

AUDIT COMMITTEE AGENDA



Wednesday 18th May 2011

at 4.00 pm

in Committee Room C, Civic Centre, Hartlepool

MEMBERS: AUDIT COMMITTEE:

Councillors C Akers-Belcher, Hall, Hill, J W Marshall, Preece, Turner and Wells.

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 23rd March 2011

4. ITEMS FOR DISCUSSION/DECISION

- 4.1 Audit Commission Report – Audit Commission Fee Letter – *Chief Finance Officer*
- 4.2 International Standard on Auditing (UK&I) 240 and 250 – *Chief Finance Officer*
- 4.3 Public Audit Consultation – *Head of Audit and Governance*
- 4.4 Role of the Chief Finance Officer (CFO) in Public Service Organisations – *Chief Finance Officer*
- 4.5 Internal Audit Outcome Report 2010/11 – *Head of Audit and Governance*
- 4.6 Review of the Effectiveness of the system of Internal Audit – *Chief Finance Officer*
- 4.7 Annual Governance Statement 2010/11 – *Chief Finance Officer*

5. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

23 March 2011

The meeting commenced at 9.00 a.m. in the Civic Centre, Hartlepool

Present:

Councillor Christopher Akers-Belcher (Chair)

Councillors Ged Hall, Cath Hill, Arthur Preece, Mike Turner and Ray Wells

Officers: Noel Adamson, Head of Audit and Governance
Sandra Shears, Chief Accountant
Sarah Harrison, Democratic Services Officer

Audit Commission: Diane Harold, Cathy Eddowes, James Collins

30. Apologies for Absence

No apologies had been received.

31. Declarations of interest by members

None.

32. Confirmation of the minutes of the meeting held on 3 December 2010

The minutes were approved as an accurate account

33. Audit Commission Report (*Audit Commission*)

Purpose of Report

To inform members of the Audit Committee arrangements had been made for a representative from the Audit Commission to be in attendance at the meeting to present the content of the Audit Commission's Report 2009/10 Certificate of Claims and Returns.

Issues for Consideration

The representative from the Audit Commission outlined the findings from the certification of 2009/10 claims and returns which included the messages arising from the assessment of arrangements in place for preparation of

claims and returns and information on claims that were amended or qualified.

Seven claims had been certified with a total value of £117 million, a summary of which was outlined in Appendix 1 of the report. The report drew attention to the control environment and the reliance on this. The Auditors assessed the control environment and claims. Comments recorded in Appendix 2 of the report outlined recommendations. Claims which had been certified included:-

- Housing and Council Tax Benefit
- New Deal for Communities
- Sure Start
- Teachers' Pension
- National Non Domestic Rates
- Disabled Facilities Grant
- Land Stabilisation

A Member queried who was accountable if there were partnerships between the public and private sector and was informed that the audit commission would have to agree with whatever government body was issuing the grant what the terms and conditions were.

A Member queried the increase in fees from the previous year and was informed that there would be some increase due to a year on year increase in grant fee rate and some extra work on existing claims. A checklist had been produced in conjunction with the Accountancy Section in order to speed up queries arising from the Audit Commission.

A Member queried the need for a qualifying letter in relation to the New Deal for Communities grant and was informed that this was a technicality in relation to funding from sale of assets that all parties were aware of but the claim form did not allow this to be recorded. An agreement has been in place for a number of years with Government Office North East in relation to the funding but would still be picked up in the audit.

Decision

Members noted the Audit Commission's report.

34. Audit Commission Report – 2010/11 Audit Plan *(Audit Commission)*

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 the meeting to present the content of the Audit Commission's Report 2010/11 Audit Plan.

Issues for Consideration

The report summarised the Audit Commission Report 2010/11 Audit Plan and set out the audit work that the Audit Commission proposed to undertake for their audit of financial statements and value for money conclusion 2010/11. The plan was based on the Audit Commission's risk based approach to audit planning and reflected audit work specified by the Audit Commission for 2010/11, current national risks relevant to local circumstances and local risks. The fee agreed was £267,000 although there had been a rebate of 5% of the fee in respect of costs of moving to new financial reporting standards. It was likely that the final figure would be in the region of £245,000. Reductions in fees for the next four years were likely and a formal letter detailing these would be brought to the next meeting.

Details of key messages from the work carried out were included in the main body of the report attached as Appendix 1. Additional risks were also outlined in the report including the implementation of the International Financial Reporting Standards (IFRS) and Calculation of the Infrastructure depreciation accounting estimate. Work on these was currently being undertaken and would be passed back to the Audit Commission for review. The Audit Commission had issued a national briefing outlining progress being made on government bodies' progress with IFRS and Hartlepool's progress was reasonable. The Value For Money (VFM) statement would be focussed on the Medium Term Financial Strategy, how the Council was addressing future changes in governance arrangements and the robustness of the Business Transformation Programme in delivering planned savings. It had been suggested that Members receive a copy of accounts in June/July 2011 so they would have an opportunity to digest the information therein.

It was clarified that there was a requirement for the Chief Finance Officer to certify the accounts before the Audit Commission reviewed them.

Decision

The committee noted the content of the report.

35. Audit Commission Report – 2010/11 Joint Working Protocol – Financial Statements Audit *(Chief Finance Officer)*

Purpose of Report

To inform Members of the Audit Committee arrangements had been made for a representative from the Audit Commission to be in attendance to present the content of the Audit Commission's Report, 2010/11 Joint Working Protocol – Financial Statements Audit.

Issues for Consideration

The report summarised the Audit Commission report 2010/11 Joint Working Protocol – Financial Statements Audit. It detailed the Audit Commission's objectives as appointed auditor and how it planned to carry out an efficient opinion audit that met the requirements of the Audit Commission's Code of Audit Practice. There was an enhanced requirement around related party transactions i.e. members who had relationships with other bodies/people was deemed significant. This was because standards on Audit were being reviewed as there was not currently enough information to see what influence one body had over another.

Decision

The Committee noted the report from the Audit Commission.

36. Audit Commission Report – Audit Progress Report
*(Chief Finance Officer)***Purpose of Report**

To inform Members of the Audit Committee arrangements had been made for a representative from the Audit Commission to be in attendance to present the content of the Audit Commission's Report, Audit Progress Report.

Issues for Consideration

The report summarised the Audit Commission Audit Progress Report. The report reflected progress the Audit Commission had made on the external audit of Hartlepool Borough Council as at 9 March 2011. Details of the national consultation on fees and work programme for 2011/12 onwards by the Audit Commission were also given. Also included was the standard Audit Commission letter to those charged with Governance as well as the Chair's response to the Audit Commission's request for last year. There was also the detailed report, Statement of Responsibilities of Auditors and Audited bodies applicable to 2010/11.

In relation to the work on other developments the VFM review used a benchmarking tool which highlighted whether the Authority was high or low spending in relation to neighbouring authorities. The results of this would be brought to a future meeting of the Committee but there would not be specifics in that report, rather a summary saying that the Council were high/low spending in certain areas.

The report also provided a statement of responsibilities applicable to 2010/2011 for the Audit Commission. It was highlighted that the Audit Commission would not give advice, merely a view on a subject. A Member queried how the issue of collaborative working with other public

bodies/voluntary agencies/private sector would be addressed and was informed that there were audit implications as if these were in the form of Local Authority Companies, then these would not be audited by the Audit Commission.

The Chair queried whether the cost of auditing would increase with additional duties being imposed on Local Authorities in relation to Public Health and was informed that additional responsibilities did not necessarily mean increased fees. If the risk had not increased then the fee should not increase.

The Chair thanked the Audit Commission for their reports.

Decision

That a draft response be brought to the May meeting of the Audit Committee

37. Internal Audit Plan 2010/11 Update *(Head of Audit and Governance)*

Purpose of Report

To inform Members of the progress made to date completing the internal audit plan for 2010/11.

Issues for consideration

Appendix A to the report detailed the pieces of work that had been completed. Internal Audit staff had also been involved with the Information Governance Group, the Procurement Working Group and the Performance and Risk Management Group. Appendix B detailed that audits that were ongoing at the time of compilation of the report.

Members were updated on the progress of work in relation to fraud awareness as this area of work had recently been completed. A Member queried whether the Auditors were happy with the procedures in place for gifts for employees and whether this information was available in the public domain as the Members' gift register was available for public inspection. It was clarified for a Member that officer salaries were included in accounts as a remuneration package if this was applicable rather than as salary costs. Members were reminded that schools were audited in a three year rolling programme. A Member queried whether accounts would highlight if money was paid to an officer as a result of unfair dismissal and was informed that it would be included in officer remuneration if over £50,000 although there would be no reference to it being paid because of dismissal.

The Chair suggested that a recent article in Newline in relation to fraud awareness should have included that this was following a recommendation from the Audit Committee.

Decision

Members:-

- i) Agreed that The Head of Audit and Governance would circulate a letter to members of the Committee outlining arrangements in relation to the register of gifts and hospitality
- ii) Noted the content of the report

38. Proposed New Local Audit Arrangements *(Chief Finance Officer)***Purpose of Report**

To inform Members of proposals for new local audit arrangements published by the Department for Communities and Local Government (DCLG).

Issues for Consideration

Following the decision by the Government to stop Comprehensive Area Assessments and plans to disband the Audit Commission, a Memorandum had been issued outlining how the Government was trying to take forward the establishment of a new, more local audit regime for local public bodies. This included:-

- National Audit Office taking on a greater role
- Accountancy bodies maintaining a register of firms and auditors eligible to carry out local audit work
- Quality assurance to be provide by the Audit and Inspection Unit
- National Fraud Initiative to continue
- Safeguards to be built into the framework to ensure independence

The Head of Audit and Governance reminded the Committee that it would play a pivotal role in the appointment of auditors and he would update the committee when further details in relation to this were available.

Decision

Members noted the content of the report.

39. Audit Committee Member Information *(Head of Audit and Governance)***Purpose of Report**

To provide Members of the Audit Committee advice regarding their role in approving future audit plans, their role in relation to fraud, strategic risk

management and approving the Annual Governance Statement.

Issues for Consideration

The Better Governance Forum had provided briefing papers for Audit Committee members in public sector bodies and these were attached as Appendix A to the report and provided background information and questions relevant to the role of Members. This included information in relation to Audit Plans, Fraud, Risk Management and Governance and highlighted the wide range of knowledge Members were expected to have and the breadth of their responsibilities. This information would form the basis of training for future Audit Committee Members. The Chair suggested that this information should also be available on the website so that Members could be fully apprised of the role of the Committee.

A Member commented that if external auditors other than the Audit Commission were appointed the experience of the Audit Commission would be lost and were informed that the Authority would have to be confident that assurance could be given by alternative Auditors that they were capable of fulfilling their role. A Member commented that the size of the Audit Committee was small in comparison to the number of Members on Scrutiny and was informed that the committee should be comparable with the size of the Authority although Council had the scope to amend this if desired.

Decision

Members:-

- i) noted the content of the briefing paper and considered the issues raised in undertaking their role in relation to approving future audit plans, their role in relation to fraud, strategic risk management and approval of the Annual Governance Statement.
- ii) Agreed to receive updated Member Information prior to its circulation to all Members of the Authority.
- iii) Agreed that answers to the suggested questions outlined in the guidance be included in the presentation of future relevant reports to the Audit Committee.

40. Internal Audit Plan 2011/12 *(Head of Audit and Governance)*

Purpose of Report

To inform Members of the direction of internal audit activity and to seek approval of the annual operational Internal Audit Plan for 2011/12.

Issues for Consideration

The background to the provision of internal audit was provided and the report outlined how there were 73 areas of audit coverage planned for 2011/12 as well as provision for unplanned reactive work wherever necessary. Appendix A of the report detailed these. 100 days of audit work

would be provided to the Cleveland Fire Authority.

The Head of Audit and Governance highlighted that it was important that Members were happy that the Audit coverage provided the necessary level of assurance that allows them to fulfil their role, and that areas had been selected based on risk assessment and on an up to date understanding of risks that the Council was facing at this time. Members were informed that liaison had taken place with the Chief Finance Officer, the Assistant Chief Executive and the Corporate Management Team Support Group to ensure that the current plan was adequate. This annual assessment of risk replaced the former system of having a five year rolling programme of audit coverage which may not have taken into account unexpected changes to risks. Members were informed of staffing changes in the Audit Department there now being 6 members of staff in the section. However an automated technology system had been acquired which was capable of testing financial systems so this had compensated somewhat for the loss of staff members. A Member commented that the Committee appreciated the work of the department despite it being carried out with fewer members of staff. The Head of Audit and Governance said that although the Council was losing resources, risk was increasing but he was comfortable that because of the continued use of technology, there were adequate resources to fulfil the Authority's statutory role.

A Member queried the impact of having to publish information on payments over £500 and was informed that this had not impacted on the Audit Department's workload but systems were in place to implement and publish this information. It was suggested that in the interests of openness there should be a link on the Council's website to take members of the public directly to this information under the heading of 'transparency'.

Members suggested that the list of areas for audit (Appendix A) be amended by listing areas in order of department and that the entries in relation to holidays, sickness and bank holidays be referred to as 'contingency'

The Chair requested that as the council had not previously made employees redundant on the current scale, the arrangements that control this process be reviewed, particularly in terms of the calculation of redundancy and pension costs. The Chair also suggested that the Connexions service be included in internal audit plans as there are links to the future budget considerations within Scrutiny Coordinating Committee in respect of the future allocation of the Early Years Interventions Grant.

Decision

Members:-

- i) agreed redundancy procedures and the connexions service be include in the 2011/12 Internal Audit Plan
- ii) approved the 2011/2012 Internal Audit Plan

The meeting concluded at 10.42 am

CHAIR

AUDIT COMMITTEE

18 May 2011



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT – AUDIT COMMISSION FEE LETTER.

1. PURPOSE OF REPORT

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

2. BACKGROUND

- 2.1 The attached letter (**Appendix 1**) summarises the Audit Commission proposed fee. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers:
- The audit of financial statements;
 - The value for money conclusion; and
 - Whole of Government accounts.
- 2.2 The scale fee reflects proposed decreases in the total audit fee, due to the following:
- No inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
 - A cut in scale fees resulting from a new approach to local VFM audit work; and
 - A cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Hartlepool Borough Council is £240,300.

3. RECOMMENDATIONS

- 3.1 That the Audit Committee:
- i. note the fee letter of the Audit Commission.

21 April 2011

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

Direct line

0844 798 1670

E-mail

l-snowball@audit-
commission.gov.uk

Dear Paul

Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Hartlepool Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- the audit of financial statements;
- the value for money conclusion; and
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Hartlepool Borough Council is £240,300. The scale fee, shown in the table below, is based on the planned 2010/11 fee adjusted for the proposals summarised above. Variations from the scale fee will only occur where my assessment of audit risk and audit complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit Commission, Room 8, Lion Court, Hanzard Drive, Wynyard, TS22 5FD
T 01740 665200 F 0844 798 1625 www.audit-commission.gov.uk

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£240,300	£267,000
Certification of claims and returns (estimate)	£45,000	£45,000

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Chief Finance Officer. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Audit Committee.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Audit Commission may agree to undertake using our advice and assistance powers. We will negotiate any such work separately and agree a detailed project specification.

Audit team

In delivering the audit, my audit team will work to a high specification to ensure that we:

- understand you, your priorities and challenges and provide you with fresh, innovative and useful support;
- are readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Lynne Snowball Engagement Lead / District Auditor	l-snowball@audit-commission.gov.uk 0844 798 1670	Responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of Audit Committee and issuing the auditor's report.

Name	Contact details	Responsibilities
Diane Harold Audit / Engagement Manager	d-harold@audit-commission.gov.uk 0844 798 1641	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Cathie Eddowes Team Leader	c-eddowes@audit-commission.gov.uk 0844 798 1639	Leads the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Lynne Snowball
District Auditor

cc Chief Finance Officer

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Audit Committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (to the Chief Finance Officer)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

AUDIT COMMITTEE

18 May 2011



Report of: Chief Finance Officer

Subject: INTERNATIONAL STANDARD ON AUDITING
(UK&I) 240 AND 250

1. PURPOSE OF REPORT

- 1.1 To inform Members of the proposal to comply with International Standard on Auditing 240 and 250.

2. BACKGROUND

- 2.1 In carrying out the annual accounts audit, the Audit Commission have to demonstrate compliance with International Standards for Auditing (UK and Ireland). Among these are ISA (UK&I) 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, and ISA (UK&I) 250 Consideration of Laws and Regulation in an audit of financial statements. The Standard requires the Audit Commission to gain each year, an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.
- 2.2 The Audit Commission must also gain a general understanding of the legal and regulatory framework applicable to the audited body and how the audited body is complying with that framework. After gaining a general understanding auditors need to undertake audit procedures to help identify instances of non-compliance with those laws and regulations where this impacts on preparing the financial statements. This includes:
- Enquiring of management whether they have complied with all relevant laws and regulations;
 - Written representation from management that they have disclosed to the auditor all known actual or possible areas of non-compliance; and
 - Enquiring with "those charged with governance" whether they are aware of any possible instances of non-compliance.

3. AUDIT COMMITTEE RESPONSE

- 3.1 Attached as **Appendix A** is a letter to the Audit Commission from the Chair of the Committee detailing how the committee has complied with the requirements of IAS 240 and 250.

4 RECOMMENDATION

- 4.1 It is recommended that Members agree the contents of the letter to the Audit Commission outlining how the activities of the Committee comply with the requirements of IAS 240 and 250.

Appendix A

Cllr Christopher Akers Belcher

Audit Committee Chair

Civic Centre

TS24 8AY

Hartlepool

Tel: 01429 266522

www.hartlepool.gov.uk

Our Ref:

Your Ref:

18.05.11

Diane Harold
Audit Manager
Audit Commission

Dear Diane,

Further to your request regarding compliance with International Standard on Auditing (UK&I) 240 and 250, I have outlined below how the Audit Committee exercises oversight of the processes in place for identifying and reporting the risk of fraud and possible breaches of internal control and how we gain assurance that all relevant laws and regulations are complied with.

- *Considered the 2010/11 Internal Audit Plan* – This informed the committee of the direction of Internal Audit activity and sought approval of the annual operational Internal Audit Plan for 2010/11. It also provided accountability for internal audit services allowing the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Considered Internal Audit Plan 2010/11 Updates* – Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and comment upon any areas of concern.
- *Reviewed the Internal Audit Outcome Report 2010/11* – This provides accountability for internal audit delivery and performance and allowed the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory Internal Audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Reviewed and approved the 2010/11 Annual Governance Statement* – This allowed members to review the council's approach to meeting the implications of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- *Reviewed and approved the findings of the review of the effectiveness of internal audit* – This allowed the committee to place reliance on the totality of systems and procedures in operation at the council in pursuit of its objectives.
- *Approved the Internal Audit Charter* – This ensured that the purpose, authority and responsibility of Internal Audit is formally defined and consistent with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom.

- *Approved the Internal Audit Strategy* – This ensured compliance with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and the Accounts and Audit Regulations.
- *Reviewed the Treasury Management Outturn 2009/10* – This report provided a review of the Treasury Management activity for 2009/2010 and the outturn Prudential Indicators for this period.
- *Treasury Management Strategy 2011/12* – To enable the Audit Committee to consider the proposed Treasury Management Strategy for 2011/2012 prior to the strategy being referred to Council in February 2011.
- *Review and Approval of Council Accounts.*
- *Review of Audit Commission Reports.*

I can confirm that the Audit Committee has no knowledge of any actual, suspected or alleged frauds affecting the Council and is satisfied adequate arrangements are in place for the committee to be made aware of any such instances.

Cllr Christopher Akers Belcher
Audit Committee Chair

AUDIT COMMITTEE

18 May 2011



Report of: Head of Audit and Governance

Subject: PUBLIC AUDIT CONSULTATION

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to advise and seek members opinions on the consultation process undertaken by the Department for Communities and Local Government (DCLG) for the governments proposals for how a new local external audit framework could work.

2. BACKGROUND

- 2.1 On the 13th August 2010, the government announced its decision to disband the Audit Commission, transfer the work of the Audit Commission's in house practice into the private sector and put in place a new local audit framework. It was proposed that Local Authorities would be free to appoint their own independent external auditors.
- 2.2 This decision has since been subject to an independent parliamentary enquiry and much debate both locally and nationally. A report was submitted to the Audit Committee on 23rd March following a memorandum that was issued by the DCLG regarding this matter. Given the importance of the Audit Committee in any future arrangements it was agreed at that meeting that regular updates would be brought to the committee, the latest being this consultation document.

3 CONSULTATION

- 3.1 Attached as **Appendix A** is the consultation document produced by the DCLG. Attached as **Appendix B** is a suggested letter of response from the Chair of the Audit Committee for members consideration and suggested answers to the questions posed for members to debate and consider.
- 3.2 The key issues for members consideration revolve around the following topics:

- The format of any future audit committee;
The consultation document describes three different formats for the makeup of the audit committee. All of the suggested formats include independent members to a greater or lesser extent. This poses questions about the balance of the audit committee, what the role of the general public would be and what effect would this have on the position of elected members.
- The appointment process for independent members;
This raises issues regarding what the relevant criteria for any potential independent member would be, how independent members would be appointed.
- The scope of work of the auditors under the any new arrangement;
Proposals included in the consultation document would impose new requirements on local authorities in respect of the requirement to provide an annual report and external auditors potentially providing conclusions on regularity and propriety, financial resilience and a conclusion about the achievement of economy, efficiency and effectiveness within an audited body.

4. RECOMMENDATION

- 4.1 Members consider the suggested letter and response to questions posed detailed in Appendix B and agree a response to the consultation document to be returned to the DCLG by 30th June 2011.

Cllr Christopher Akers Belcher
Audit Committee Chair
Civic Centre
Hartlepool
TS24 8AY

Tel: 01429 266522
www.hartlepool.gov.uk

Our Ref:
Your Ref:



18.05.11

Luke Schofield
The Department for Communities and Local Government
Zone 3/G6
Eland House
Bressenden Place
London SW1E 5DU

Dear Luke,

Response to future of local audit consultation.

Please find attached detailed answers to the questions posed in your recent consultation document. Following debate of this issue at the Councils Audit Committee I would also like to make the following general comments regarding the proposals outlined in the consultation document.

We accept that the role of the Audit Commission transformed from its original remit of traditional external auditor, giving an opinion on the financial affairs of the audited body, to play a much more all encompassing role giving views on corporate performance management and area assessments. This inevitably led to a greater administrative burden placed on the Council in terms of the administrative resource it needed to provide the Audit Commission with all the information it demanded to enable it to fulfil its new role. The scaling back of this requirement is to be welcomed.

The Government's chosen course to rectify this issue however, does raise a number of concerns that we believe need to be addressed.

Whilst the Audit Commission's remit was extended beyond traditional financial auditing, it retains an expert understanding of Local Government finance. We do not believe that the private sector currently has this detailed knowledge in sufficient capacity to enable it to fill this gap. We are not convinced by your arguments that a free market approach to the provision of this service will drive down cost as if the number of practitioners who can provide the service are limited this will have the opposite effect on prices. We would therefore support some future role for the Audit Commission audit function in order to keep sufficient capacity and expertise within the sector. A mixed economy of provision would encourage both private firms and a redefined Audit Commission to minimise audit fees.

The independence of auditors and their appointment is in our view key to the credibility of the external audit of public funds. We are concerned that by removing this requirement and potentially allowing external audit firms to provide other services to local authorities, this will fundamentally alter the relationship between auditors and local authorities. This may expose the public sector to some of the financial scandal witnessed recently in the financial private sector. The proposed change also places an increasing burden of Chief Financial Officers at a time when their expertise is needed to help authorities manage services with less resource.

In summary we agree the role of the Audit Commission needs to be reviewed but we believe these proposals are an over reaction to the perceived problems that need addressing.

Councillor Christopher Akers Belcher

Audit Committee Chair

4.3 Appendix B

Consultation Question	Suggested Response for Consideration
1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?	No. we believe that a scaled back Audit Commission, focussing on reviewing and giving an opinion on local authority accounts would be a better option moving forward. The independent appointment of auditors is key to retaining credibility within the public sector and providing robust and independent review of public funds. The assertion that the market will be more competitive leading to lower fees is based on assumptions not tested.
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?	Yes.
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?	We can see no reason that this role could not be fulfilled by the Auditing Practices Board as in private sector.
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?	Yes, if the Financial Reporting Council has the expertise.
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	One of the supervisory bodies.
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?	A limit could be placed on the % of the market the big 4 can have, but we feel that this may well restrict the open market. Experience would be key consideration in any appointment that the Council would make.
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?	We would only appoint a firm that could demonstrate a previous track record within the sector. We would also want assurance over the experience of individuals working for the firm.
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How	None of the bodies mentioned or all of them as to differentiate may cause confusion.

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Consultation Question	Suggested Response for Consideration
should these be defined?	
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?	As above. If all of the bodies mentioned, complaints and disciplinary matters.
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities	Investigate complaints and disciplinary matters.
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?	Joint appoint should be achievable. However this calls into question how constituents in different areas fit into the consultation/appointment process if one authority led on behalf of others.
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?	The criteria revolve around the individual having no link with the authority without mentioning any required personal qualities or experience. It is unclear who would set the appointment criteria and what would happen if nobody met this criteria.
13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?	Non executive members of the council are independent and have the necessary skills. Knowledge of the Council is considered more important than an understanding of detailed financial skills.
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	Yes, it could prove extremely difficult to attract suitable candidates. Remuneration at the level currently offered would be provided.
15. Do you think that our proposals for audit committees	We would recommend that an audit committee made up of non

4.3 Appendix B

Consultation Question	Suggested Response for Consideration
provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?	executive members recommends to full council the appointment of auditors based on a process guided by the CFO and his professional opinion based on a transparent and fair competitive process.
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?	See 15 above
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	It is appropriate for the audit committee to be involved in the appointment of the external auditor. Professional guidance should be issued through CIPFA negating the need for legislation
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?	See 17 above
19. Is this a proportionate approach to public involvement in the selection and work of auditors?	The public can currently make representations to the audit committee and attend meetings. Furthering this adds bureaucracy unnecessarily.
20. How can this process be adapted for bodies without elected members?	No comment
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?	As no firm will be duty bound to undertake the role, if the market is such that no firm wants the work, why would the local authority be subject to sanction as it may be the victim of circumstance beyond its control. In this instance the Secretary of State should appoint the auditor.
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	Only if they fail to appoint an auditor.

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Consultation Question	Suggested Response for Consideration
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	Secretary of State
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	Yes
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?	Yes
26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?	Yes
27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?	Yes
28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?	Auditors should not be able to limit their liability at the expense of local authority's
29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?	Option 2. Options 3 and 4 run the risk of ending up with a bureaucratic audit regime similar to what is in place at the moment.
30. Do you think local public bodies should be required to	Authorities already publish information regarding performance and

4.3 Appendix B

Consultation Question	Suggested Response for Consideration
set out their performance and plans in an annual report? If so, why?	plans. To produce more would need additional resource at a time the government has drastically reduced funding
31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?	No, as this would duplicate what is already produced with no additional value.
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	Reasonable.
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	Guidance on what is meant by financial resilience. CIPFA, as the professional finance body should produce and maintain any guidance.
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?	Only partially, as the relationship between the auditor and audited body has fundamentally changed in respect of independence of appointment.
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?	No, as this calls into question independence of the auditor and weakens current arrangements that are in place.
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	That no external auditor should carry out non audit related services to that body.
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?	Yes
38. Do you agree that we should modernise the right to object to the accounts? If not, why?	Yes, this would be helpful.
39. Is the process set out above the most effective way for	Yes

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Consultation Question	Suggested Response for Consideration
modernising the procedures for objections to accounts? If not, what system would you introduce?	
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?	Yes.
41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?	Any additional cost of providing information regarding the audit should not be borne by the local authority.
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	Option 2
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?	No, it should be a matter for the body itself. If the authority was to provide this service then it would not be able to charge the body in question for doing so.
44. What guidance would be required to enable county/unitary authorities to: a.) Appoint independent examiners for the smaller bodies in their areas? b.) Outline the annual return requirements for independent examiners? Who should produce and maintain this guidance?	CIPFA, as the professional finance body should produce and maintain any guidance.
45. Would option 2 ensure that smaller bodies appoint an	The involvement of the audit committee should ensure this

4.3 Appendix B

Consultation Question	Suggested Response for Consideration
external examiner, whilst maintaining independence in the appointment?	independence.
46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?	Let the smaller body make their own arrangements. It is not clear why local authorities would be involved in this process at all as it would only serve to increase the bureaucratic burden on them.
47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?	Merge level 2 and 4
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?	It is unclear why the Local Authority would need to get involved with this as it would be a matter for the body itself and its members to deal with. If a local authority was to intervene in these matters then legislation would need to be in place so that all parties are sure of their obligations.
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?	See comment 46
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?	No, it is not clear how or why local authorities should become the regulator for this sector. It is also questionable if local authorities would be sufficiently independent of these smaller bodies as existing members may serve on both.

AUDIT COMMITTEE

18 May 2011



Report of: Chief Finance Officer

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

1. PURPOSE OF REPORT

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

2. BACKGROUND

- 2.1 It is the view of CIPFA that 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 Corporate Management 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.

4. PROCESS FOLLOWED

- 4.1 The review is undertaken annually in line with best practice requirements. **Appendix A** of the report details how the Council ensures that the requirements of the statement are met. Details of the requirements of the statement are outlined along with how the arrangements in place at the council satisfy those requirements.

5. RECOMMENDATION

- 5.1 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.

Appendix A

How the Five Principles Are Met

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.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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 appropriate or necessary.	Contributing to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.	See Above	Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.	See Above.
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.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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 material business decisions; and – direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.	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 delivery.	Responsibility for Medium Term Financial Strategy (MTFS) and budgetary control processes matters and ensuring 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.	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 Group.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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.
				Demonstrate strong commitment to innovation and performance improvement.	Key role in Business Transformation Programme and Service Delivery Options.

4.4

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				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 behaviour. Impartiality is a further fundamental requirement of those operating in the public services.	Professional standards integral to role. Commitment to Professional CPD and LMDP/Management Academy.

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.	Responsibility for financial strategy: 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 advance of decision making and used appropriately.	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 framework.	See Above.	Link financial strategy and overall strategy.	Responsibility for MTFS and budgetary control processes.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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.

4.4

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		Influencing decision making: Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.	Budget Strategy and monitoring process, key decision advice in relation to financial and governance matters.	Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.	Addressed in MTFS and associated presentation to Cabinet, Scrutiny and 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	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.

4.4

	on robust business case s.		
Financial information for decision makers: Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.	Budget Strategy and monitoring process, key decision advice in relation to financial and governance matters. Corporate Plan aligned with financial PI's.	Operate with sensitivity in a political environment.	Ongoing development through LMDP and peer review/mentoring. Regular contact with 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.	Promotion of financial management: 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.	Achieved through 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 organisation's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.	Delegated Powers, FPRs and Standing Orders enshrined within Constitution. Scrutiny and Audit Committees in line with legislative arrangements.	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 arrangements are effective. Influencing force behind LMDP.	Develop and sustain partnerships, and engage effectively in collaboration.	

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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.	Value for money: 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.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Develop and maintain an effective Audit Committee.	Audit Committee role and responsibility enshrined in Constitution. Regular training of audit committee.	Safeguarding public money: 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 effectively.	See Above	Ensuring that delegated financial authorities are respected.	Performance review mechanisms PI's, Direct line management responsibility for all audit matters.		

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		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.		

4.4

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.	Direct line management responsibility for all audit matters, FPR's and Standing Orders.		
		Assurance and scrutiny: 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.		

Principle 4 – The CFO must lead and direct a finance function that is resourced to be fit for purpose.					
Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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.

4.4

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.	Corporate Plan reviewed and monitored. 1 to 1 meetings with senior finance manager and regular performance appraisals.	Promote effective communication within the finance department, across the broader organisation and with external stakeholders.	Finance Management Team meetings for internal communication. All finance staff briefing as and when appropriate. Presentations to external groups as appropriate. Article in Heartbeat.
		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.

4.4

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				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 advice not available within the finance function.	Actively seek professional expertise where needed i.e. 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.					
Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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 of their role.	See Above.			Adhere to international standards set by IFAC on: – ethics – Continuing Professional Development.	As above.
				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.

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				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 management and accounting.	See above

4.4

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				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 May 2011



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT OUTCOME REPORT
2010/11

1. PURPOSE OF REPORT

To inform members of the outcomes of audit work covering the period April 2010 to March 2011.

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 2010/11 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 19 major systems and probity reviews for the CFA during 2010/11.

3. AUDIT INPUTS 2010/11

- 3.1 There were 1297 audit days allocated at 1.04.10 to planned and responsive activities during 2010/11.
- 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 2010/11.

4 OUTCOMES

- 4.1 Appendix A schedules all the planned audits undertaken in 2010/11. 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 2010/11 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. From the work undertaken during the year 2010/11, 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 2010/11.

5. FOLLOW UP

- 5.1 Audit reports are issued to auditees following a discussion of any audit findings. Each report includes an Action Plan where appropriate, recording:
 - Any recommended revisions to systems, procedures and operating arrangements;
 - The response of the auditees;
 - A timescale for introducing the recommended improvements.
- 5.2 In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, a system of follow up of audit recommendations is in operation to monitor what action has been taken by management in response to audit work. During 2010/11, all audits completed, that had reached the date when a follow up was due, have been the subject of follow up activity.

This position is positive and indicates a commitment by management to further improve controls and financial systems throughout the Authority. Further follow up work is planned in 2011/12 for those recommendations not yet actioned.

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 2010/11. Performance against these targets is detailed below:

Internal Audit Performance Indicators

Indicator	Target Set for 2009/10	Actual Performance 2009/10
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 th June following year-end.	30.06.11	18.05.11

7. RECOMMENDATION

- 7.1 That Members note the contents of the report.

APPENDIX A

Summary of Internal Audit Planned Work Undertaken for 2010/11

Audit Area

Asset Management
 Asset Register - Capital Accounting
 Attendance Management
 Bailiff Services
 Barnard Grove Primary School
 Benefits - Housing & Council Tax
 Budgetary Control
 Building Maintenance
 Building Schools for the Future (BSF) / Primary Capital
 Business Transformation Process
 BVPI's
 Car Parking - Income
 Controcc
 Cash/Bank
 Children Centres
 Childrens Fund (Team Around the Primary's)
 Community Grants
 Community Safety
 Computer Audit
 Contracts
 Council Tax
 CRB
 Credit Card Payments
 Creditors
 Debtors
 Education 14 - 19
 Eldon Grove Primary School
 Employees Registers of Interest/Gifts and Hospitalities
 Foreshore Management
 Fraud Awareness
 Grange Primary School
 Greatham C Of E Primary School
 Housing Market Renewal
 Improvement/Renovation/Disabled Facilities Grants
 Individual School Budgets
 Integrated Transport Unit - Vehicle Repairs
 Landscape Planning and Conservation
 Libraries
 Loans & Investments
 Main Accounting
 Members Allowances/Travel/Subsistence
 Neighbourhood Renewal
 NFI
 NNDR
 Officers Expenses
 Partnerships
 Performance Management Systems
 Petty Cash
 Procurement

Sacred Heart Primary School
Salaries
Section 17 Payments
Social Care Management Arrangements
Springwell Special School
St. Aidans Primary School
St. Begas Primary School
Stranton Primary School
Supporting People
Sustainability
Tanfield Road Nursery
Throston Primary School
Tourism - Historic Quay/Museum/TIC
Tourism - Tall Ships
Tourism - Town Hall Theatre/Borough Hall
Transport Plan
VAT.
Wages
Ward Jackson Primary School
West Park Primary School
West View Primary School
Wrap Around/After School Provision

AUDIT COMMITTEE**18 May 2011****Report of:** Chief Finance Officer**Subject:** REVIEW OF THE EFFECTIVENESS OF THE
SYSTEM OF INTERNAL AUDIT

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 and 2011.

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. These Regulations have been amended again with new requirements coming into place in April 2011.

- 2.2 The Department for Communities and Local Government issued guidance on the amended Regulations in March 2011. This Guidance covers the significant changes made to the 2006 Regulations. In the consultation draft 6(3) the regulations included a change to the need to conduct an annual review of the effectiveness of the system of internal audit by changing it to an annual 'review of the effectiveness of its internal audit'. The final regulations have not made any further amendments. In its response to the consultation on the regulations CIPFA referred to its guidance relating to the previous regulations which advised that the system of internal audit should be interpreted as:

“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”.

- 2.3 The current wording could lead to a narrow focus on internal audit alone rather than the adequacy of the wider assurance framework and consequently CIPFA had recommended in its consultation response

that it be removed. In light of the adopted regulations, CIPFA's Audit Panel is currently considering drafting further guidance to support practitioners.

- 2.4 The view of the Better Governance Forum is that a review of the effectiveness of the assurance framework would be a necessary stage to support the Annual Governance Statement and should form a normal agenda item for the Audit Committee. This would include the contribution made by internal audit but would also cover the wider assurance framework and the audit committee itself. By reviewing the effectiveness of internal audit as part of this wider review then the specific requirements of the Regulations will be met.
- 2.5 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 consider a report on the findings of the review. Given that it is considered best practice this approach will be continued.

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 production of the Annual Governance Statement was reviewed to ensure that it reflects the practices in place at the council.
- 3.5 The structure of the Internal Audit section was reviewed in light of changes to Council funding and operation.

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, 2011), is operating effectively in accordance with that described in the Annual Governance Statement.
- 4.2 The Internal Audit annual plan is 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 section has been reorganised to meet the challenges that the Council faces and 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.
- 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 May 2011



Report of: Chief Finance Officer

Subject: ANNUAL GOVERNANCE STATEMENT
2010/11

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 2.3 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.

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.

4.3 In order to support members in the process of approving the Annual Governance Statement the Better Governance Forum has provided briefing papers for Audit Committee members in public sector bodies. The briefing paper is attached after the statement for members consideration in relation to issues they may want assurance on regarding the content and process followed in producing the statement.

5. RECOMMENDATIONS

That Members review and approve the attached 2010/11 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 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 2011 and up to the date of approval of the 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 regular updates have been given to Corporate Management Team Support Group (CMTSG), the Performance and Risk Management Group and Corporate Management Team.

3 Significant Governance Issues Update from 2009/10 Statement

- 3.1 Progress has been made over the course of 2010/11 to address weakness in the system of governance identified as part of the 2009/10 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
Scheme Of Delegation needs to be updated to reflect new structure and working arrangements.	Update in line with new structures and agreed by Council 09.12.10.
Risks involved in the ongoing Business Transformation Process, as the Council reviews its service delivery arrangements.	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. £2.9m savings achieved against a target of £1.3m.
Issues arising from the 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. The rescheduled inspection

	<p>took place week commencing 24 January 2011. This inspection found that there have been improvements in the service during the intervening period between the inspections and the report refers to the findings as 'encouraging'. The judgment scores have improved in each of the performance criteria areas and local performance is now in line with the national average. The report makes 6 recommendations for action and an improvement plan will be submitted to HMIP for approval. Implementation will be monitored by the local Management Board and the Youth Justice Board.</p>
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- 3.2 The Council is still awaiting guidance regarding the adoption of an Employees Code of Conduct. This is not now considered to be a significant governance issue however, as the Council agreed as part of its 'Single Status Agreement' in 2008, a Code based upon that which was provided nationally for local government employees and adapted to reflect and clarify those issues considered particularly relevant to Hartlepool Borough Council. The Code was the result of discussions with local Trade Union representatives and Regional Officers and subject to detailed consultations with employees. The code was approved by the Standards Committee at its meeting of 24.08.10 and when guidance is received nationally any necessary action will be taken accordingly to update the agreed code.

4 The Governance Framework

- 4.1 The key elements of the Council's Governance Framework 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. Customer and Workforce Services (CWS) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by CWS 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 Audit Committee on 3rd December 2010 and referred to Council for approval on 10th February 2011. 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 Authority's 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 CWS 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) was the action plan for achieving the Community Strategy aims. The LAA ended in March 2011 and it has been confirmed that there will be no requirement from central government to prepare a new LAA. The removal of this requirement has provided an immediate opportunity to review the outcome framework and develop a more targeted and slimmed down version of what is currently in place. With this in mind a review of the outcome framework has been undertaken and the proposed new outcome framework, to be implemented from April 2011 has been agreed. The Authority has adopted the revised outcomes as its own corporate objectives. These have been integrated into the council's corporate plan, department plans and performance management arrangements to enhance management and political accountability. Reviews to consider and make recommendations for how the Council and Hartlepool Partnership service planning arrangements will operate after 2011/12 are underway. These will take account of Coalition Government policy and the level of resources available to the Council in future years.

- 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.
- 4.10 As the environment in which the Council operates evolves, Corporate Governance and Partnerships arrangements and internal controls will need to change to meet future requirements. The Localism Bill starts to set out the Coalition Government's view of the future shape and direction for local government. The range of issues addressed is wide and they range from the strategic, for example the "general power of competence" to the very technical, for example changes to local government finance regulations. In parallel to enacting the Localism Bill the Coalition Government is developing its strategy and policies in relation to local government and the public sector generally. The developments include:
- The Big Society approach;
 - The White Paper on Public Service Reform expected to be published shortly (the White Paper will draw on the Green Paper Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery published in December 2010);

- The review of local Government finance scheduled for later this year;
- The Health and Social Care Bill, in particular the transfer of public health function to local government and new performance frameworks for adult social care and public health;
- The Academies Bill;
- The Welfare Reform Bill.

The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.

- 4.11 To ensure that there is ongoing visibility of these changes at a members level a report has been prepared outlining the current scope of the proposed changes and potential implications and has been considered by Cabinet at the meeting on 21st March 2011. In addition and to ensure that there is clarity on respect of the potential impact of other coalition changes a report has been prepared for the portfolio holder for performance in respect of the implications of changes to date on the arrangements and requirements in respect of managing performance and the expectations placed on local authorities. This report was considered by the portfolio holder on 23rd March 2011.
- 4.12 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.
- 4.13 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.

- 4.14 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.
- 4.15 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.
- 4.16 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.
- 4.17 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 at the time and was implemented as part of the Business Transformation programme and ensures the maintenance of appropriate control arrangements. During 2010/11 the Council has been developing a new Risk Management Framework. The first draft is currently going through the approval process and should be completed by April 2011. A report to the portfolio holder on 23rd March 2011 identified a revised approach to risk management that has been considered and agreed by CMT SG and the Performance and Risk Management Group.
- 4.18 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. Training has also been given to senior officers in October 2010 by GBI our insurance company which helped embed risk further and develop the new Risk Management Framework.

- 4.19 The 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 including risk heat maps are included within the quarterly departmental reports to help ensure that risk and performance reporting are linked. Both corporate and departmental plans are considered as part of the preparation of the AGS.
- 4.20 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 Performance and Risk Management Group, 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.
- 4.21 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.
- 4.22 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.
- 4.23 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.
- 4.24 The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23rd 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.

- 4.25 The Council has undertaken an 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. This expires on 31 December 2011. A decision has been taken, for the time being, not to seek an assessment under new Equality Framework for Local Government developed by I&DeA. All departments complete 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. Steps are being taken to implement the Equality Act 2010. A number of budget decisions for 2011/12 affected arrangements for managing equality and diversity issues across the authority. New arrangements are being put in place for 2011/12 to take account of the changes. These will seek to maintain appropriate consultation arrangements with communities. The Council's progress on diversity is reported half yearly and annually to the Performance Portfolio Holder. Plans are in place to update and seek Cabinet approval of the Corporate Equality and Diversity Scheme; the present version of which runs from 2008 to 2011.
- 4.26 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.
- 4.27 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. 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 Organisational Assessment and inspections that have been undertaken.
- Other review and assurance mechanisms: for example, Department of Education, Care Quality Commission, Ofsted, Audit Commission, HMI Probation, Investors in People and Service Excellence.

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	Ensuring effective and comprehensive procurement arrangements.	Audit and mapping of current arrangements. Internal audit review. Identify options for ongoing improvement, communicate and provide training to staff.	2011/2012	CMT SG
2	Risks involved in managing ongoing budget reductions.	Revised Business Transformation Programme encompassing key required programme elements at a corporate and department level. Members seminars and staff communication. Budget monitoring and defunding budgets at decision point. Project planning and management reporting to Cabinet, CMT and CMT SG.	2011/2014	CMT

3	Electoral reform and reduction in the number of councillors.	Renew Constitution through Constitution Working Group and Constitution Committee. Renew scheme of allowances through Constitution Working Group and Constitution Committee.	2011/2012	Assistant Chief Executive, Chief Solicitor.
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- 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.

Reviewing the Annual Governance Statement or Statement on Internal Control

What is an Annual Governance Statement (AGS), Statement on Internal Control (SIC) or Statement on Internal Financial Control (SIFC)?

The AGS, SIC or SIFC is a public statement, normally included with your statement of accounts, which explains how your organisation manages its governance and control arrangements. They are produced by both public and private sector organisations.

What does my organisation need to have?

Confusingly not all public bodies have the same requirement! While CIPFA recommends that all local government bodies in the UK have an Annual Governance Statement, this is only a statutory requirement in England and Northern Ireland. Welsh authorities have a Statement on Internal Control although an AGS is likely to be required from 2010/11 as the Welsh Assembly Government have consulted on this. In Scotland authorities are required to have a

Statement on Internal Financial Control. Central government bodies and health authorities are all required to have a Statement on Internal Control.

What's included in these statements?

Although the names are different, there are many similarities between these statements as they all evolved out of the Statement on Internal Financial Control. And there are common features in all good statements. A good statement is open and honest, stating what works well and where improvements are needed. It includes a plan, showing who is responsible for taking action and when they will take action by. It also outlines progress against previous action plans. Whilst the focus of an SIFC is on financial controls, the other statements cover the full range of internal controls and the AGS covers wider governance matters such as ethics and leadership too. The statement summarises the key processes for delivering good systems of control and governance and indicates who is responsible for what. Processes are likely to include internal audit activity, risk management, performance management and other types of review and challenge. Responsibility lies with management, especially senior management, and the audit committee has an important role to play in providing challenge and oversight.

What does the Audit Committee do?

The audit committee has an on-going role in delivering good governance. Every time it reviews an audit report (internal or external) or holds an officer to account for his or her action (or inaction), it is helping to deliver good governance. In relation to the statement itself, the audit committee should take a robust and challenging approach, ensuring that:

- The statement reflects the organisation and is an honest self-assessment. Members should review evidence and challenge it where they believe it to be inaccurate or incomplete.
- They have sufficient assurance from enough separate parts of the organisation (this is known as 'triangulation' in audit circles) to be confident that, where controls and governance are deemed to be good, they are good and, where weaknesses are identified, the statement contains an accurate assessment of those weaknesses.
- The statement itself is well written and would be understood by someone with no knowledge of your organisation. In other words, it should be in plain English, with no jargon and it should include sufficient explanations.
- The action plan addresses all identified problem areas, including those identified in previous years where actions remain incomplete. Actions should be SMART (specific, meaningful, allocated, realistic and timely).

What makes for good governance?

Good practice approaches include:

- Creating and regularly reviewing a vision and direction for your organisation so that everyone understands what they are there to deliver.
- Indicating the level of service to be delivered – you can't be excellent at everything so what will you concentrate on and what can be good enough?
- Board / Member and officer roles are clearly defined, with schemes of delegation and codes of practice/conduct, so that everyone understands what they should and should not be doing.
- Having standing orders, financial regulations and guidance notes so that everyone knows what procedures are to be followed.
- A robust, challenging and supporting audit committee to provide oversight and review.
- Arrangements to ensure that you comply with laws and regulations and identify and act on changes promptly.
- Appropriate and flexible whistle-blowing arrangements.

- Methods to identify and act on officer and member development needs.
- Excellent and open communication with your community.
- Ways to ensure good governance in all your partnerships.
- Promotion of the values of good governance and ethical standards.

How do you draw up a good statement?

- Review and map your assurance framework to make sure that it covers all areas, including the hard to reach ones such as partnerships, and that you do not have any duplication in assurance.
- Obtain wide engagement – not just the head of audit or governance doing everything, but getting mini-governance or assurance statements from directors and heads of service that contribute to the overarching statement and/or setting up a working group to develop the statement.
- Be open and honest – it's about improvement and adding value, not about looking good.
- Be prepared to challenge yourself and look for areas for improvement, perhaps by benchmarking or comparing yourself with other organisations.
- Compare the assurances received to the strategic risk register. Are there any high risk areas that have not been adequately covered?
- Look for any inconsistencies or discrepancies. For example, has assurance been provided that there are no significant problems in an area but you have conflicting evidence from elsewhere (audit, risk, performance, complaints, fraud, etc)?
- Check progress against action plans during the year so problems can be dealt with quickly and governance becomes part of the way we do things round here, not just a once-a-year activity.
- Ensure that the action plan is widely known and understood in the organisation and beyond so that those charged with action are held to account and delivery is more likely.

Key questions to ask:

- 1. What process has the organisation gone through to gather evidence to support the AGS/SIC/SIFC? Has it involved staff from across the organisation?**
- 2. Have assurance statements already gone through a process of challenge and review prior to presentation to the audit committee? What did this show?**
- 3. Does the action plan flow out of the statement and identify the major issues we need to address as an organisation?**
- 4. Does the action plan include actions outstanding from previous years, prioritised as necessary?**
- 5. How will the action plan be communicated to staff, stakeholders and the public?**