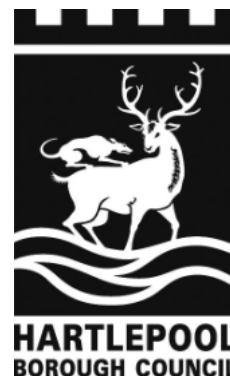


# AUDIT COMMITTEE AGENDA



**Wednesday 16 May, 2012**

**at 9.00 a.m.**

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

MEMBERS: AUDIT COMMITTEE:

Councillors C Akers-Belcher, Hall, Hill, 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 21 March 2012.

**4. ITEMS FOR DISCUSSION/DECISION**

- 4.1 Audit Commission Report- Audit Committee Update – *Chief Finance Officer*
- 4.2 Letter to Those Charged With Governance - Compliance with Laws and Regulations/Fraud – *Chief Finance Officer*
- 4.3 Role of The Chief Finance Officer (CFO) in Public Service Organisations – *Chief Finance Officer*
- 4.4 Internal Audit Outcome Report 2011/12 – *Head of Audit and Governance*
- 4.5 Review of the Effectiveness of the System of Internal Audit – *Chief Finance Officer*
- 4.6 Annual Governance Statement 2011/12 – *Chief Finance Officer*

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

# AUDIT COMMITTEE

## MINUTES AND DECISION RECORD

21 March 2012

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

### **Present:**

Councillor C Akers-Belcher (Chair)

Councillors G Hall, C Hill and Preece

In accordance with Council Procedure Rule 4 (ii) Councillor A Marshall was in attendance as substitute for Councillor J W Marshall

Officers: Noel Adamson, Head of Audit and Governance  
Sandra Shears, Head of Finance, Corporate  
Amanda Whitaker, Democratic Services Team

Audit Commission Representatives:  
Diane Harold and Mark Kirkham

### **30. Apologies for Absence**

Councillors J W Marshall and Wells

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

None

### **32. Minutes**

The minutes of the meeting held on 25 January 2012 were confirmed.

### **33. Internal Audit Plan 2012/13** *(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 2012/13.

#### **Issue(s) for consideration by the Committee**

The Head of Audit and Governance reported that a total of 54 planned

areas of audit coverage would form the basis of the mainstream Internal Audit work for 2012/13. The plan included fundamental systems such as salaries, debtors, creditors, risk management etc., which were identified, for the purpose of the plan, as single audits. However, these would include system and probity audits in each or some of the departments, in support of the main system reviews. In addition to the planned audit work, advice and support would be provided on an ad hoc basis throughout the financial year together with unplanned reactive work wherever necessary and appropriate. It was also highlighted that 100 days of audit work will also be provided to the Cleveland Fire Authority.

The Head of Audit and Governance indicated that, as members would expect, while Internal Audit and the Audit Commission carry out their work with different objectives, there had been liaison, in accordance with the Joint Protocol Agreement to ensure that the overall audit resources were most effectively focused and duplication was minimised.

During the discussion which followed presentation of the report, the Head of Audit and Governance responded to issues which had been raised by Members. Clarification was provided in relation to the 'continuous audit' approach and an assurance was given that there was capacity to deliver the Plan. An explanation was given in relation to the risk assessment undertaken of the 'audit universe' to determine those areas to be included in the Plan.

### **Decision**

The 2012/2013 Internal Audit Plan was approved.

## **34. Internal Audit Plan 2011/12 Update** *(Head of Audit and Governance)*

### **Purpose of report**

To inform the Committee of the progress made to date completing the internal audit plan for 2011/12.

### **Issue(s) for consideration by the Committee**

The Head of Audit and Governance reported on the audit work completed to date and those audits ongoing. This work was in line with expectations at this time of year, and audit coverage to date had allowed the Audit Commission to place reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

The Chairman referred to the scrutiny investigation which had been undertaken in relation to agency work and sought assurance that the HR file review had addressed the usage of agency staff. The Head of Audit and Governance clarified that the remit of the HR file review had been to consider information held on individual files. It was, however, proposed in the future to include agency worker Regulations. The Committee agreed that the scope of that audit should be widened to address the concerns

which had been highlighted in terms of the use of agency staff.

In relation to asset management, clarification was sought regarding the process applied to Local Authority assets which were surplus to requirements. An assurance was sought that the best value was achieved for those assets. The Head of Audit and Governance agreed to ensure the future work programme reflected the issues which had been raised and undertook also to review the tax free element of Members' allowances, highlighted by the Chair of the Committee.

### **Decision**

The contents of the report were noted and the Head of Audit and Governance undertook to reflect the issues highlighted by the Committee in future audits.

## **35. Audit Committee Member Information** *(Head of Audit and Governance)*

### **Purpose of Report.**

To provide advice received from the Better Governance Forum in respect of assurance planning, risk outlook for 2012 and the Government's response to the future of public audit consultation.

### **Issue(s) for consideration by the Committee**

The Head of Audit and Governance submitted for Members information the most recent briefing paper issued by the CIPFA Better Governance Forum which provided background information and questions relevant to the role of Audit Committee in relation to assurance planning, potential risks for 2012 and the Government's response to the future of public audit. The document was on internet and was, therefore, available to all Members of the Council.

During the discussion which followed presentation of the report, the potential implications of changes affecting local government finance on the role and remit of the Audit Committee were highlighted. The District Auditor responded to issues raised in relation to externalisation of the audit practice. Members were updated on commissioning arrangements in terms of timescales and the implications of changes.

The Briefing Paper contained recent developments including 'protecting the public purse'. A Member of the Committee requested that the concerns which she expressed at the meeting, in terms of the wording of that section of the report, should be conveyed to the Better Governance Forum.

The Chairman of the Committee highlighted that the functions of the Committee as set out in the Constitution were not aligned with how the Committee had developed and intended to develop in the future. It was recognised that it was important that the work undertaken by the Committee should be reflected within the Council's Constitution. It was, therefore, recommended that a joint meeting should be held of the Constitution and

Audit Committees when functions of the Audit Committee are being considered. District Audit representatives also agreed to participate in such a review of the roles and responsibilities of Audit Committee in conjunction with the Constitution Committee. It was suggested this intervention be appropriate prior to Constitution Task and Finish Group making their recommendations to the full Committee.

#### **Decision**

The report was noted and it was agreed that there be a joint meeting of Audit and Constitution Committees to consider amendments to the Constitution.

### **36. Audit Commission Report – Certification of Claims and Returns** *(Chief Finance Officer)*

#### **Purpose of Report**

To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions report Certification of Claims and Returns.

#### **Issue(s) for consideration by Committee**

The Audit Commission representatives submitted a report summarising the findings from the certification of 2010/11 claims. The salient findings included in the Audit Commission's report were highlighted at the meeting. The report included the messages arising from their assessment of arrangements for preparing claims and returns and information on claims that they had amended or qualified.

Following a request from the Chairman of the Committee for assurance in relation to the sample size of tested cases, Members were updated on how samples were selected and the process involved.

#### **Decision**

That the Audit Commission's report be noted.

### **37. Audit Commission Report – Audit Plan** *(Chief Finance Officer)*

#### **Purpose of Report**

To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions proposed Audit Plan for 2011/12.

#### **Issue(s) for consideration by Committee**

The Audit Commission representatives submitted the Commissions

2011/12 audit plan for Hartlepool Borough Council which was based on their risk-based approach to audit planning. The Commission representative highlighted the key messages and salient features included in the report.

### **Decision**

That the Audit Commission's report be noted.

## **38. Audit Commission Report – Audit Committee Update** *(Chief Finance Officer)*

### **Purpose of Report**

To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Audit Committee Update Report for 2011/12.

### **Issue(s) for Consideration by Committee**

The Audit Commission representatives provided the Committee with an update on progress made by the Audit Commission in delivering its responsibilities as the Councils external auditors. The report also included an update on the externalisation of the Audit Practice.

The report also sought to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The report included some questions which the Committee may wish to consider in assessing whether it has received enough assurance on emerging issues.

Members were advised that in terms of the 2011/12 audit, there were no significant issues to raise with the Committee. It was highlighted that appended to the report was a letter addressed to the Chairman of the Committee relating to how the Committee gains assurance from management. It was noted that it was proposed to submit a response to that letter to the next meeting of the Committee.

### **Decision**

The report was noted.

### **39. Key Principles of Audit – Constitution – Verbal Report** *(Chair of Audit Committee)*

The Chair of the Audit Committee indicated that the points he had wished to make, in relation to the functions of the Audit Committee as set out in the Constitution, had been covered elsewhere on the agenda (minute 35 refers)

The meeting concluded at 10.10 a.m.

CHAIR

## **AUDIT COMMITTEE**

**16.05.12**



**Report of:** Chief Finance Officer

**Subject:** AUDIT COMMISSION REPORT- AUDIT COMMITTEE UPDATE.

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

- 1.1 To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Audit Committee Update Report for 2011/12.

### **2. BACKGROUND**

- 2.1 This report provides the Audit Committee with an update on progress made by the Audit Commission in delivering its responsibilities as the Councils external auditors. It also includes an update on the externalisation of the Audit Practice.
- 2.2 The report also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The report also includes some questions which the Committee may wish to consider in assessing whether it has received enough assurance on emerging issues.

### **3. KEY MESSAGE OF THE AUDIT COMMISSION**

- 3.1 Details of the key messages regarding the update are included in the main body of the report attached as Appendix 1.
- 3.2 In relation to the reported reduction in External Audit fees I would bring the following to the attention of members:
- The District Auditors report provides details of the savings in external audit fees which will be passed back to local authorities. For Hartlepool the reduction in the fee for 2012/13 is £144,180 compared to the 2011/12 fee level. This reduction is significantly greater than the saving estimated when the 2012/13 budget was set in February 2012 of £81,000, which was based on information



available at the time. The additional saving in 2012/13 of £63,180 will be reported to Members within the regular financial management reports, alongside any other variances from approved budgets, and this report will enable Members to develop a strategy for dealing with these issues.

- This saving is anticipated to be sustainable and the ongoing additional saving will be reflected in the base budget when the 2013/14 budget is prepared. This savings will help reduce the significant deficit facing the Council in 2013/14. As reported in February 2013 this saving is expected to be sustainable. However, there is a risk that when responsibility for appointing External Auditors transfers to individual authorities these reductions may not be sustainable. This position will need to be kept under review.

#### **4. RECOMMENDATIONS**

##### **4.1 That the Audit Committee:**

- i. note the report of the Audit Commission

# Audit Committee Update

**May 2012**

**Hartlepool Borough Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

<b>Introduction .....</b>	<b>2</b>
<b>Progress Report.....</b>	<b>3</b>
Financial statements - update to our audit plan for 2011/12.....	3
VFM conclusion .....	3
<b>Other Matters of Interest .....</b>	<b>4</b>
Annual fraud and corruption survey 2011/12 .....	4
National Fraud Initiative consultation.....	4
Local government capital finance system.....	4
Openness and accountability in local pay.....	4
<b>Update on the externalisation of the Audit Practice.....</b>	<b>6</b>
<b>Key Considerations .....</b>	<b>8</b>
<b>Contact Details.....</b>	<b>9</b>

# Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper finishes by asking questions the Committee may wish to consider in assessing whether it has received sufficient assurance on emerging issues.
- 3 If you require any further information on the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Mark Kirkham  
District Auditor

# Progress Report

## Financial statements - update to our audit plan for 2011/12

**5** Auditing standards require us to inform 'Those Charged with Governance' of any significant risks. The Audit Commission has updated its standard testing strategy recently to clarify that potential management override of controls is always classed as a fraud risk and therefore a significant risk.

Table 1: **Significant risks to the opinion audit**

Significant risk	Audit response
<b>Management override of controls fraud risk.</b> Auditing standards* state that management is in a unique position to perpetrate fraud because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. While the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in <b>all</b> entities and is a significant risk of material misstatement due to fraud.	Our response to this risk is covered by existing planned testing covering: <ul style="list-style-type: none"><li>■ general ledger journal adjustments;</li><li>■ consideration and review of material accounting estimates;</li><li>■ consideration and review of any unusual or significant business transactions; and</li><li>■ consideration of any other local factors.</li></ul>

*\*Source: International Standards on Auditing (ISA) 240: the auditor's responsibility relating to fraud in an audit of financial statements*

## VFM conclusion

**6** As previously indicated, the Value for Money (VFM) criteria specified by the Commission focus on two criteria:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**7** Work is on-going and we have no significant issues to report at this stage. We will report our VFM conclusion in September, along with our report on the financial statements.

## Other Matters of Interest

### Annual fraud and corruption survey 2011/12

**8** On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

**9** The electronic survey will be open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

### National Fraud Initiative consultation

**10** The Audit Commission has consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

**11** The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments across a range of public sector bodies since it began in 1996 and has attracted international recognition.

**12** The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing the Audit Commission proposes the scale of fees for mandatory participants will remain the same as for NFI 2010/11. **For the Council this is £3,650.**

**13** The consultation closed on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

### Local government capital finance system

**14** In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

**15** A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

**16** DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

### Openness and accountability in local pay

**17** On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

**18** For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

**19** The statement must be:

- approved by the full Council; and
- published on its website.

**20** **The Council has published its pay policy online.**



# Update on the externalisation of the Audit Practice

21 The Audit Commission's Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

22 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission published its audit fees for 2012/13 in April 2012. **For Hartlepool Borough Council this is £144,180 which represents a forty per cent reduction on the 2011/12 fee.**
- The Commission Board confirmed the 'interim' auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission wrote to all audited bodies on or shortly after 23 April 2012 to set out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.

- To support the consultation process, the Commission is arranging a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits. **For the North East and North Yorkshire, the meeting is being held on the 16th May in Durham and invitations have been sent to the Authority.**

**23** The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

**24** Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**25** Further details are available on the Commission's website. We will continue to keep you updated on developments.

**26** Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

# Key Considerations

**27** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council completed the Audit Commission's annual fraud and corruption survey?
- Has the Council considered the implications of the amendments to the capital financing regulations?

# Contact Details

**28** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**29** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Mark Kirkham  
District Auditor  
0844 798 6632  
[m-kirkham@audit-commission.gov.uk](mailto:m-kirkham@audit-commission.gov.uk)

Diane Harold  
Audit Manager  
0844 798 1641  
[d-harold@audit-commission.gov.uk](mailto:d-harold@audit-commission.gov.uk)

# AUDIT COMMITTEE

16.05.12



**Report of:** Chief Finance Officer

**Subject:** LETTER TO THOSE CHARGED WITH GOVERNANCE -  
COMPLIANCE WITH LAWS AND  
REGULATIONS/FRAUD

## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the proposal to reply to the letter received from the District Auditor to those charged with governance regarding compliance with laws and regulations and fraud.

## 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). 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 International Standards for Auditing. I have attached as Appendix B the original letter from the Audit Commission.

#### **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 International Standards for Auditing.

## 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:

16.05.12

Mark Kirkham  
District Auditor  
Audit Commission

Dear Mark,

Further to your letter to those charged with governance - compliance with laws and regulations / fraud; in relation to understanding how the Audit Committee gains assurance from management, I have outlined below how the Audit Committee gains assurance that all relevant laws and regulations are complied with and how we exercise oversight of the processes in place for identifying and reporting the risk of fraud and possible breaches of internal control.

- *Considered the 2011/12 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 2011/12. 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, 2011 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Considered Internal Audit Plan 2011/12 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 2011/12* – 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 2011/12 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, 2011 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 2010/11* – This report provided a review of the Treasury Management activity for 2010/2011 and the outturn Prudential Indicators for this period.
- *Treasury Management Strategy 2012/13* – To enable the Audit Committee to consider the proposed Treasury Management Strategy for 2012/2013 prior to the strategy being referred to Council in February 2012.
- *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*



## Appendix B

## Letter to Those Charged with Governance - compliance with laws and regulations / fraud

6 March 2012

Councillor C Akers-Belcher  
Chair of the Audit Committee  
Hartlepool Borough Council  
Civic Centre  
Hartlepool  
TS24 8AY

Tel 0844 798 6632

E-mail m-kirkham@audit-commission.gov.uk

Dear Councillor Akers-Belcher

### **Audit of Hartlepool Borough Council Financial Statements for the year ending 31 March 2012 Understanding how the Audit Committee gains assurance from management**

I have a good understanding of how the Audit Committee, as 'Those Charged with Governance', gains assurance over management processes and arrangements. This enables me to deliver an efficient audit, reducing the time your staff needs to spend responding to auditor queries.

However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

1) How do you exercise **oversight of management's processes** in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council code of conduct); and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee **management processes for identifying and responding to the risk of fraud and possible breaches of internal control**? Are you aware of any breaches of internal control during 2011-12?

3) How do you gain **assurance that all relevant laws and regulations have been complied with**? Are you aware of any instances of non-compliance during 2011-12?

4) Are you aware of any **actual or potential litigation or claims that would affect the financial statements**?

5) Have you carried out a **preliminary assessment of the going concern assumption** and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern?

**Fraud (separate questions in appendix)** In addition to the above questions about how you gain assurance from management, **I have included in an appendix eight questions about your views on fraud.** Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

I would be grateful if you would provide me with a response before, at the latest, our start of detailed work on the financial statements in late June 2012. Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Mark Kirkham  
District Auditor

No	Questions for 'those charged with governance'	Those charged with governance response
1	Are you aware of any <b>instances of actual, suspected or alleged fraud</b> during the period 1 April 2011 – 31 March 2012?	
2	Do you suspect <b>fraud</b> may be occurring within the Council? Have you identified any specific fraud risks within the Council? Do you have any concerns that there are areas within your Council that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	
3	Are you satisfied that <b>internal controls, including segregation of duties, exist and work effectively</b> ? If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?	
4	How do you <b>encourage staff to report their concerns about fraud</b> ? What concerns about fraud are staff expected to report?	
5	From a fraud and corruption perspective, <b>what are considered to be high risk posts within your Council</b> ? How are the risks relating to these posts identified, assessed and managed?	
6	Are you aware of any <b>related party relationships or transactions that could give rise to instances of fraud</b> ? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	
7	Are you aware of <b>any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading</b> ? Are there particular balances where fraud is more likely to occur? Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council? Could a false accounting entry escape detection? If so, how? Are there any external fraud risk factors which are high risk of fraud?	
8	Are you aware of any <b>organisational, or management pressure to meet financial or operating targets</b> ? Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	

**AUDIT COMMITTEE****16.05.12****Report of:** Chief Finance Officer**Subject:** ROLE OF THE CHIEF FINANCE OFFICER  
(CFO) IN PUBLIC SERVICE ORGANISATIONS

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**1. PURPOSE OF REPORT**

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

**2. BACKGROUND**

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

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

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

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

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

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

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

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

**4. RECOMMENDATION**

- 4.1 It is recommended that Members
- i) note that I have reviewed the CIPFA statement – ‘The Role of the CFO in Public Service Organisations’ and can advise Members that the Council complies with these requirements as detailed in Appendix A.

## Appendix A

**How the Five Principles Are Met**

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

## 4.3

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



## 4.3

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

## 4.3

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

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

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

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

## 4.3

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

## 4.3

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

## 4.3

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

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

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

## 4.3

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

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



## 4.3

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

## 4.3

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

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

## 4.3

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

## 4.3

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

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

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

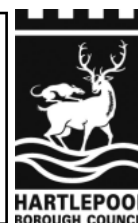
## 4.3

of their role.	
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Demonstrate IT literacy.	CFO has required IT skills for role and is able to manage and challenge the departmental IT experts to ensure they are able to effectively discharge their responsibilities.
Have relevant prior experience of financial management in the public services or private sector.	CFO qualified with CIPFA in 1993 and has held a variety of position with Hartlepool, before appointment as CFO in 2010, including Chief Accountant and ACFO (Corporate Finance). Since 1996 the current CFO has acted as lead finance officer for financial services provided to Cleveland Fire Authority (CFA) and in April 2010 was appointed Deputy Treasurer to the CFA.
Understand public service finance and its regulatory environment.	CFO has 19 years post qualification experience and sound understanding of public service finance and its regulatory environment.
Apply the principles of corporate finance, economics, risk	See above

## 4.3

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

**AUDIT COMMITTEE****16.05.12**

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

**Subject:** INTERNAL AUDIT OUTCOME REPORT  
2011/12

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**1. PURPOSE OF REPORT**

To inform members of the outcomes of audit work covering the period April 2011 to March 2012.

**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 2011/12 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 12 major systems and probity reviews for the CFA during 2011/12.



### **3. AUDIT INPUTS 2011/12**

- 3.1 There were 1038 audit days allocated at 1.04.11 to planned and responsive activities during 2011/12.
- 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 2011/12.

### **4 OUTCOMES**

- 4.1 Appendix A schedules all the planned audits undertaken in 2011/12. At the time this report was completed work was being finalised on the Debtors System, however sufficient reliance could be placed on testing completed for the purposes of the 2011/12 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. From the work undertaken during the year 2011/12, I have 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 2011/12.

### **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 2011/12, 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 2012/13 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 2011/12. Performance against these targets is detailed below:

### Internal Audit Performance Indicators

Indicator	Target Set for 2011/12	Actual Performance 2011/12
Completion of High Risk Audits provides assurance that financial procedures are operating effectively.	90%	92%
In addition to the managing auditor reviews, quality reviews of Teammate working paper files and evidence by the Head of Audit and Governance to ensure compliance with the standards laid down in Codes of Practice and adopted in the Internal Audit Manual.	10%	10%
Percentage of Audit Reports issued within 10 working days of audit completion.	87.5%	100%
Percentage of Audit Recommendations followed up within 6 months of completion of the audit.	100%	100%
Annual Report to Members by 30 <sup>th</sup> June following year-end.	30.06.12	16.05.12

## 7. RECOMMENDATION

- 7.1 That Members note the contents of the report.

## APPENDIX A

**Summary of Internal Audit Planned Work Undertaken for 2011/12**

<b>Department</b>	<b>Audit</b>
Chief Executives	Advertising Revenue
Chief Executives	Attendance Management
Chief Executives	Benefits - Housing & Council Tax
Chief Executives	Budgetary Control
Chief Executives	BVPI's
Chief Executives	Capital Accounting
Chief Executives	Cash/Bank
Chief Executives	Computer Audit
Chief Executives	Contact Centre
Chief Executives	Continuous Audit
Chief Executives	Council Tax
Chief Executives	Creditors
Chief Executives	Debtors
Chief Executives	Duplicate Payments
Chief Executives	Early Retirement/Voluntary Retirement Procedures
Chief Executives	Employees Registers of Interest/Gifts and Hospitalitys
Chief Executives	Equal Pay/Single Status
Chief Executives	Flu Pandemic Response Plan
Chief Executives	Fraud Awareness
Chief Executives	Information/Data Management Security
Chief Executives	Journal Review
Chief Executives	Loans & Investments
Chief Executives	LSP Theme Partnerships
Chief Executives	Main Accounting
Chief Executives	Members Allowances/Travel/Subsistence
Chief Executives	NFI
Chief Executives	NNDR
Chief Executives	Officers Expenses
Chief Executives	Partnerships
Chief Executives	Performance Management Systems
Chief Executives	Recruitment, Selection and Retention
Chief Executives	Salaries
Chief Executives	Salary Sacrifice Schemes
Chief Executives	V.A.T.
Chief Executives	Wages
Child and Adult Services	Brougham Primary School
Child and Adult Services	Children Centres
Child and Adult Services	Connexions
Child and Adult Services	Direct Payments
Child and Adult Services	Golden Flatts Primary School
Child and Adult Services	Jesmond Primary School
Child and Adult Services	Kingsley Primary School
Child and Adult Services	Lynnfield Primary School
Child and Adult Services	Rift House Primary School
Child and Adult Services	Rossmere Primary School
Child and Adult Services	Seaton Carew Nursery
Child and Adult Services	St. Cuthbert's Primary School
Child and Adult Services	St. Helens Primary School
Child and Adult Services	St. John Vianney Primary School

Child and Adult Services	St. Josephs Primary School
Child and Adult Services	St. Teresas Primary School
Child and Adult Services	Stranton Centre
Regen and Neighbourhood Services	Building & Development Control Income
Regen and Neighbourhood Services	Business Improvement Districts
Regen and Neighbourhood Services	Capital Programme Monitoring
Regen and Neighbourhood Services	Car Parking - Income
Regen and Neighbourhood Services	Community Safety
Regen and Neighbourhood Services	Energy Management
Regen and Neighbourhood Services	Housing Options Centre
Regen and Neighbourhood Services	Integrated Transport Unit - Highways Capital Grant
Regen and Neighbourhood Services	Integrated Transport Unit - Operators License
Regen and Neighbourhood Services	Procurement
Regen and Neighbourhood Services	Courier Service
Regen and Neighbourhood Services	Emergency Planning

**AUDIT COMMITTEE****16.05.12****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**

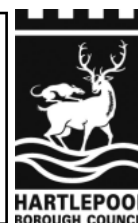
- 3.1 In order to assess whether the system of internal audit has been effective, the definition of effective for the purpose of the review was the satisfactory operation of the framework of assurance that is available to the council in identifying and mitigating the risks it faces in pursuit of its 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 Internal Audit reporting was reviewed in light of a review of Internal Audit practices.

## **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 reviewed its own procedures to ensure it meets 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****16.05.12****Report of:** Chief Finance Officer**Subject:** ANNUAL GOVERNANCE STATEMENT  
2011/12

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**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 and 2011 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 2011/12 Annual Governance Statement.

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

### **1 Scope of Responsibility**

- 1.1 Hartlepool Borough Council is responsible for ensuring that:
- Its business is conducted in accordance with the law and proper standards,
  - Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.4 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at [www.Hartlepool.gov.uk](http://www.Hartlepool.gov.uk) or can be obtained from the Councils Contact Centre. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

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

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore

only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2012 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 2010/11 Statement**

- 3.1 Progress has been made over the course of 2011/12 to address weakness in the system of governance identified as part of the 2010/11 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

<b>Issue Raised</b>	<b>Action Undertaken</b>
Ensuring effective and comprehensive procurement arrangements.	Audit and mapping of current arrangements. Internal audit review. Identification of options for ongoing improvement. Training provided to staff.
Risks involved in managing ongoing budget reductions.	Savings Programme elements undertaken at a corporate and department level with savings taken early. Member's seminars and staff communication undertaken. Budgets monitored and defunded at decision point. Project planning and management reports provided to Cabinet, CMT and CMT SG.
Electoral reform and reduction in the number of councillors.	Ongoing review of Constitution through Constitution Working Group and Constitution Committee. Scheme of allowances review to be completed for new municipal year.

- 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<sup>th</sup> August 2010 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 policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by Customer and Workforce Services 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 25<sup>th</sup> January 2012 and referred to Council for approval on 9<sup>th</sup> February 2012. The approved Treasury Management

Strategy includes the Investment and Borrowing strategies in compliance with revised CIPFA Prudential Code, CIPFA Treasury Management Code of Practice and draft DCLG guidance. The Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies before making any necessary recommendations to Council. The Chief Finance Officer reports to the Audit Committee how the Authorities financial arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

- 4.5 The full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.
- 4.6 Customer and Workforce Services 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 adopted their Community Strategy in 2008 following an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. Following the end of the Local Area Agreement (LAA) in March 2011 it was agreed locally that a Hartlepool Partnership Plan for 2011/12 would be prepared which now forms the delivery plan of the Community Strategy. The outcome framework around which the Plan is formed was reviewed and a more targeted and slimmed down version was prepared for 2011/12. This has been reviewed again and some minor changes have been agreed for implementation from April 2012. The Authority adopted the revised outcomes as its own corporate objectives. They 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 2012/13 are underway. These will take account of local changes to partnership arrangements, 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 continues to evolve, Corporate Governance and Partnerships arrangements and internal controls will need to adapt to meet future requirements. As 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.
- 4.11 To ensure that the authority continues to respond to the challenges effectively, reports, as required, will be considered by the appropriate portfolio holder.
- 4.12 All departments produce departmental and service plans using a corporate framework to ensure that they reflect the agreed corporate outcomes. The Corporate Outcome Framework is reviewed annually and agreed by Cabinet, most recently in December 2011. Departments also complete extensive consultation with service users, forums, partners and the Viewpoint panel. 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 outcomes. 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 outcomes 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 Scrutiny Coordinating Committee on a quarterly basis.
- 4.13 A corporate performance management framework approved by CMT and Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Data Quality framework is in place with Internal Audit conducting a targeted annual review of PIs. 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. Covalent also includes action plans, risks and performance indicators enabling clearer links between corporate, departmental and service planning outcomes, actions, risks and PIs.

- 4.14 Key performance indicators are identified in the corporate and departmental plans. These indicators are monitored throughout the year and quarterly reports are presented to members on the delivery of performance targets.
- 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. Fraud Awareness assessments took place during 2011-12 using the CIPFA Red Book 2 - Managing the Risk of Fraud - Actions to Counter Fraud and Corruption; as a basis for good practice and the FRED1 (Fraud Risk Evaluation Diagnostic) assessment tool as a means to assess HBC's awareness of fraud. The Red Book 2 was produced by CIPFA Better Governance Forum Counter Fraud Advisory Panel after consultation with fraud practitioners. As it is aligned to the approach by the National Fraud Authority its use as good practice is recommended by organisations such as ALARM.
- 4.16 The Council agreed a Risk Management Strategy in December 2004 and this has been improved on an annual basis. However in 2011 there has been the approval of a new Risk Management Framework and Guidance Document which outlines a process that will help drive service delivery and improvements. The Framework and Guidance Document is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the revised process to all relevant staff in their departments.
- 4.17 A revised Risk Management Framework was considered and approved by the Performance Portfolio Holder on 23<sup>rd</sup> March 2011. In order to improve the process the structure of the risk registers was changed, a specific risk tolerance level to help prioritise risk activity was introduced.

Risks on the accepted risk register are reported to elected members on an annual basis and they are monitored more regularly within departments. A small number of risks will be on the actively managed risks register and these are the risks that the department/responsible officer plan to take further action/increase control measures to help



reduce the likelihood or impact. These risks are reported to elected members quarterly through the service planning process.

The aim is that by restructuring the risk registers it will switch the focus from reporting on risks to more actively managing the risks that are of most concern and hence on the actively managed risk register.

- 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. Regular risk introduction/refresher sessions are offered as part of the Council's Learning Management and Development Programme. Training was also given to senior officers in October 2010 by Gallagher Bassett 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 are analysed 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 actively managed and accepted risk registers. Risk registers are also maintained for significant projects, such as Business Transformation. Officers that manage risks are notified that risks need to be reviewed and progress is monitored on a quarterly basis through the service planning process. 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 an Influenza Pandemic Plan has been approved. A future workstream is to integrate the Influenza Pandemic Plan into the new corporate Business Continuity Plan and associated database framework.

- 4.24 The Corporate Business Continuity Group meets monthly and includes lead officers from all departments and the Hartlepool Emergency Planning officer. A revised Business Continuity Plan (BCP) is being developed and a corporate business continuity ICT database has been implemented to record supporting BCP data. New levels of priority / definitions for service restoration have been defined. Population of the new database is complete and a work programme is underway to identify and document new formal decant arrangements for the delivery of priority services in the event of a disruption. Building on previous test exercises of the existing business continuity plan, training exercises on the new plan will be scheduled for 2012/13 to ensure the robustness of the plan, aid familiarity by officers and test communication protocols.
- 4.25 The Equality Act 2010 came into force on 1<sup>st</sup> October 2010 and brings together over 116 separate pieces of legislation into one single Act. Combined, they make up a new Act that will provide a legal framework to protect the rights of individuals and advance equality of opportunity for all. The Act covers the 9 protected characteristics – age, disability, gender reassignment, marriage/civil partnership, pregnancy/maternity, race, religion/belief, gender and sexual orientation.

The Public Sector Equality Duty (PSED) is supported by "specific duties" to assist public bodies to achieve the aims of the general duty. Under the specific duties, the Council must:

- Publish equalities information to demonstrate its compliance with the Equality Duty by the 31<sup>st</sup> January 2012 and then annually after that; and
- Develop and publish equality objectives by 6<sup>th</sup> April 2012 and then every four years.

In order to demonstrate our compliance with the above requirements, we have compiled two equality reports 'Equality Information 2012' and 'Workforce Equalities Information 2012' to demonstrate the progress that the Council has made to date. We are aware that there are gaps in our data and are working to provide more information in an accessible format. On that basis both reports will be regularly updated.

Equality issues must influence the decisions reached by public bodies - in how they act as employers; how they develop, evaluate and review policy; how they design, deliver and evaluate services, and how they commission and procure from others. We do this by undertaking Impact Assessments which are an integral part of our decision-making process.

- 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.	Ongoing audit and corporate mapping of current arrangements. Internal audit review. Identify options for continuous improvement, communicate and provide targeted training to staff.	2012/2013	CMT SG
2	Risks involved in managing ongoing budget reductions.	Revised Savings Programme encompassing key required programme elements at a corporate and department level. Resources set aside from 2011/12 outturn to deal with future years reductions in 2013/14. Member's seminars and staff communication strategy. Budget monitoring and defunding budgets at decision point process. Project planning and management reporting to Cabinet, CMT and CMT SG.	2012/2015	CMT
3	Selective Licensing Function	Audit and management review undertaken. Detailed action plan for improvement developed and implemented as confirmed by audit follow up.	2012/2013	Assistant Director, Regen and Planning.
4	Welfare Reform Act.	Review of financial consequences of proposals undertaken. Update reports to Cabinet, CMT and CMT SG.	2012/14	CMT

5	Health and Social Care Act, re transfer of some Public Health responsibilities to the LA.	Ongoing review of statutory requirements in place. Update reports to Cabinet, CMT and CMT SG on known issues. Liaison with all relevant parties to shape future delivery proposals.	2012/14	CMT
6	Localism Act	Reports to Council, Portfolio and Cabinet regarding proposed response to Statutory requirements. CMT and CMT SG monitoring of implications of new proposals.	2012/14	CMT
7	Collaborative Working Issues	Ongoing dialogue between officer groups at authorities. Update reports to Council, Portfolio and Cabinet.	2012/13	CMT
8	Governance arrangements as a result of changes to the council size and potential for a Mayoral referendum	Corporate peer review to undertaken in September focussing on governance and bedding down of new council structures. Assessment to be undertaken of consequences of potential Mayoral referendum on the governance arrangements for the council.	2012/13	CMT

- 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?**