had been reassured and had no immediate concerns. In terms of funding to improve health inequalities a copy of the report which had been prepared on this matter was available for Members information.

**Depreciation of property could be difficult to comprehend. Was there anything in the International Financial Reporting Standards to address that?**

– Given the current economic climate it was felt that the public were aware that the value of property did not always rise. Depreciation did not necessarily reflect the value of the bricks and mortar but the value related to the use of the building. There might be no actual loss of money but further expenditure needed to maintain the building's current position. Members noted that some buildings might have a restricted number of uses which could decrease their market value.

**Decision**

That the report be noted

## **26. Audit Commission Report – Certification of Claims and Returns Annual Report** – *Chief Financial Officer*

**Purpose of Report**

To inform Members of the Audit Committee that arrangements had been made for a representative from the Audit Commission to be in attendance at this meeting to present the content of the Audit Commission's Certification of Claims and Returns Annual Report.

**Issues for Consideration**

Cathie Eddowes, Audit Commission representative. presented the findings from the certification of 2008/09 claims. Details were given of messages arising from the Audit Commission assessment of arrangements for preparing claims and returns and information on claims that had been amended or qualified. A number of key messages were included in the main body of the report along with a summary of the 2008/09 certified claims.

A Member queried whether the outcome of claims was considered by the Audit Commission. The Audit Commission representative advised that the report was more about what money had been paid out rather than the outcomes as a result of these payments.

### **Decision**

That the report be noted.

## **27. Internal Audit Plan 2009/10 Update – Head of Audit and Governance**

### **Purpose of Report**

To inform Members of the progress made to date completing the internal audit plan for 2009/10.

### **Issues for Consideration**

Details were appended to the report of the pieces of work that had been completed and those audits ongoing at the time the report was compiled. Both aspects were in line with expectations at this time of year and audit coverage to date had allowed the Audit Commission to place reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

A member queried whether information despatched as part of Data Management and Fraud Awareness could be distributed electronically in the future. The Head of Audit and Governance indicated that documentation relating to fraud awareness was available on the intranet and consideration would be given to increasing use of the intranet and email further.

### **Decision**

That the report be noted

## **21. Data Quality – Head of Performance and Partnerships**

### **Purpose of Report**

To provide Members with a copy of the updated Data Quality Policy and inform them of the progress made to date to improve data quality arrangements.

### **Issues for Consideration**

Effective decision making relies on good quality data and information therefore data quality is an important issue for members. Key elements of the Comprehensive Area Assessment rely on information provided as part of the National Indicators set and performance indicators identified in the Local Area Agreement. Data quality is also an essential part of the Council's Organisational Use of Resources Assessment due to be completed by the Audit Commission in 2010. The Committee had

considered a number of reports on data quality in recent months and the Finance and Performance Portfolio Holder had asked that members be given a copy of the Data Quality Policy to maintain awareness. The formal policy was first approved in April 2007 and is reviewed annually. The current policy takes account of changes made as a result of the Business Transformation programme. The newly formed Performance and Partnership team support this area of work and the Finance and Performance Portfolio Holder retains lead responsibility.

Progress on data quality continued through use of the Performance management system (Covalent) as a tool to monitor Data Quality, completion of Phase 2 of the data quality process and Internal Audit testing of a sample of performance indicators. The revised policy would be circulated to all responsible officers and briefings arranged.

A member queried when the Covalent system would be operational. The Head of Performance and Partnerships advised that it had been fully operational for over two years. A recent issue was raised by a member whereby a locally set target in an aspect of social care had been superseded by a target set nationally. This had resulted in a situation where the Council had beaten the national target but failed to meet the target they had set themselves. The Head of Performance and Partnerships acknowledged that the introduction of the National Indicator Set has resulted in changes to indicator definitions. There was a push nationally to reduce the number of indicators Councils were measured against.

A member referred to Council surveillance, asking whether information on monitoring was available. He also queried whether data collected was made available in alternative languages and formats.

#### **Decision**

That the report be noted

## **22. Chief Financial Officer**

The Chair noted this was the Chief Financial Officer's last Audit Committee meeting prior to his retirement from the authority. He thanked Mr Ward for his contributions to the Committee and wished him a long and happy retirement.

## **23. Any other business agreed with the Chair**

A Member referred to the introductory session on the Treasury Management Strategy earlier in the meeting, saying members had been unaware that this would be taking place. The Head of Audit and Governance would be happy to arrange a repeat. In terms of the more specialist training the member expressed his concern that officers were being left to oversee this function with minimal member involvement. He asked that specialist training take place as soon as possible however the

Chair felt election campaigning could affect training attendance. There could also be changes to the committee membership post election. Members asked that the training be made available to all members, not just those on the Audit Committee.

The Chair thanked representatives of the Audit Commission for their attendance at the meeting.

The meeting concluded at 3.35pm

CHAIRMAN



## AUDIT COMMITTEE

18<sup>th</sup> May 2010



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

**Subject:** INTERNAL AUDIT OUTCOME REPORT  
2009/10

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### 1. PURPOSE OF REPORT

To inform members of the outcomes of audit work covering the period April 2009 to March 2010.

### 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 2009/10 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 17 major systems and probity reviews for the CFA during 2009/10.

### **3. AUDIT INPUTS 2009/10**

- 3.1 There were 1338 audit days allocated at 1.04.09 to planned and responsive activities during 2009/10.
- 3.2 Staffing resources were as anticipated, ensuring that all high-risk functions were reviewed and a balanced program of work covering all Council departments was achieved for 2009/10.

### **4 OUTCOMES**

- 4.1 Appendix A schedules all the planned audits undertaken in 2009/10. Due to the timing of the closure of the Councils capital accounts reliance is placed on work undertaken on 2008/09 capital accounts, which was completed early in 2009/10. 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 2009/10 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. From the work undertaken during the year 2009/10, 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 2009/10.

### **5. FOLLOW UP**

- 5.1 It was reported to members in 2008/09 that the deadline for Internal Audit to carry out all follow ups had not been met. This situation has been rectified for 2009/10 and all follow ups have been allocated and undertaken. Internal Audit continues to monitor the implementation of all recommendations made that are reported to members.

### **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 2009/10. Performance against these targets is detailed below:

### **Internal Audit Performance Indicators**

<b>Indicator</b>	<b>Target Set for 2009/10</b>	<b>Actual Performance 2009/10</b>
Completion of High Risk Audits provides assurance that financial procedures are operating effectively.	90%	92%
In addition to the managing auditor reviews, quality reviews of Teammate 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%	100%
Annual Report to Members by 30 <sup>th</sup> June following year-end.	30.06.10	18.05.10

- 6.2 During the course of the year the Audit Commission also carried out its three yearly detailed review of Internal Audit against the CIPFA standards for Internal Audit and reported that it had not identified any issues to bring to members attention.

## **7. RECOMMENDATION**

- 7.1 That Members note the contents of the report.

## APPENDIX A

### **Summary of Internal Audit Planned Work Undertaken for 2009/10**

#### **Audit Area**

Asset Management  
Asset Register - Capital Accounting  
Attendance Management  
Benefits - Housing & Council Tax  
Budgetary Control  
BVPI's  
Car Parking - Blue Badge Scheme  
Car Parking - Income  
Carefirst System  
Cash/Bank  
Children Centres  
Childrens Fund – Prevention Services  
Childrens Trust  
Clavering Primary School  
Communication - Land Lines  
Communication - Mobile Phones  
Community Safety  
Complaints Procedure  
Computer Audit  
Connexions  
Consistent Financial Reporting  
Contact Centre  
Corporate Manslaughter Act  
Council Tax  
CRB  
Creditors  
Debtors  
Democratic Services  
Devolved Capital/Asset Management  
Direct Payments  
Dyke House Secondary School  
Economic Development  
Elwick C Of E Primary School  
Employee Protection/Violence Register  
Employees Registers of Interest/Gifts and Hospitalities  
Energy Management  
English Martyrs Secondary School  
Environmental Enforcement - Dog Warden Service  
Fens Primary School  
Fraud Awareness  
Governor Support  
Ground Maintenance/Horticulture  
Hart Primary School  
Health and Safety  
High Tunstall Secondary  
Highways - Street Cleansing  
Holy Trinity C Of E Primary School  
Housing Market Renewal  
Housing Strategy

Individual School Budgets  
Information/Data Management  
Integrated Transport Unit – Concessionary Travel  
Integrated Transport Unit – Dial A Ride  
Integrated Transport Unit – Fuel Management  
Integrated Transport Unit – Home to School Transport  
LAA/LSP/ABG  
Learning Disability Services  
Loans & Investments  
Looked After Children  
Main Accounting System  
Manor College Of Technology  
Members Allowances/Travel/Subsistence  
Mental Health Services  
Middleton Grange Shopping Centre  
Millhouse Leisure Centre/Headland Sports Centre  
Neighbourhood Renewal  
National Fraud Initiative  
National Non Domestic Rates  
Nursing & Residential Accommodation Charges  
Officers Expenses  
Owton Manor Primary School  
Partnerships (UoR/CAA)  
Performance Management Systems  
Physical Disability Services  
Procurement  
Pupil Support/Admissions  
Recruitment, Selection and Retention  
Recycling/Landfill  
Risk Management  
SEN Support  
Salaries  
Scheme of Delegation  
School Improvement  
SIMS System  
St. Hilda's  
Stores  
Supporting People  
Sustainability  
Tourism - Tall Ships  
Tourism - Town Hall Theatre/Borough Hall  
VAT  
Wages  
Youth Services

## **AUDIT COMMITTEE**

**18<sup>th</sup> May 2010**



**Report of:** Chief Finance Officer

**Subject:** ROLE OF THE CHIEF FINANCE OFFICER  
(CFO) IN PUBLIC SERVICE ORGANISATIONS

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

- 1.1 To inform Members of the CIPFA statement – ‘The Role of the CFO in Public Service Organisations’, and how the Council complies with this guidance.

### **2. BACKGROUND**

- 2.1 The role of the CFO is a fundamental building block of good corporate governance and the Local Government Act 1972 (section 151) requires ‘every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs’. This statutory requirement is reinforced by the Local Government and Housing Act 1989 (section 6) which requires that the Section 151 officer is a qualified accountant and a member of an accountancy body approved by the Secretary of State.
- 2.2 The two critical aspects of the CFO’s role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources. The CFO, as the organisation’s most senior executive role charged with leading and directing financial strategy and operations, occupies a pivotal role, both for external stakeholders and within the Leadership Team. CFOs everywhere have a responsibility to ensure that their organisations control and manage money well, and that strategic planning and decision making are supported by sound analysis.
- 2.3 In the public service context, CFOs must also meet the demands of openness and accountability in decision making, balance competition for limited resources across a range of worthwhile objectives, deliver value for money and safeguard taxpayers’ money. Delivering these requires a range of personal qualities, as well as support from both the finance function and the organisation as a whole. It is these expectations, combined with the personal qualities and leadership skills needed for them to be met, that have shaped the CIPFA Statement on the Role of the CFO in Public Service Organisations (the statement).

- 2.4 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:
- The Organisation;
  - The Role: and
  - The Individual.
- 2.5 For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or in some authorities may even outsource, but the CFO should maintain oversight and control. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their CFO. These include the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the CFO as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases can support other principles as well.

### **3 CIPFA STATEMENT ON THE ROLE OF THE CFO IN PUBLIC SERVICE ORGANISATIONS**

#### **3.1 The CFO in a public service organisation:**

- 1 is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- 2 must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
- 3 must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

#### **To deliver these responsibilities the CFO:**

- 4 must lead and direct a finance function that is resourced to be fit for purpose; and
- 5 must be professionally qualified and suitably experienced.

- 3.2** Appendix A of the report details how the Council ensures that the requirements of the statement are met.

**4** **RECOMMENDATION**

- 4.1** It is recommended that Members

- i) note that I have reviewed the CIPFA statement – ‘The Role of the CFO in Public Service Organisations’ and can advise Members that the Council complies with these requirements as detailed in Appendix A.
- ii) that an annual review of compliance with the CIPFA statement will be undertaken and reported to your Committee.



## Appendix A

**How the Five Principles Are Met**

<b>Principle 1 – The CFO is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.</b>					
<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core CFO responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Set out a clear statement of the respective roles and responsibilities of the Leadership Team and its members individually.	Constitution, Delegated Powers, Job Descriptions in place and clearly define roles and responsibilities.	Contributing to the effective leadership of the organisation, maintaining focus on its purpose and vision through rigorous analysis and challenge.	Corporate Management Team role, delegated powers. CFO leads on all financial matters and ensures Cabinet, Corporate Management Team (CMT) and Corporate Management Team Support Group (CMT SG) buy-in in to Medium Term Financial Strategy and supporting strategies, such as Business Transformation Programme.	Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.	Actively engaged in the Leadership and Management Development Programme (LMDP). Provides training regarding financial issues to members and staff. Mentors senior finance staff and has regular Finance Management Team meetings and 1 to 1 meeting with senior finance staff.
Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.	CFO reports directly to Chief Executive. Has regular 1 to 1 meetings with Chief Executive. Is a member of Corporate Management Support Group and attends Corporate Management Team when CFO determines this is	Contributing to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and	See Above	Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.	See Above.

	appropriate or necessary.	performance management.			
If different organisational arrangements are adopted, explain the reasons publicly, together with how these deliver the same impact.	Not applicable - see Above	Supporting the effective governance of the organisation through development of – corporate governance arrangements, risk management and reporting framework; and – corporate decision making arrangements.	Responsible for the provision an adequate and effective Internal Audit service. Key role in formulating the Annual Governance Statement and Code of Corporate Governance.	Build robust relationships both internally and externally.	See Above. Regular meetings with Directors and other senior managers facilitate establishment of robust relationships. Active member of Tees Valley Strategic Finance Officers Group, ANEC Finance Group and CIPFA Municipal Treasurers Group. Regular meetings with external auditors.
Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the Board, and ensure that it is monitored and updated.	Constitution and Scheme of Delegation in place.	Leading or promoting change programmes within the organisation.	Key role in Business Transformation Programme and Service Delivery Options.	Work effectively with other Leadership Team members with political awareness and sensitivity.	Member of CMT Support Group. Regular contact with all members including Mayor, Cabinet, Portfolio Holders and Members of Scrutiny.
Ensure that organisation's governance arrangements allow the CFO: – to bring influence to bear on all	Constitution and Scheme of Delegation in place as well as defined reporting arrangements.	Leading development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its	Responsibility for Medium Term Financial Strategy (MTFS) and budgetary control processes matters and ensuring Cabinet, Corporate Management Team (CMT) and	Support collective ownership of strategy, risks and delivery.	Member of CMT Support Group. Represented on Performance and Risk Management Group. Member of Annual Governance Statement

material business decisions; and – direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.		delivery.	Corporate Management Team Support Group (CMT SG) buy-in in to Medium Term Financial Strategy and supporting strategies, such as Business Transformation Programme.		Group.
Review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised.	Review of corporate financial management through Business Transformation Programme has focused CFO role on core financial management to ensure and effective strategy is developed and implemented to address the financial challenges facing the Council over the next few years.	Ensuring the medium term financial strategy reflects joint planning with partners and other stakeholders.	Wide consultation undertaken with all relevant stakeholders.	Address and deal effectively with difficult situations.	Peer review carried out by Chief Executive. Ongoing review of skills via LMDP.
Assess the financial skills required by members of the Leadership Team and commit to develop those skills to enable their roles to be carried out effectively.	Overarching Leadership and Management Development Programme (LMDP)/Management Academy in place.			Implement best practice in change management and leadership.	Ongoing development through LMDP/Management Academy and peer review/mentoring. Involvement in SDO reviews.
				Balance conflicting pressures and needs, including short and longer term trade-offs.	Responsibility for Medium Term Financial Strategy (MTFS) and budgetary control processes.

## 4.2

Demonstrate strong commitment to innovation and performance improvement.	Key role in Business Transformation Programme and Service Delivery Options.
Manage a broad portfolio of services to meet the needs of diverse communities.	Responsible for full range of financial services aligned with corporate priorities and needs through MTFS.
Maintain an appropriate balance between the deeper financial aspects of the CFO role and the need to develop and retain a broader focus on the environment and stakeholder expectations and needs.	See Above.
Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by reason of their professional status. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and	Professional standards integral to role. Commitment to Professional CPD and LMDP/Management Academy.

professional behaviour. Impartiality is a further fundamental requirement of those operating in the public services.

**Principle 2** – The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's overall financial strategy.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Establish a medium term business and financial planning process to deliver the organisation's strategic objectives, including: – a medium term financial strategy to ensure sustainable finances; – a robust annual budget process that ensures financial balance; and – a monitoring process that enables this to be delivered.	MTFS in place, monitoring arrangements and role of Council, Cabinet, Scrutiny and Audit Committees enshrined in the Constitution.	<b>Responsibility for financial strategy:</b> Agreeing the financial framework with sponsoring organisations and planning delivery against the defined strategic and operational criteria.	Responsibility for the production, implementation and monitoring of the MTFS.	Implement appropriate management, business and strategic planning techniques.	Responsibility for MTFS and budgetary control processes.
Ensure that professional advice on matters that have financial implications is available and recorded well in	The reporting of key decisions is enshrined within the Constitution.	Maintaining a long term financial strategy to underpin the organisation's financial viability within the agreed performance	See Above.	Link financial strategy and overall strategy.	Responsibility for MTFS and budgetary control processes.

advance of decision making and used appropriately.		framework.			
Ensure that those making decisions are provided with information that is fit for the purpose – relevant, timely and giving clear explanations of financial issues and their implications.	See Above	Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.	Responsibility for the production, implementation and monitoring of Financial Procedure Rules (FPRs) and Standing Orders.	Demonstrate a willingness to take and stick to difficult decisions – even under pressure.	Key role in Business Transformation Programme and Service Delivery Options.
		Appraising and advising on commercial opportunities and financial targets.	Budget monitoring process and Budget Strategy, key decision advice.	Take ownership of relevant financial and business risks.	Represented on Performance and Risk Management Group. Member of Annual Governance Statement Group
		Developing and maintaining an effective resource allocation model to deliver business priorities.	See Above	Network effectively within the organisation to ensure awareness of all material business decisions to which CFO input may be necessary.	Member of CMT Support Group. Regular contact with Chief Executive, Directors, other senior officers, members, Trade unions,
		Co-ordinating the planning and budgeting processes.	See Above. Annual budget timetable well established and enshrined in constitution.	Role model persuasive and concise communication with a wide range of audiences internally and externally.	See Above. Externally represent Council in meeting with Business sector and various resident groups/ad-hoc budget consultation events.
		<b>Influencing decision making:</b> Ensuring that	Budget Strategy and monitoring process, key decision advice in relation	Provide clear, authoritative and impartial professional advice and	Addressed in MTFS and associated presentation to Cabinet, Scrutiny and

opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.	to financial and governance matters.	objective financial analysis and interpretation of complex situations.	other groups. Ongoing development through LMDP and management review/mentoring.
Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.	Key decision advice in relation to financial and governance matters.	Apply relevant statutory, regulatory and professional standards both personal and organisational.	See Above.
Ensuring that the organisation's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.	Member of Strategic Asset Management Programme Team (SCRAPT).	Demonstrate a strong desire to innovate and add value.	
Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.	Close working relationship with CMT and CMT SG ensure early involvement with innovative approaches to services and financial arrangements to ensure compliance with regulatory requirement and proposals are based on robust business case.s.	Challenge effectively, and give and receive constructive feedback.	Ongoing development through LMDP and management review/mentoring. 1 to 1 meetings with Chief Executive and key financial staff.
<b>Financial information for decision makers:</b> Monitoring and reporting on financial performance	Budget Strategy and monitoring process, key decision advice in relation to financial and	Operate with sensitivity in a political environment.	Ongoing development through LMDP and peer review/mentoring. Regular contact with

that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.	governance matters. Corporate Plan aligned with financial PI's.		members, TU's local business and the community.
Preparing timely management accounts.	Final Accounts timetable.		
Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.	Effective and wide ranging consultation process in place.		

**Principle 3** – The CFO must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.	Delegated Powers, FPRs and Standing Orders enshrined within Constitution.	<b>Promotion of financial management:</b> Assessing the organisation's financial management style and the improvements needed to ensure it aligns with the organisation's strategic direction.	Strategic direction reflected in MTFS.	Generate 'buy-in' to, and support delivery of, good financial management across the organisation.	<b>Achieved through</b> detailed involvement of Cabinet, CMT and CMT SG in development of financial management strategy and procedures for ensuring good financial management arrangements are in place.
Ensure that systems and processes for financial administration, financial control and protection of the	Delegated Powers, FPRs and Standing Orders enshrined within Constitution. Scrutiny and Audit Committees in line with legislative	Actively promoting financial literacy throughout the organisation.	Allocation of named financial leads to support named budget holders promotes close working relationship and ensure financial management	Develop and sustain partnerships, and engage effectively in collaboration.	



organisation's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.	arrangements.		arrangements are effective. Influencing force behind LMDP.		
Address the organisation's arrangements for financial and internal control and for managing risk in Annual Governance Reports.	Delegated Powers, FPRs and Standing Orders enshrined within Constitution. Scrutiny and Audit Committees in line with legislative arrangements. Internal Audit Section adequately resourced.	<b>Value for money:</b> Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function.	Advisory role in terms of CMT and all key committee decisions in respect of financial matters.	Deploy effective facilitation and meeting skills.	
Publish annual accounts on a timely basis to communicate the organisation's activities and achievements, its financial position and performance.	Delegated Powers and Final Accounts process.	Developing and maintaining appropriate asset management and procurement strategies.	Key member of SCRAPT (Strategic Capital Resource and Asset Programme Team) and Corporate Procurement Group.	Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.	
Maintain and resource an effective internal audit function.	Audit Committee remit and effective internal audit assessment carried out annually.	Managing long term commercial contract value.		Place stewardship and probity as the bedrock for management of the organisation's finances.	Budget Strategy and monitoring process, key decision advice in relation to financial and governance matters.

					Corporate Plan aligned with financial PI's. Review of System of Internal Audit.
Develop and maintain an effective Audit Committee.	Audit Committee role and responsibility enshrined in Constitution. Regular training of audit committee.	<b>Safeguarding public money:</b> Applying strong internal controls in all areas of financial management, risk management and asset control.	Direct line management responsibility for all audit matters.		
Ensure that the organisation makes best use of resources and that taxpayers and/or service users receive value for money.	Delegated Powers relating to Budget Strategy and Budget Monitoring Process.	Establishing budgets, financial targets and performance indicators to help assess delivery.	Budget Strategy and Budget Management Process aligned to corporate plan.		
Embed financial competencies in person specifications and appraisals.	Corporate competencies framework, job descriptions and person specifications.	Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.	Direct line management responsibility for all audit matters, FPR's and Standing Orders.		
Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out	See Above	Ensuring that delegated financial authorities are respected.	Performance review mechanisms PI's, Direct line management responsibility for all audit matters.		

effectively.			
		Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.	Corporate Risk Management Group, Line management responsibility for Insurance matters.
		Overseeing of capital projects and post completion reviews.	Direct line management responsibility for capital accounting and member of SCRAPT.
		Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.	Direct line management responsibility for all audit matters, FPR's and Standing Orders. CFO personally involved in development and implementation of Treasury Management strategy.
		Implementing appropriate measures to prevent and detect fraud and corruption.	Direct line management responsibility for all audit matters, FPR's and Standing Orders. Money Laundering Reporting Officer (MLRO) responsibilities.
		Establishing proportionate business continuity arrangements for financial processes and information.	Corporate lead on Business Continuity.
		Ensuring that any partnership	Direct line management responsibility for all audit

arrangements are underpinned by clear and well documented internal controls.	matters, FPR's and Standing Orders.
<b>Assurance and scrutiny:</b> Reporting performance of both the organisation and its partnerships to the board and other parties as required.	Performance review mechanisms PI's, Direct line management responsibility for all audit matters.
Supporting and advising the Audit Committee and relevant scrutiny groups.	Regular attendance enshrined in job specification.
Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.	Responsibility for the production, implementation and monitoring of the MTFS, publishing budget information on Council Tax leaflet and Hartbeat. Responsible for preparing accounts and consolidated government returns.
Liaising with the external auditor.	Direct line management responsibility for all audit matters. Regular meeting with external auditor.

<b>Principle 4 – The CFO must lead and direct a finance function that is resourced to be fit for purpose.</b>					
<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core CFO responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Provide the finance function with the resources, expertise and systems necessary to perform its role effectively.	Delegated Powers, FPRs and Standing Orders enshrined within Constitution.	Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.	Direct line management responsibility for all corporate financial matters.	Create, communicate and implement a vision for the finance function.	Responsibility for the production, implementation and monitoring of the MTFS. Regular 1 to 1 with senior finance officers
Ensure there is a line of professional accountability to the CFO for finance staff throughout the organisation.	Structural makeup enshrined in Delegated Powers. FPRs and Standing Orders enshrined within Constitution.	Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.	Delegated powers regarding all financial and governance matters.	Role model a customer focussed culture within the finance function.	Leads by example in approach with Directors and other senior managers that finance function role is to help achieve organisations objectives, whilst ensuring compliance with best practice and legislative requirements.
		Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.	See Above. Recruitment follows corporate proceeds and based on job descriptions and person specification.	Establish an open culture, built on effective coaching and a “no blame” approach.	Regular 1 to 1 meetings with senior finance staff. Open door policy for all staff. CFO accepts responsibility for actions of all team members and encourages staff to use learn from experiences in a ‘no blame’ environment.
		Reviewing the performance of the finance function and ensuring that the	Corporate Plan reviewed and monitored. 1 to 1 meetings with senior finance manager and	Promote effective communication within the finance department, across the broader	Finance Management Team meetings for internal communication. All finance staff briefing

## 4.2

services provided are in line with the expectations and needs of its stakeholders.	regular performance appraisals.	organisation and with external stakeholders.	as and when appropriate. Presentations to external groups as appropriate. Article in Hartbeat.
Seeking continuous improvement in the finance function.	Departmental plans constantly monitored. Key role in BTP.	Apply strong project planning and process management skills.	
Identifying and equipping finance staff, managers and the Leadership Team with the financial competencies and expertise needed to manage the business both currently and in the future.	1 to 1 meetings with finance managers. Full engagement of CMT and CMT SG in development of financial strategies. Lead officer in financial aspects of LMDP.	Set and monitor meaningful performance objectives for the finance team.	Corporate appraisal system in place. Regular 1-2-1's
Ensuring that the Head of Profession role for all finance staff in the organisation is properly discharged.	Delegated Section 151 responsibilities enshrined in Constitution. All finance staff report directly to CFO.	Role model effective staff performance management.	Mentor key finance staff across the Division/regular 1-2-1's. Encourage CPD involvement.
Acting as the final arbiter on application of professional standards.	See Above	Coach and support staff in both technical and personal development.	As above.
		Promote high standards of ethical behaviour, probity, integrity and honesty.	Mentor key finance staff across the Division/regular 1-2-1's. Encourage CPD involvement.
		Ensure, when necessary, that outside expertise is called upon for specialist	Actively seek professional expertise where needed i.e.

advice not available within the finance function.	Treasury management, support for Building Schools for the Future, complex taxation issues etc.
Promote discussion on current financial and professional issues and their implications.	Mentor key finance staff across the Division/regular 1-2-1's. Encourage CPD involvement.

**Principle 5 – The CFO in a public service organisation must be professionally qualified and suitably experienced.**

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core CFO responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.	Constitution and delegated powers in operation. Job description and person specification for CFO.			Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.	CFO is member of CIPFA and meets CPD requirements.
Ensure that the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas	See Above.			Adhere to international standards set by IFAC on: – ethics – Continuing Professional Development.	As above.

of their role.	
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Demonstrate IT literacy.	CFO has required IT skills for role and is able to manage and challenge the departmental IT experts to ensure they are able to effectively discharge their responsibilities.
Have relevant prior experience of financial management in the public services or private sector.	CFO qualified with CIPFA in 1993 and has held a variety of position with Hartlepool, before appointment as CFO in 2010, including Chief Accountant and ACFO (Corporate Finance). Since 1996 the current CFO has acted as lead finance officer for financial services provided to Cleveland Fire Authority (CFA) and in April 2010 was appointed Deputy Treasurer to the CFA.
Understand public service finance and its regulatory environment.	CFO has 17 years post qualification experience and sound understanding of public service finance and its regulatory environment.
Apply the principles of corporate finance, economics, risk	See above



## 4.2

management and accounting.	
Understand personal and professional strengths.	CFO has a clear understanding of these issues and is committed to continuous improvements. These issues addressed through performance appraisal.
Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.	CFO role has been refocused on core financial responsibilities to ensure financial challenges faces the Council can be managed. CFO has clear understanding of non-financial areas affecting his role.

## AUDIT COMMITTEE

18<sup>th</sup> May 2010



**Report of:** Chief Finance Officer

**Subject:** RESPONSIBILITY FOR APPROVING  
STATEMENT OF ACCOUNTS

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### 1. PURPOSE OF REPORT

- 1.1 To remind members of the Audit Committee's role and responsibility for approving the Annual Statement of Accounts.

### 2. BACKGROUND

- 2.1 Following a review of Committee responsibilities in 2008 Council determined to transfer responsibility for approving the annual Statement of Accounts to this Committee. This decision reflected the Audit Committee's existing governance responsibilities in relation to a range of issues which support the annual Statement of Accounts, including:
- approval of the Annual Governance Statement;
  - consideration of the reports submitted by the Council's Head of Audit and Governance on the adequacy of internal control arrangements and audit reviews undertaken during the year; and
  - consideration of reports from the Council's External Auditors.

### 3. SPECIFIC RESPONSIBILITIES

- 3.1 As Councils are responsible for spending a significant amount of public funding and determining Council Tax levels there are specific legal obligations on local authorities governing how they must conduct their financial affairs.
- 3.2 These regulations include specific requirements in relation to the Annual Statement of Accounts, specifically: -
- The Accounts and Audit Regulation 2003, which is supported by the following regulations:
    - The Audit Commission Act 1998;
    - The Local Government and Housing Act 1989; and
    - The Local Government Act 1972.

- 3.3 The above regulations specify the arrangements local authorities must follow to ensure they adopt high standards for managing public funds. The key requirements are detailed in the following paragraphs and highlight the responsibilities of the Chief Finance Officer and the Audit Committee in relation to the preparation and approval of the annual Statement of Accounts.
- 3.4 The Local Government Act 1972 requires all local authorities to appoint a “Responsible Financial Officer”, also known as the Section 151 Officer. The 1972 Act also defines the role of the Section 151 Officer as “the person who is responsible for the administration of the financial affairs of a local authority and the person who is responsible for keeping the accounts of the local authority”.
- 3.5 The Accounts and Audit Regulations 2003 (the 2003 Regulations) set out specific responsibilities of the “Responsible Financial Officer”, which in Hartlepool is the Chief Finance Officer and the responsibilities of Members and the External Auditors, which are summarised below:

#### **Responsibilities of Chief Finance Officer**

- **Accounting Records and Control Systems (paragraph 5 of the 1972 Act)**

The Chief Finance Officer is responsible, on behalf of the Council, for determining its:

- Accounting records, including the form of accounts and supporting accounting records.
- Accounting control systems, which include ensuring financial transactions, are recorded accurately and promptly, measures are in place to detect inaccuracies and fraud and the establishment of management arrangements to ensure the segregation of duties for financial transactions.

- **Signing of Statement of Accounts (paragraph 10 of the 1972 Act)**

The Chief Finance Officer must certify that the Statement of Accounts “presents fairly the financial position of the Council at the end of the financial year”. To provide this certification the Chief Finance Officer is responsible for ensuring the Statement of Accounts have been prepared in accordance with all relevant regulations and in particular in accordance with the CIPFA Code of Practice on Local Authority Accounting. The Chief Finance Officer must provide this certification before the Statement of Accounts is considered by Members.

### **Responsibility of Members – Approval of Statement of Accounts**

Members are responsible for approving the Statement of Accounts which the Chief Finance Officer has certified. This approval has to be given as soon as practical after the end of the financial year and no later than 30th June, immediately following the end of the financial year. In most authorities this responsibility is delegated to a specific committee to ensure the 30th June deadline is achieved. The Accounting and Audit Regulations 2003 do not specify what issue Members need to consider before they approve the Statement of Accounts, other than to ensure the Chief Finance Officer has certified the Statement of Accounts. The Chief Solicitor has previously provided advice to Members to clarify their specific role in approving the Statement of Accounts. The Chief Solicitor advised Members that “their task was to determine that the accounts maintained by the Chief Finance Officer were a proper reflection of the Council’s financial position at the account date and were presented in a manner according with proper practice. The Committee should address itself to the accuracy and completeness of the account as a record of financial transactions and resources. However, they were not entitled to ask how these transactions and resources were managed. There were questions for the executive members and committees responsible for determining such matters”. The Chief Solicitor also advised that “Members were perfectly entitled to ask any questions the issue was what questions, they should ask to discharge their function in relation to approving the Statement of Accounts. Questions could also be raised at relevant Scrutiny Forums and Council meetings. This Committee has been provided with the following information to enable them to discharge this responsibility:

- regular reports have been submitted to your committee by the Head of Audit and Governance during 2009/2010 detailing progress on audit work and the results of this work. These reports have confirmed that appropriate control arrangements are in place, or recommended areas which need improving;
- the Annual Governance Statement will be presented for approval to this Committee. This statement provides the assurance that appropriate systems and procedures were in place during 2009/2010 to manage the Council.

In practice, to discharge this responsibility Members need to place reliance upon the technical advice and the formal certification of the Statement of Accounts by the Chief Finance Officer when they approve the draft Statement of Accounts. The External Auditor’s opinion on this document then provides Members with the final assurance before they approve the final Statement of Accounts.

### **External Auditor's Responsibilities**

Once the Statement of Accounts have been certified by the Chief Finance Officer and approved by Members they will be subject to a detailed review by the Council's External Auditors. This review will provide a robust challenge of the Statement of Accounts prepared by the Chief Finance Officer and will provide Members with the final reassurance that the Statement of Accounts comply with relevant legal and accounting requirements. At the end of this review the External Auditors may make recommendations to amend the Statement of Accounts and the Chief Finance Officer will consider these issues. Once the Chief Finance Officer and External Auditors have agreed any changes a revised version of the Statement of Accounts will be submitted to your Committee. The External Auditors will also submit a formal report on the Statement of Accounts. Depending on the outcome of the External Auditor's review the Audit Committee will be asked to note that there have been no changes to the Statement of Accounts submitted in June, or asked to approve amendments agreed with the External Auditor.

## **4. PRACTICAL CONSIDERATIONS**

- 4.1 The Council is a complex organisation and this is reflected in the Council's financial arrangements. This means the production of the Annual Statement of Accounts is an extremely complex and time consuming task. For example, in 2009/2010 the Council had 279 capital projects totalling £47.9m, which all need to be accounted for in the 2009/2010 Statement of Accounts and over £303m of revenue expenditure.
- 4.2 The Statement of Accounts will reflect the 2009/10 Outturn Strategy approved by Council in February 2010, which included the following key issues:
- the creation of a specific reserve ring fenced for Looked After Children from the net underspend from the Children's services 2009/10 budget. This reserve will help manage this volatile area;
  - the allocation of other net departmental underspends and the centralised estimates underspend to create a Strategic Risk Reserve. This reserve will help manage a range of risks, although it was reported in February that it will also be necessary for the Council to consider topping up this risk reserve in future years depending on the changes in the underlying risk factors or in the availability of any further flexibility. Should the amounts payable in any year exceed the risk reserve, then this will need to be met from the General Fund Balance as a last resort.

- 4.3 As a small unitary authority we cannot dedicate staff full time to the production of the Statement of Accounts and staff still have to undertake day to day activities during this period. These tasks include Treasury Management activities, submission of grant claims and day to day support of financial systems and budget holders.
- 4.4 In view of the above constraints the achievement of 30th June deadline for approving the 2009/2010 Statement of Accounts will be extremely challenging. On a practical basis the real deadline is 17<sup>th</sup> June, 2010, as this is the date reports needed to be completed for the meeting on the 29<sup>th</sup> June.

## **5. CONCLUSION**

- 5.1 The Council is required to produce an Annual Statement of Accounts in accordance with various statutory provisions and accounting regulations. The primary responsibility for ensuring the Statement of Accounts complies with these requirements rests with the Chief Finance Officer. This responsibility includes certifying that the Statement of Accounts “presents fairly the financial position of the Council at the end of the financial year”. Once this certification has been given Members are required to approve the draft Statement of Accounts.
- 5.2 The Council’s External Auditor then provides a formal audit opinion before Members approve the Final Statement of Accounts. This opinion provides Members with the final assurance that the accounts are an accurate record of the Council’s financial position.

## **6. RECOMMENDATIONS**

- 6.1 It is recommended that Members note the report.

## AUDIT COMMITTEE

18<sup>th</sup> May 2010



**Report of:** Chief Finance 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 Finance 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 ongoing use and effectiveness 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 ongoing use of 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. In the Audit Commissions Use of Resources assessment, the Council scores 3 out of 4 in the Governing the Business theme, with the report stating that “the Council has good governance arrangements in place”.

- 4.4 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**

**18<sup>th</sup> May 2010**



**Report of:** Chief Finance Officer

**Subject:** ANNUAL GOVERNANCE STATEMENT  
2009/10

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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 Area 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
- CMT Support 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 2009/10 Annual Governance Statement (**Appendix A**)

## 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 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*. A copy of the code is on our website at [www.Hartlepool.gov.uk](http://www.Hartlepool.gov.uk) or can be obtained from the Councils Contact Centre. 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 2010 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 Finance 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 Support Group (CMTSG).

### **3 Significant Governance Issues Update from 2008/09 Statement**

- 3.1 Progress has been made over the course of 2009/10 to address weakness in the system of governance identified as part of the 2008/09 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

<b>Issue Raised</b>	<b>Action Undertaken</b>
Data Quality	Data Quality Policy updated and agreed by Portfolio holder and Audit Committee and ratified by Council. Data Quality training provided for staff and systems strengthened with progress reported to Corporate Management Team.
Employees Code of Conduct	Awaiting national guidance.

### **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 constitution is available to all employees on the intranet and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers. The Authority has a Treasury Management Strategy that was approved by Council on the 29<sup>th</sup> January 2010, as part of the budget setting process. The approved Treasury Management Strategy includes the Investment and Borrowing strategies in compliance with revised CIPFA Prudential Code, CIPFA Treasury Management Code of Practice and draft DCLG guidance. The Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies before making any necessary recommendations to Council. The Chief Finance Officer reports to the Audit Committee how the Authorities financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- 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 and the Hartlepool Partnership have adopted a new Community Strategy (2008). 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 2008-2011 Local Area Agreement (LAA) further develops these arrangements and is the action plan for achieving the Community Strategy aims. Hartlepool's LAA was agreed by the Hartlepool Partnership at its meeting on 9th May 2008 and subsequently signed-off by Government in June 2008. The LAA was reviewed in 2008/9 and the refreshed LAA was agreed by the Partnership at its meeting on 20th March 2009 and then signed off by the Secretary of State. The 2010 refresh was agreed by the Partnership on 29<sup>th</sup> January 2010 and by Council on 25<sup>th</sup> February 2010. It is currently awaiting sign off by the Secretary of State. The Authority has adopted the LAA outcomes as its own corporate objectives. LAA outcomes relating to the Council have been integrated into the council's corporate plan, department plans and performance management arrangements to enhance management and political accountability.
- 4.9 CMT has defined what it considers to be its significant partnerships 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 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 and Risk 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 overall as "Performs Well" in its most recent Organisational Assessment.
- 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 and the North East Fraud Forum.
- 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 A revised Risk Management Strategy was considered and approved by Cabinet on 22nd February 2010 and a risk briefing was considered as part of the meeting agenda. This review takes account of the changes to management structures implemented as part of the Business

Transformation programme and ensures the maintenance of appropriate control arrangements.

- 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 Council's Performance and Risk Management system. Regular risk introduction/refresher sessions are offered as part of the Council's Learning Management and Development Programme.
- 4.17 The Finance and Performance Portfolio Holder is Hartlepool Borough Council's risk 'champion'. 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 and Risk Management system (Covalent) holds the departmental and strategic risk registers. Risk registers are also maintained for significant projects, such as Business Transformation and Tall Ships. 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 is assisted through remote access to Email and calendars and UPS system. Arrangements were further strengthened in Autumn 2009 when a Disaster Recovery Solution was implemented with Northgate and Housing Hartlepool to facilitate the speedy recovery of key systems in particular those relating to adult and children's care such as Carefirst and ICS.
- 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. Considerable work was undertaken in preparing for potential flu pandemic and this work was prioritised in 2009. CMT approved the Influenza Pandemic Plan.
- 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 and has been updated in March 2010. Each department has a lead officer

responsible for business continuity. All senior managers have been briefed about business continuity. Following completion and circulation of the Business Continuity Plan in May 2008 a series of table top testing exercises were carried out with each department between July 2008 and January 2009. Arrangements have continued to develop. These have included a self assessment exercise to provide a gap analysis between the Council's Plan and BS 25999, and a gap analysis on the Cabinet Office Expectations paper which both cover Business Continuity and may be incorporated as a required standard into future legislation. CMT were kept informed of progress on this and other BCP work.

- 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. New arrangements have been put in place for 2009/10 to take account of the management restructure. The Council's progress on diversity is reported half yearly and annually to the Finance and 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. Ofsted has rated the Council's children's services as performing well. Most childcare and schools are rated good or outstanding and none are inadequate. The Care Quality Commission has rated the Council's adult social care as excellent. The Audit Commission rated the Authority as Performing Well for Managing Performance and Use of Resources. A Core Case Inspection of youth offending work in Hartlepool took place as part of the Inspection of Youth Offending programme by HMI Probation. An improvement plan has been put in place. The Audit Commission, with other inspectorates, also undertook

a Comprehensive Area Assessment. These Area assessments look at how well local public services (Council, Police, PCT and others) are delivering better results for people in the area. The Area Assessment identified tackling the harm caused by alcohol as an issue where further work was required by the Hartlepool Partnership and partners to support improvement. The results of these reviews are reflected in the Council's own development and improvement plans. The Council achieved full corporate Investors in People status in August 2008 and Hartlepool Connect has achieved the Customer Service Excellence standard.

## **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 Audit and Governance'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 Finance Officer – The CFO carries out a review of the effectiveness of the system of internal audit and reports the findings to the Audit Committee. The CFO reports to the Audit Committee how the Authorities financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

- 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 Children, Families and Schools, Care Quality Commission, Ofsted, Audit Commission, HMI Probation, Investors in People and Service Excellence.
- In the Comprehensive Area Assessment the Audit Commission, rated Hartlepool overall as "Performs Well" in its most recent Organisational Assessment.

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 Governance Issues

6.1 The following significant governance issues have been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Scheme Of Delegation	Update in line with new structures.	2010/2011	Peter Devlin
2	Business Transformation Process	Continuation of ongoing governance arrangements e.g. Management Board overview, reporting to Cabinet. Continuing communications e.g. internet, newsletter, briefing with members, TUs and managers. Project planning and review e.g. initial review or mobilisation phase. Funding to support programme e.g. staffing and backfilling arrangements and invest to save from reserves. Monitoring of Benefit Realisation Plan. Continue vacancy management.	2010/2013	Chief Executive
3	Employees Code of Conduct	Awaiting formal legislation upon the Code, following on from consultation exercise undertaken.	2010/2011	Peter Devlin/ Joanne Machers
4	Youth Offending Service Core Case Inspection	Implement review of Departmental location of service within the authority as agreed by Cabinet. Implement improvement plan as agreed by Cabinet.	2010/2011	Sally Robinson

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.