

# AUDIT AND GOVERNANCE COMMITTEE AGENDA



**Thursday 30 April, 2015**

**at 10.00 am**

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

**MEMBERS:** AUDIT AND GOVERNANCE COMMITTEE

Councillors Ainslie, S Akers-Belcher, Cook, Martin-Wells, Thompson, Sirs and Springer.

Standards Co-opted Members; Mr Norman Rollo and Ms Clare Wilson.

Parish Council Representatives: Parish Councillor J Cambridge (Headland) and Parish Councillor B Walker (Greatham).

Local Police Representative: Chief Superintendent Gordon Lang.

**1. APOLOGIES FOR ABSENCE**

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

**3. MINUTES**

3.1 To confirm the minutes of the meeting held on 19 March, 2015.

**4. AUDIT ITEMS**

- 4.1 Mazars Report – Audit Strategy Memorandum – *Chief Finance Officer*
- 4.2 Role of the Head of Internal Audit in Local Government – *Chief Finance Officer*
- 4.3 Role of Chief Finance Officer (CFO) in Public Service Organisations – *Chief Finance Officer*
- 4.4 Review of the Effectiveness of the System of Internal Audit – *Chief Finance Officer*
- 4.5 Internal Audit Outcome Report 2014/15 – *Head of Audit and Governance*



- 4.6 Annual Governance Statement 2014/15 – *Chief Finance Officer*
- 4.7 Letter to those charged with Governance – Compliance with Laws and Regulations / Fraud – *Chief Finance Officer*

**5. STANDARDS ITEMS**

None.

**6. STATUTORY SCRUTINY ITEMS**

None.

**7. ANY OTHER BUSINESS WHICH THE CHAIR CONSIDERS URGENT**



# **AUDIT AND GOVERNANCE COMMITTEE**

## **MINUTES AND DECISION RECORD**

19 MARCH 2015

The meeting commenced at 10.00 am in the Civic Centre, Hartlepool

**Present:**

Councillor: Ray Martin-Wells (In the Chair)

Councillors: Jim Ainslie, Stephen Akers-Belcher, Rob Cook and George Springer.

Also Present: Co-opted Members Mr Norman Rollo and Parish Councillor  
John Cambridge (Headland).

Mark Kirkham, Mazars

Officers: Chris Little, Chief Finance Officer  
Noel Adamson, Head of Audit and Governance  
Joan Stevens, Scrutiny Manager  
David Cosgrove, Democratic Services Team

### **141. Apologies for Absence**

Councillors Kaylee Sirs and Paul Thompson and co-opted Members  
Ms Clare Wilson and Parish Councillor Brian Walker (Greatham).

### **142. Declarations of Interest**

None.

### **143. Minutes of the meetings held on 19 February and 5 March, 2015**

Confirmed.

A Member requested that the details of the Hate Crime Reporting Centres be re-circulated to Members of the Committee.

A Member of the Committee complained in relation to the late circulation of the minutes to Members. The Principal Democratic Services Officer apologised for the delayed posting.

## **144. Mazars Report - Certification of Claims and Returns 2013/14** *(Chief Finance Officer)*

The representative from Mazars reported that Hartlepool Borough Council received more than £200 million in funding from various grant-paying government departments. These departments attach conditions and restrictions to these grants which the Council must meet otherwise funding may be withdrawn or clawed-back. It was, therefore, important that the Council could demonstrate that it has put in place adequate arrangements to prepare and authorise each claim and return; and could evidence that it has met the terms and conditions put in place by the grant paying body for each claim and return.

As the Council's appointed auditor, Mazars acted as an agent of the Audit Commission to certify specified claims and returns. The Audit Commission, in consultation with the grant-paying bodies, sets out a programme of work in the form of Certification Instructions (CIs) that Mazars must follow.

As required by the Audit Commission's CIs, Mazars assessed the control environment for claims and returns. However, there was only one return subject to certification under the Audit Commission regime this year; the Housing Benefits subsidy return where the testing approach was pre-set, being agreed between the Audit Commission and the grant-paying body, the Department for Work and Pensions.

Mazars issued a qualification letter in respect of the Housing Benefits subsidy return due to extrapolated errors in relation to the misclassification of overpayments. This was an historic issue common to all councils due to the complexity of the benefits system and the Council had continued to work to address this issue. The Department for Work and Pensions had subsequently accepted the impact of the extrapolated errors Mazars reported in respect of the misclassification of overpayments (between those classed as 'eligible' and those attributable to the Council). Due to the way overpayment thresholds were calculated, this had resulted in a small increase in the subsidy payable to the Council.

The Mazars representative commented that he and his staff were grateful to the officers of the Council, in particular for the Housing Benefits subsidy return; their continued cooperation and prompt responses to queries was appreciated.

The Chair welcomed the report and the comments in relation to Council staff and thanked the Mazars representative for his report.

### **Recommended**

That the report be noted and received.

## **145. Public Sector Internal Audit Standards** (*Head of Audit and Governance*)

The Head of Audit and Governance updated members on the work undertaken regarding Public Sector Internal Audit Standards (PSIAS) and the resulting changes to working practices. The standards for internal audit services in local government are set by the Chartered Institute of Public Finance and Accountancy (CIPFA). From 1 April 2013 CIPFA, together with other standard setters across the public sector, adopted new standards for internal audit. These standards complied with the international standards issued by the Institute of Internal Auditors (IIA) and replaced the Code of Practice for Internal Audit in Local Government in England and Wales (2006). Since the standards were adopted CIPFA had issued further guidance in the form of an application note. The application note included a checklist to assist internal audit practitioners to review and update working practices.

The PSIAS recognises that the provision of assurance services is the primary role for internal audit in the UK public sector. This role required the chief audit executive (in this Authority the Head of Audit and Governance), to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

To comply with the PSIAS, HBC was required to adopt an audit charter and strategy setting out the purpose, authority and responsibility of internal audit. HBC should also define certain elements of the internal audit framework including the “board,” “senior management” and the “chief audit executive.” Each organisation was required to define these terms in the context of its own governance arrangements. It was proposed that for the PSIAS these are defined as follows:

- “Board” – this should be taken to be the Audit and Governance Committee given its responsibilities in relation to internal audit standards and activities.
- “Senior Management” – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Chief Finance Officer in his role as s151 officer. This included all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to the Chief Executive, Assistant Chief Executive and Chief Solicitor, acting individually or collectively in their statutory roles at HBC.
- “Chief audit executive,” for HBC this was taken to be the Head of Audit and Governance.

Appended to the report was a revised Internal Audit Charter incorporating the changes required from the Public Sector Internal Audit Standards.

### **Recommended**

1. That the requirements of the new Public Sector Internal Audit Standards and the work being undertaken to review and update internal audit working practices be noted.
2. That the relevant definitions used in respect of the internal audit framework be approved.
3. That the new Internal Audit Charter and Strategy be approved.

### **146. Internal Audit Plan 2014/15 Update** (*Head of Audit and Governance*)

The Head of Audit and Governance updated Members on the progress made to date completing the internal audit plan for 2014/15. The Head of Audit and Governance highlighted the following key points.

- All the recommendations in relation to the St Helen's Primary School audit had been agreed and implemented.
- ITU (Integrated Transport Unit) Taxi Hire had been rated at 'No Assurance'. This was due to the fact that there was a lack of evidence to demonstrate that sufficient checks were undertaken to validate payments being made for journeys invoiced by the supplier or that supplier invoice calculations were correct prior to payment. Actions had been agreed that mitigate the risks identified and were in the process of being implemented, which would lead to 'reasonable assurance' being placed on this area in the future.
- Home Care Commissioned Services was rated as 'limited assurance'. This was due to the fact that whilst monitoring the performance of the contract was undertaken by the Contracts and Commissioning Team on a rolling programme basis, there was no overall assurance mapping to identify those outcomes/HBC contract requirements that had not been assessed or where remedial action had been identified and a programme adopted to review these, based on the associated risks. Testing also identified some differences between the Individual Service Contract For the Provision of Domiciliary Care form and the Price Submission for the Provision of Domiciliary Care Services form. Actions had been agreed that mitigated the risks identified and were in the process of being implemented, which would lead to 'reasonable assurance' being placed on this area in the future.
- Attendance Management Carers Leave was rated as 'limited assurance'. This was due to the fact that carers leave granted to employees was currently managed departmentally and not recorded on one central system, so it was not possible to check instances where carers leave had been granted to verify compliance with the policy. Actions had been agreed that mitigated the risks identified and were in the process of being implemented, which would lead to 'reasonable assurance' being placed on this area in the future.

Members noted the reference to Manor Residents Association / Who Cares North East in the ongoing list of audits and asked if there any issues that the Committee needed to be appraised of. The Head of Audit and Governance indicated that the audit was still considered 'open' due to the impending court case and could not be formally closed until that had ended.

**Recommended**

That the report be noted.

**147. Internal Audit Plan 2015/16** (*Head of Audit and Governance*)

The Head of Audit and Governance reported on the proposed direction of internal audit activity, and sought Committee approval of the annual operational Internal Audit Plan for 2015/2016 which was submitted with the report.

Given available audit resources, all aspects of the Council's systems and arrangements could not be audited in one year. In recognition of this a Strategic Audit Plan had been prepared using a risk model based on the model accredited by the Chartered Institute of Public Finance and Accountancy. The Strategic Audit Plan was produced in a way that ensured all relevant risk areas are covered. This allowed the most relevant and comprehensive annual opinion on the Councils control environment to be given to the Audit and Governance Committee. Additionally, the audit plan had been tailored to add value to the Council following a process of discussion and consideration by the Chief Finance Officer and the Corporate Management Team, of their current operational issues.

The Internal Audit establishment consists of a Head of Audit and Governance and 5 FTE (full time equivalent) audit staff. When taking into account operational costs of providing the service and income generated, the net budget for the provision of Internal Audit was £230,000, which equated to approximately £235 per audit day provided. Income generated from providing Internal Audit Services to schools and Cleveland Fire Authority totalled £34,000, which equated to 13% of the services gross costs.

A total of 71 planned areas of audit coverage would form the basis of the mainstream Internal Audit work for 2015/16. 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. Details of the proposed audits were set out in an appendix to the report for the Committee's consideration.

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.

The Head of Audit and Governance also indicated that for 2015/16, the team were contracted to provide 100 days of audit work to Cleveland Fire Authority.

Members queried the income generation of the Audit Service and in particular that from the Fire Authority. The Head of Audit and Governance indicated that the income from the Fire Authority was based on the contracted 100 days. The Chief Finance Officer commented that income generation was a balance based on competitive external costs. Schools, in particular those with Academy status, could go elsewhere for auditing services. Currently, three of the ten academy schools in the town bought back the audit service, though all used the Council's payroll system.

The Chair echoed Members' comments in expressing concerns at the potential impact a financially failing academy could have as parents would have an expectation that the local authority would step in to ensure the continuation of their children's education. The Chair commented that he had suggested that a letter be sent to the Department for Education highlighting these concerns. Members supported the sending of such a letter.

Members commented that there were many misconceptions with schools transferring to become academies. A Member who was also a school governor indicated that the information governors were given gave an illusion that they would have more money to spend when this was not the case. The Chief Finance Officer stated that one of the benefits of services being bought back from the local authority was the back office efficiencies that could be provided; academies, unless they were part of a larger group, had to provide their own accountancy, personnel and other services themselves. The Chief Finance Officer advised Members that since her arrival, the current Director of Child and Adult Services had addressed these issues in conversations with schools.

#### **Recommended**

That the 2015/2016 Internal Audit Plan be approved and the Internal Audit budget for 2015/16 of £230,000 be noted.

### **148. Standards Issues**

None.

### **149. Draft Final Report – Hate Crime In Hartlepool** (*Scrutiny Manager*)

The Scrutiny Manager requested that consideration of the final report be deferred to the next meeting of the Committee on 30 April, 2015.

#### **Recommended**

That consideration of the final report be deferred.



**150. Any Other Items which the Chairman Considers are Urgent**

None.

The meeting concluded at 10.30 am.

CHAIR

# **AUDIT AND GOVERNANCE COMMITTEE**

**30 April 2015**



**Report of:** Chief Finance Officer

**Subject:** MAZARS REPORT- AUDIT STRATEGY  
MEMORANDUM

## **1. PURPOSE OF REPORT**

- 1.1 To inform Members of the Audit and Governance Committee that arrangements have been made for representatives from Mazars to be in attendance at this meeting, to present the content of the report Audit Strategy memorandum.

## **2. BACKGROUND**

- 2.1 The report sets out Mazars audit plan in respect of the audit of the financial statements of Hartlepool Borough Council for the year ending 31 March 2015. The plan sets out the proposed audit approach and is prepared to assist the Audit and Governance Committee in fulfilling its governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

## **3. FINDINGS OF MAZARS**

- 3.1 Details of key messages are included in the main body of the report attached as Appendix 1.

## **4. RECOMMENDATIONS**

- 4.1 That the Audit and Governance Committee:
- i. Note the report of Mazars.

## **5. REASON FOR RECOMMENDATIONS**

- 5.1 To ensure the Audit and Governance Committee is kept up to date with the work of our External Auditor.

**6. BACKGROUND PAPERS**

6.1 Audit Strategy Memorandum.

**7. CONTACT OFFICER**

7.1 Chris Little  
Chief Finance Officer  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY

Tel: 01429 523003  
Email: Chris.Little@Hartlepool.gov.uk

# Audit Strategy Memorandum

**Hartlepool Borough Council – year ended 31 March  
2015**

March 2015

Mazars LLP  
The Rivergreen Centre  
Aykley Heads  
Durham  
DH1 5TS

Audit and Governance Committee  
Hartlepool Borough Council  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY

23 March 2015

Dear Members of the Audit and Governance Committee

**Audit Strategy Memorandum for the year ending 31 March 2015**

We are delighted to present our Audit Strategy Memorandum for Hartlepool Borough Council for the year ending 31 March 2015.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit and Governance Committee meeting on 30 April 2015. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Mark Kirkham  
Director, for and on behalf of Mazars LLP

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Our reports are prepared in the context of the Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

*Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.*

# 01 Purpose and Background

## Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Hartlepool Borough Council for the year ending 31 March 2015, and forms the basis for discussion at the Audit and Governance Committee meeting on 30 April 2015.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks you face, which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

## Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2015. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

## Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out our respective responsibilities as the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

We comply with the statutory requirements governing audit work, in particular the:

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

We, as auditors of Hartlepool Borough Council, are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole Government Accounts submission with the audited financial statements.

Our audit does not relieve management or the Governance Committee, as those charged with governance, of their responsibilities.

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

### Significant matters considered

As part of our risk based approach to planning we consider a number of key performance and control environment features together with external developments. The following paragraphs set out some of the key aspects for 2014/15. We take into account the impact of the Council's financial performance and control environment, together with external factors, in sections 2, 3 and 4 of this document.

#### Performance and control environment

We use the Council's latest financial monitoring reports and medium term financial plan to consider the current financial position. The following table summarises in-year activity to date, as at the end of quarter 3.

Area	Budget	Projected outturn	Movement on reserves	Unearmarked General Fund Balance
Revenue expenditure (corporate and departmental)	£87.677m (revised)	£0.188m uncommitted outturn	£4.808m net increase *	£5.153m (as at 31/3/14)
Capital expenditure	£26.175m (revised)	£26.175m (including re-phased into 2015/16)	n/a	n/a

\* the £4.808m net increase in reserves reflects detailed proposals approved by Council as part of the 2015/16 Medium Term Financial Strategy.

Ongoing pressure on the public finances presents significant challenges for the Council and the need to plan for further reductions in spending power, coupled with increased demand for services.

At the time the 2014/15 budget was set, the Council faced a gross budget deficit for the year of £9.117m. Further cuts were anticipated for 2015/16 and 2016/17 of £6.252m and £8.655m respectively. This is against a backdrop of grant cuts since 2010/11; by 2015/16 the Council expects the total grant cuts to be £30.6m, a cut of 39%.

By the start of the 2014/15 financial year the Council had already achieved the required budget savings for the current year and progress had been made to formulate plans to achieve the savings required in 2015/16. These savings for 2015/16 have now been identified, approved and budgets have been defunded. The forecast outturn for 2014/15 reported within the budget monitoring reports and the Medium Term Financial Strategy identified available one-off resources of £8.933m from a variety of sources, including a managed budget underspend, resources released from reviewing the Council's reserves and the rephased



use of grant income. The majority of these resources, £8.745m, have been earmarked as specific reserves, including the Budget Support Fund, resulting in an uncommitted forecast outturn of £0.188m.

The Council has a capital budget for 2014/15 and future years of £54.496m and it also has a range of reserves earmarked for specific plans and projects. The Council has adopted a long-term strategy to manage its resources, including the monies held in reserves, to address the continuing cuts in government grants since 2011/12. This strategy has earmarked resources to cover one-off costs or to protect against specific financial risks and is designed to avoid the need for unplanned cuts. However, as recognised in the Council's medium term financial strategy, these resources can only be spent once.

### **External developments**

The Council has to prepare its financial statements in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom. There have been a number of minor changes to the Code for 2014/15 which include:

- changes to group accounts standards IFRS10 consolidated financial statements, IFRS11 joint arrangements and IFRS12 disclosure of interests in other entities – possible changes to accounting treatment due to changes in definition of control and classification; and
- accounting for schools with continuing debate about the impact of a change in the single entity definition, new CIPFA guidance and the need to disclose critical judgements.

The Council is reviewing these changes and assessing what impact they might have on the 2014/15 financial statements. At this stage, however, the Council is not anticipating that group accounts will be required for 2014/15, and very little change is expected in respect of its accounting treatment of schools from the previous year.

# 02 Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

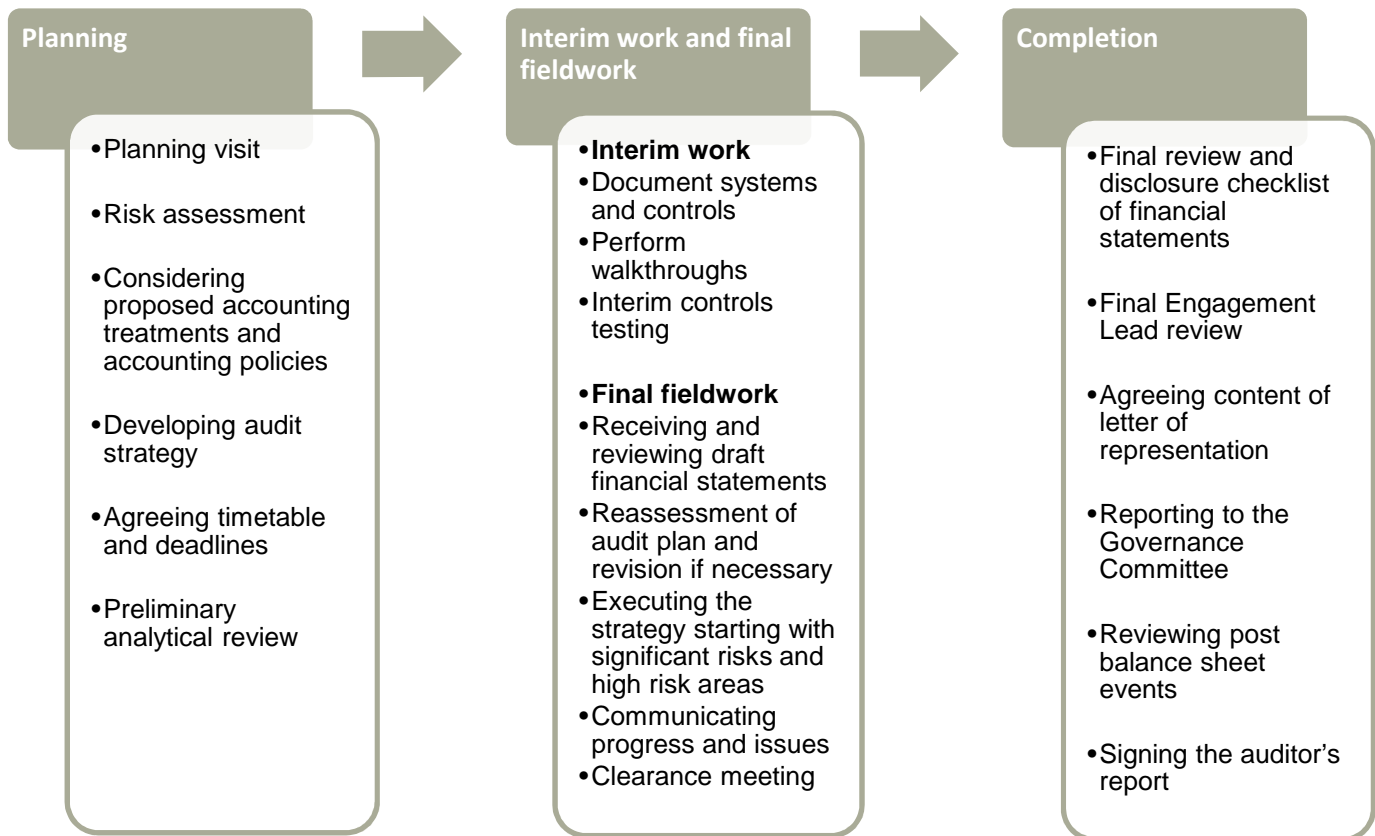
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken may include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram overleaf outlines the procedures we perform at the different stages of the audit.



### Reliance on Internal Audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

### Reliance on other auditors

There are material entries in your financial statements where we will seek to place reliance on the work of other auditors.

Items of account	Other auditor	Nature of assurance to obtain from the auditor
Defined benefit liability and associated IAS 19 entries and disclosures	Deloitte LLP	We have agreed a programme of work with Deloitte LLP and a timetable for the receipt of relevant information.

### Service organisations

We are required to assess whether there are any material entries in your financial statements where the Council is dependent on an external organisation. We call these entities service organisations. There are no such service organisations for the Council where we need to carry out special procedures.

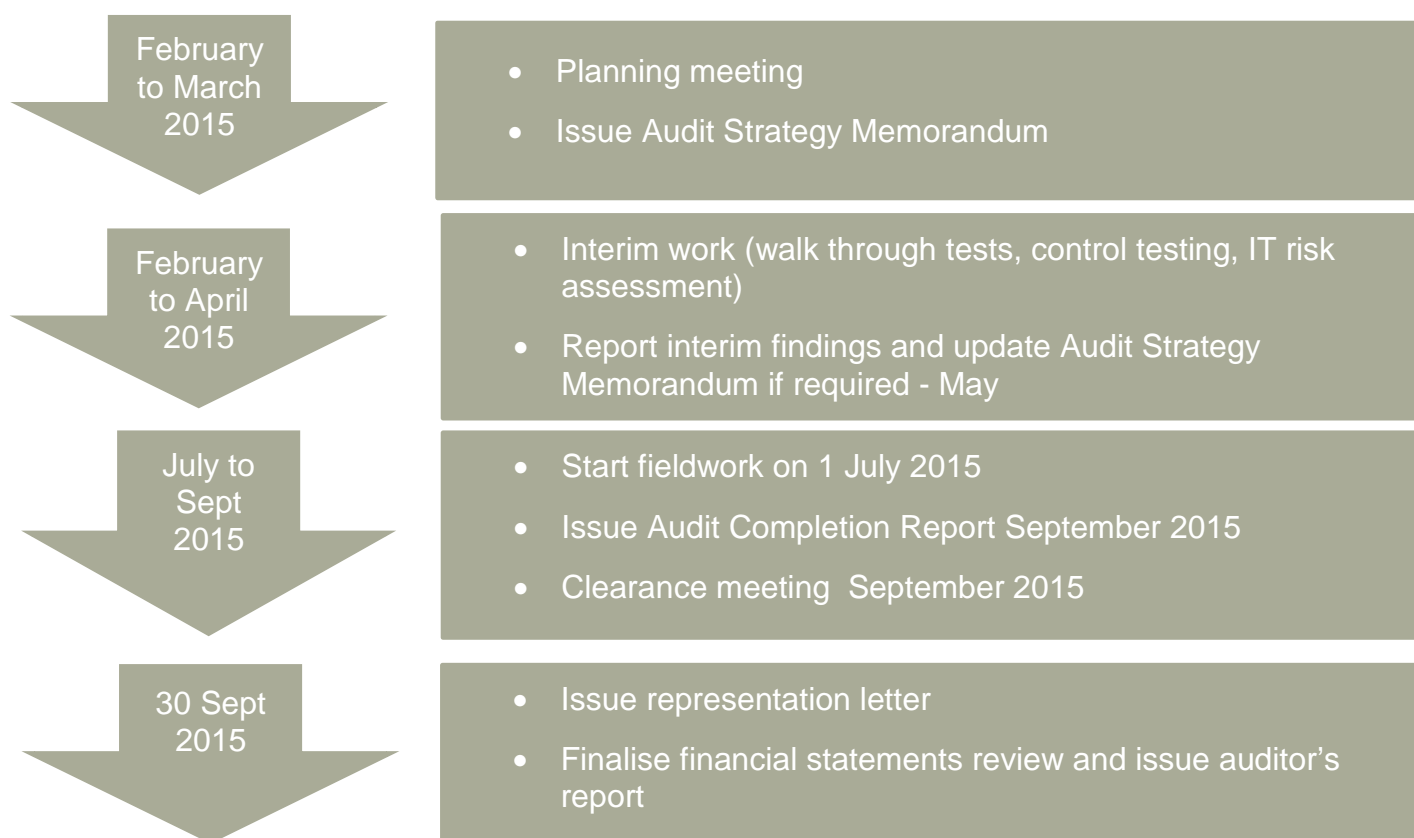
## The work of experts

We plan to rely on the work of the following experts:

Item(s) of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	Audit Commission's consulting actuary (PWC)
Property, plant and equipment valuations	Internal valuer from Hartlepool Borough Council	Audit Commission's consulting valuer (Gerald Eve)
Financial instruments: fair value estimates	Capita (Treasury Management advisor)	Central assurance provided by the Audit Commission

## Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



# 03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Authority faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

## Audit risks

### Management override of controls

#### Description of the risk

International Standards on Auditing (ISA) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we will address this risk

Our testing strategy will include:

- review of material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and review of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

### Revenue recognition

#### Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2014-15. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

#### How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing receipts in March and April 2015 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

#### Pension Estimates (IAS 19)

##### Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

##### How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.

# 04 Value for Money Conclusion

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

We set out significant risks that we will address through our work.

## VFM risk

### Description of the risk

Significant risk in respect of the financial resilience criterion – continuing decreases in funding. The risk arises from the level of budget reductions the Council needs to make in order to achieve a balanced budget.

### How we will address this risk

We will consider the Council's approach to:

- monitoring budgets;
- reviewing the medium term financial plan;
- ensuring that identified savings are being achieved; and
- assessing the impact of budget reductions on service delivery.

# 05 Your audit team

Below are your audit team and their contact details.

Engagement lead  
(Director)

- Mark Kirkham
- [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)
- 0191 383 6300 or 07747 764 529

Engagement manager  
(Senior Manager)

- Cath Andrew
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# 06 Fees for audit and other services

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

Area of work	2014/15 Proposed fee	2014/15 Scale Fee	2013/14 Actual fee
Code audit work	145,250	145,250	144,180
Certification work	18,480	18,480	13,729
<b>Total fee</b>	<b>163,730</b>	<b>163,730</b>	<b>157,909</b>
Non audit work	TBC	TBC	2,000
Teachers' Pension return			

# Appendix A - Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement:

- there are no relationships between us and any of our related or subsidiary entities, and
- you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham, Engagement Lead.

Prior to the provision of any non-audit services the Engagement Lead will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

The following principal threats to our independence and associated safeguards have been identified:

Issue	Perceived threat	Safeguards and procedures
A member of the wider audit team has declared a close personal relationship with a Member of the Council.	Self-interest	If this member of the team is used on the Hartlepool Borough Council audit, then appropriate safeguards will be put in place.
A Senior Manager within the Mazars' wider audit team has declared a close personal relationship with a senior finance officer at the Council.	Self-interest	This member of our team will not be used on the audit.

# Appendix B – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We have set materiality at the planning stage at £4.038m with a clearly trivial threshold of £121k below which identified errors will not usually be reported. We have set lower materiality levels for the disclosure of officer remuneration and emoluments and members' allowances as we consider these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

# Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## **Form, timing and content of our communications**

We will present to the Governance Committee the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit Committee and their comments will be incorporated as appropriate.

## **Key communication points at the planning stage as included in this Audit Strategy Memorandum**

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our independence;
- Responsibilities for preventing and detecting errors;
- Materiality; and
- Fees for audit and other services.

## **Key communication points at the completion stage to be included in our Audit Completion Report**

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Unadjusted misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

# Appendix D – Forthcoming accounting and other issues

The 2014/15 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. We provided workshops explaining these changes and invited officers from the Council responsible for preparing the financial statements. The workshops provided full details of the changes in the 2014/15 Code as well as a forward look to potential future accounting changes that may be of relevance to the Authority. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

## Forthcoming accounting issues

Accounting for schools	How this may affect the Council
The 2014/15 Code has changed the way in which local authorities must account for maintained schools. The income, expenditure, assets, liabilities, reserves and cash flows of all local authority maintained schools must now be included in the Council's own single entity accounts for the first time. Where the impacts of this are material, the previous year's statements must be restated to take account of the change.	Members may be aware that CIPFA have been looking into the accounting treatment for schools assets (principally school buildings) as a result of a continuing qualification on the Whole of Government Accounts arising from the inconsistent recognition of these assets on local authority balance sheets. CIPFA have issued guidance to authorities for 2014/15 in relation to accounting for schools assets and we have discussed this guidance on the Council's intentions in relation to the recognition of maintained schools assets over the last quarter.
Transport infrastructure assets	How this may affect the Council
It is anticipated that the measurement basis for the Council's Transport Infrastructure Assets will change from depreciated historic cost to depreciated replacement cost in 2016/17, with prior period restatement required. It is likely that the impact of this change will be significant and that the value of these assets on the Council's balance sheet will significantly increase.	We are aware that the Council has been doing work to meet the significant challenges that it faces in introducing this change in measurement basis and have engaged with them at an early stage to provide advice and assistance where required.
Early deadlines	How this may affect the Council
The Government had signalled its intention to bring forward the deadlines for local authorities to produce their statements of account to 31 May from the 2017/18 financial year. The deadline for the completion of the audit will also move forward to 31 July.	The impacts of this change on local authorities and their auditors are significant and we have begun to discuss how we will meet the challenges the new dates place on us all with Council officers.
Group Accounts	How this may affect the Council
Module 9 of the 2014/15 Code Guidance Notes has been updated to reflect changes in group accounting standards.	The Council do not currently prepare Group Accounts, but this may change as more joint working arrangements are introduced.

Property, Plant and Equipment (PPE)	How this may affect the Council
The 2014/15 Code Guidance Notes have clarified requirements for regular valuations of property, plant and equipment set out in IAS 15.	Whilst the Code allows 5-yearly valuations it makes it clear that the requirement to ensure that carrying values are materially correct takes precedence. This means that the valuer needs to provide evidence that the value of PPE at 31 March 2015 is not materially different from the date of the last physical valuation. This could include reference to appropriate indices, sample valuations and impairment reviews.
Fair Value accounting from 2015/16	How this may affect the Council
IFRS 13 sets a new framework for determining fair values from 1 April 2015.	No impact on 2014/15. However, if any assets are held as surplus assets from 2015/16 onwards (e.g. vacated premises) they will need valuing at market value rather than existing use value.

# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



**Report of:** Chief Finance Officer

**Subject:** ROLE OF THE HEAD OF INTERNAL AUDIT IN  
LOCAL GOVERNMENT

## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the CIPFA statement – “The Role of the Head of Internal Audit in Local Government”, and to demonstrate how the Council complies with this guidance.

## 2. BACKGROUND

- 2.1 The Statement describes the role of the Head of Internal Audit (HIA) in local government. CIPFA believes the HIA occupies a critical position in a local authority, helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. Local authorities need to know that they have strong arrangements for controlling their resources and for delivering their objectives. CIPFA believes that HIA's have a unique role to play here. They are senior managers whose business is objectively assessing these arrangements and the risks that authorities face and giving appropriate assurances. HIA's must also provide leadership, promoting good governance and helping authorities to address future challenges.
- 2.2 HIA's need to review the whole system of control, both financial and non-financial, and focus on the areas where assurance is most needed. The HIA also has to give an annual opinion on the adequacy and effectiveness of the control environment; this is used by Chief Executives as a primary source of evidence for their annual governance statement.
- 2.3 HIA's must also be able to show that they can meet the needs of stakeholders such as Chief Executives and Audit Committees, adding value by helping to improve services whilst retaining their objectivity. They also need to work well with partners and other auditors. Authorities should see the Statement as best practice and use it to assess their HIA arrangements to drive up audit quality and governance arrangements.

### 3 THE KEY ROLE PLAYED BY THE HIA

- 3.1 Internal audit is one of the cornerstones of effective governance. The HIA is responsible for reviewing and reporting on the adequacy of the authority's control environment, including the arrangements for achieving value for money. Through the annual internal audit opinion and other reports the HIA gives assurance to the Leadership Team and others, and makes recommendations for improvement.
- 3.2 The HIA's role is a unique one, providing objective challenge and support and acting as a catalyst for positive change and continual improvement in governance in all its aspects. The role is particularly important when authorities are facing uncertain or challenging times. Fulfilling the role requires a range of personal qualities. The HIA has to win the support and trust of others, so that he/she is listened to, and the HIA's role as a critical friend means that sometimes difficult messages must be given and acted on. It is these expectations, combined with the professional, personal and leadership skills required, that have shaped the CIPFA Statement on the role of the HIA in Local Government.
- 3.3 **Primary audience**  
The primary audience for this Statement is those who rely on the HIA's assurances – the Leadership Team and the Audit and Governance Committee. CIPFA recommends that they should examine their own authority against this Statement to satisfy themselves that they have effective HIA arrangements in place.
- 3.4 **Local government context**  
CIPFA has drawn up a separate Statement for local government because of the statutory responsibility of specific post holders regarding internal audit and governance. In local government the 'Section 151' officer (the Chief Financial Officer or CFO) is a statutory post as is the Monitoring Officer (often the Head of Legal Services) and the Head of Paid Service (often the Chief Executive). The HIA needs to work well with these post holders and lines of responsibility need to be clear.
- 3.5 The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the HIA in local government 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.

For each principle the Statement sets out the governance arrangements required within an authority to ensure that HIAs are able



to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the HIA. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise authorities can expect from their HIA. These include the requirements of CIPFA and the other professional bodies' codes of ethics and professional standards to which the HIA as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases support other principles as well.

### 3.6 **Demonstrating compliance**

The Statement supports CIPFA's work to strengthen governance, risk management and internal audit across public services. It is intended to allow the Leadership Team of a local authority to benchmark its existing arrangements against a defined framework.

- 3.7 CIPFA recommends that authorities use the Statement as the framework to assess their existing arrangements and that they should report publically on compliance to demonstrate their commitment to good practice. CIPFA also proposes that authorities should report publicly where their arrangements do not conform to the compliance framework in this Statement, explaining the reasons for this, and how they achieve the same impact. CIPFA will consider how to take this forward in the context of the CIPFA/Society of Local Authority Chief Executives (SOLACE) guidance on good governance.

## 4. **CIPFA STATEMENT ON THE ROLE OF THE HIA IN LOCAL GOVERNMENT**

**The Head of Internal Audit in a local authority plays a critical role in delivering the authority's strategic objectives by:**

1 – championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and

2 – giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

**To perform this role the Head of Internal Audit:**

3 – must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee;

4 – must lead and direct an internal audit service that is resourced to be fit for purpose; and

5 – must be professionally qualified and suitably experienced.

## **5. PROCESS FOLLOWED**

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

## **6. RECOMMENDATION**

- 6.1 It is recommended that Members
- i) Note that I have reviewed the CIPFA statement – “The Role of the Head of Internal Audit in Local Government” and can advise Members that the Council complies with these requirements as detailed in Appendix A.

## **7. REASON FOR RECOMMENDATIONS**

- 7.1 To ensure that the Audit and Governance Committee meets its remit, it is important that it is kept up to date with current best practice in relation to the information it receives from officers.

## **8. BACKGROUND PAPERS**

- 8.1 CIPFA statement – “The Role of the Head of Internal Audit in Local Government”.

## **9. CONTACT OFFICER**

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**How the Five Principles Are Met**

**Principle 1 – The HIA in a local authority plays a critical role in delivering the authority’s strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.**

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Set out the HIA’s role in good governance and how this fits with the role of others, in particular the CFO, the Monitoring Officer and the Head of Paid Service.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>	Working with others (including the CFO, the Monitoring Officer and the Head of Paid Service) to promote the benefits of good governance throughout the organisation.	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between CFO and IA.</i>	Provide leadership by giving practical examples of good governance that will inspire others.	<i>HIA undertakes proactive role on relevant working parties and officer groups i.e. Performance and Risk Management Group.</i>
Ensure that the importance of good governance is stressed to all in the authority, through policies, procedures and training.	<i>Code of Corporate Governance agreed by the Audit and Governance Committee And adopted by Council. Job descriptions and Management Academy training programme cover governance requirements.</i>	Giving advice to the Leadership Team and others on the control arrangements and risks relating to proposed policies, programmes and projects.	<i>Regularly report to Audit and Governance Committee and Senior Management through CFO and CMT on all aspects of governance arrangements.</i>	Deploy effective facilitating and negotiating skills.	<i>HIA undergoes Continuous Professional Development (CPD) tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices.</i>
Ensure that the HIA is consulted on all proposed major projects, programmes and policy initiatives.	<i>Protocols in place to ensure regular liaison with key officers and CMT.</i>	Promoting the highest standards of ethics and standards across the authority based on the principles of integrity, objectivity, competence	<i>HIA role as per CIPFA Code of Practice for Internal Audit in Local Government as enshrined in the Audit Manual.</i>	Build and demonstrate commitment to continuous improvement.	As above

## 4.2

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		and confidentiality.			
Require staff to report suspected or detected fraud, corruption or impropriety to the HIA.	<i>Corporate Anti-Fraud and Corruption Strategy agreed by Audit and Governance Committee</i>	Demonstrating the benefits of good governance for effective public service delivery and how the HIA can help.	<i>HIA undertakes proactive role on relevant working parties and officer groups i.e. Performance and Risk Management Group.</i>	Demonstrate consultancy skills as appropriate – analytical, problem solving, influencing and communicating.	As above
		Offering consultancy advice where the HIA considers that it is appropriate, drawing up clear terms of reference for such assignments.	<i>Resource built into Audit Plan for advice and guidance to be provided, within strictly agreed scope, terms of reference and outcomes.</i>		

**Principle 2 – The HIA in a local authority plays a critical role in delivering the authority’s strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.**

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Set out the responsibilities of the HIA, which should not include the management of operational areas	<i>Job Description in place. Audit Strategy and Charter sets out terms of reference as agreed by Audit and Governance Committee.</i>	Giving assurance on the control environment. This includes risk and information management and internal controls across all systems.	<i>Annual opinion provided to Audit and Governance Committee in line with Public Sector Internal Audit Standards, covering all aspects of governance arrangements.</i>	Give clear, professional and objective advice.	<i>Reporting arrangements agreed with management based on a shared understanding of requirements.</i>
Ensure that internal audit is independent of external audit.	<i>Internal and External Audit protocol in place.</i>	Reviewing the adequacy of key corporate arrangements including e.g. risk strategy, risk register, anti fraud and corruption strategy, corporate plan.	<i>All aspects of governance arrangements covered in the annual Internal Audit Plan as agreed by management and the Audit and Governance Committee.</i>	Report on what is found, without fear or favour.	<i>Reporting arrangements enshrined within the Audit Strategy and Charter as reflected in the Audit Manual in line with best practice.</i>
Where the HIA does	<i>Not Applicable.</i>	Producing evidence	<i>Annual opinion report HIA</i>	Demonstrate integrity to	<i>HIA undergoes CPD</i>

## 4.2

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
have operational responsibilities the HIA's line manager and the Audit Committee should specifically approve the IA strategy for these and associated plans and reports and ensure the work is independently managed.		based annual internal audit opinion on the authority's control environment.	<i>is produced and presented to the Audit and Governance Committee by the HIA.</i>	staff and others in the authority.	<i>tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices.</i>
Establish clear lines of responsibility for those with an interest in governance (e.g. Head of Paid Service, Monitoring Officer, Head of Paid Service, Audit Committee, Members). This covers responsibilities for drawing up and reviewing key corporate strategies, statements and policies.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Code of Corporate Governance outlines responsibilities with regard to governance arrangements.</i>	Working closely with others to ensure that sufficient and relevant evidence is used. Where relying on others, clarifying the degree and basis for the reliance.	<i>Reporting arrangements compliant with Public Sector Internal Audit Standards.</i>	Exercise sound judgement in identifying weaknesses in the authority's control environment and a balanced view on how significant these are.	<i>Experience gained over 22 year Internal Audit career. Professional guidance followed in relation to risk measurement.</i>
Establish clear lines of reporting to the Leadership Team and to the Audit Committee where the HIA has	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Rights</i>	Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to	<i>Internal Audit plan encompasses partnership arrangements and highlighted as key area of concern of Audit and Governance Committee.</i>	Work well with others with specific responsibilities for internal control, risk management and governance including the Head of Paid Service, the	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between CFO and IA. Relationships built up</i>

## 4.2

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
significant concerns.	<i>of access to key members and officers detailed.</i>	promote and protect the authority's interests. Assessing whether lines of responsibility and assurance are clear.		Monitoring Officer, the CFO, Audit Committee and Members.	<i>over a number of years.</i>
Agree the terms of reference for internal audit with the HIA, the Audit Committee and the CFO, as well as with the Leadership Team.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>	Liaising closely with the external auditor to share knowledge and to use audit resources most effectively.	<i>Protocol in place for joint working with External Audit.</i>	Be concerned for action - influencing the Leadership Team, Audit Committee and others to ensure that the HIA's recommendations are implemented.	<i>As above</i>
Set out the basis on which the HIA can give assurances to other organisations and the basis on which the HIA can place reliance on assurances from others.	<i>Audit Manual sets out roles and levels of assurances.</i>	Producing an internal audit strategy that fits with and supports the authority's objectives.	<i>Strategy produced and agreed by management and Audit and Governance Committee.</i>	Be a role model, dynamic, determined, positive, robust and with resilient leadership, able to inspire confidence and respect and exemplify high standards of conduct.	<i>Experience gained over 22 year Internal Audit career. HIA CPD tailored to requirements of the role.</i>
Ensure that comprehensive governance arrangements are in place, with supporting documents covering e.g. risk management, corporate planning, anti fraud and corruption and whistle blowing.	<i>Production of Annual Governance Statement in line with best practice covering all aspects of the governance framework and supporting documentation in place.</i>	Reviewing the authority's risk maturity (including the authority's own assessment) and reflecting this in the strategy.	<i>Key member of Performance and Risk Management Group reviewing risk strategy, maturity and tolerance.</i>		
Ensure that the annual internal audit	<i>Reported independently by the HIA to the Audit</i>	Consulting stakeholders, including senior	<i>Internal Audit Strategy agreed by senior</i>		

## 4.2

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
opinion and report are issued in the name of the HIA.	<i>and Governance Committee.</i>	managers and Members on the internal audit strategy.	<i>management before approval sought from the Audit and Governance Committee.</i>		
Include awareness of governance in the competencies required by members of the Leadership Team.	<i>Job descriptions and CIPFA's "Excellent Auditor Framework" covering governance requirements</i>	Setting out how the HIA plans to rely on others for assurance on the authority's controls and risks and taking account of any limitations in assurance given by others.	<i>Internal Audit Strategy and Charter in place with Public Sector Internal Audit Standards detailing day to day arrangements.</i>		
Set out the framework of assurance that supports the annual governance statement and identify internal audit's role within it. The HIA should not be responsible for preparing the report.	<i>Included in the Annual Governance Statement which is produced by senior management.</i>	Liaising with external inspectors and review agencies where appropriate when drawing up the internal audit strategy.	<i>The process followed is recorded in the Audit Manual.</i>		
Ensure that the internal audit strategy is approved by the Audit Committee and endorsed by the Leadership Team.	<i>Internal Audit Strategy agreed by senior management before approval by the Audit and Governance Committee.</i>	Liaising with the external audit on the internal audit strategy, but not being driven by external audit's own priorities.	<i>Protocol in place for joint working with External Audit.</i>		

**Principle 3 – The HIA in a local authority must be a senior manager with regular and open engagement across the authority, particularly with the Leadership Team and with the Audit Committee.**

## 4.2

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
Designate a named individual as HIA in line with the principles in this Statement. The individual could be someone from another organisation where internal audit is contracted out or shared. Where this is the case then the roles of the HIA and the client manager must be clearly set out in the contract or agreement.	<i>HIA designated individual employed within the Authority.</i>	Escalating any concerns through the line manager, CFO, Monitoring Officer, Head of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate.	<i>Protocols in place and enshrined in Internal Audit Charter and Strategy for escalation of concerns.</i>	Network effectively to raise the profile and status of internal audit.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>
Ensure that where the HIA is an employee that they are sufficiently senior and independent within the authority's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team.	<i>HIA senior manager within the Finance function reporting directly to the CFO with access to key officers as detailed in the Internal Audit Strategy Charter and Councils Constitution.</i>	Supporting the Audit Committee in reviewing its own effectiveness and advising the Chair and line manager of any suggested improvements.	<i>Audit and Governance Committee provided with advice and guidance to enable it to fulfil its function.</i>	Adopt a flexible style, being able to collaborate and advise but also able to challenge as appropriate.	<i>Experience gained over 22 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with CFO in order to support development in all areas.</i>
Ensure that where the HIA is an employee the HIA is line managed by a member of the	<i>HIA senior manager within the Finance function reporting directly to the CFO.</i>	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	<i>Internal Audit Strategy agreed by senior management before approval by the Audit and Governance Committee.</i>	Deploy effective facilitation and meeting skills.	<i>As above</i>



## 4.2

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Management Team. Where the HIA is not an employee then the reporting line must be clearly set out in the contract or agreement with the internal audit supplier.					
Establish an Audit Committee in line with guidance and good practice.	<i>Audit and Governance Committee established in line with CIPFA guidelines.</i>			Build and demonstrate commitment to continuous improvement and innovative, but risk-aware, solutions.	<i>As above</i>
Set out the HIA's relationship with the Audit Committee and its Chair.	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual.</i>			Place stewardship and probity as the bedrock for management of the organisation's finances.	<i>Leads by example in approach with Directors and other senior managers that Internal Audit function role is to help achieve organisations objectives, whilst ensuring compliance with best practice and legislative requirements.</i>
Ensure that the authority's governance arrangements allow the HIA: <input type="checkbox"/> to bring influence to bear on material decisions reflecting governance <input type="checkbox"/> direct access to the Chief Executive,	<i>Role of HIA enshrined in the Constitution, Audit Charter and Audit Strategy as agreed by members and reflected in the Audit Manual. Rights of access to key members and officers detailed.</i>			Build productive relationships both internally and externally.	<i>Relationships built up over a number of years backed up by regular meetings, 1-2-1s with key officers.</i>

## 4.2

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
other Leadership Team members, the Audit Committee and external audit □ to attend meetings of the Leadership Team and Management Team where the HIA considers this to be appropriate.					
Set out unfettered rights of access for internal audit to all papers and all people in the organisation, as well as appropriate access in (significant) partner organisations.	<i>Councils Constitution details access arrangements for Internal Audit, reflected in the Audit Manual.</i>			Work effectively with the Leadership Team and Audit Committee with political awareness and sensitivity.	<i>Experience gained over 22 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with CFO in order to support development in all areas.</i>
Set out the HIA's responsibilities relating to partners including joint ventures and outsourced and shared services.	<i>Major ventures undertaken detail rights of access to Internal Audit for governance opinion purposes.</i>			Be seen to be objective and independent but also pragmatic where appropriate.	<i>As above</i>

**Principle 4 – The HIA in a local authority must lead and direct an internal audit service that is resourced to be fit for purpose.**

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Provide the HIA with	<i>Internal Audit Strategy</i>	Leading and directing	<i>Approval and consultation</i>	Demonstrate leadership	<i>HIA undergoes CPD</i>

## 4.2

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA Responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
the resources, expertise and systems necessary to perform their role effectively.	<i>and Charter details the resource implications and responsibilities for ensuring they are met.</i>	the internal audit service so that it makes a full contribution to and meets the needs of the authority and external stakeholders.	<i>process for the Internal Audit plan ensures that it adds value to the organisation. HIA responsible for facilitating this process.</i>	and be an ambassador for internal audit.	<i>tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices.</i>
Ensure that the Audit Committee sets out a performance framework for the HIA and their team and assesses performance and takes action as appropriate.	<i>Internal Audit report annually to the Audit Committee on a wide range of performance measures.</i>	Determining the resources, expertise, qualifications and systems for the internal audit service that are required to meet internal audit's objectives; using a full range of resourcing options including consultancy, working with others and buying in where appropriate.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Create, communicate and implement a vision for the internal audit service.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements. These issues addressed through performance appraisal.</i>
Ensure that there is a regular external review of internal audit quality.	<i>Constant review by CFO via performance monitoring and appraisal system. Currently considering how to comply with Public Sector Internal Audit Standards regarding four yearly reviews.</i>	Informing the CFO, the Leadership Team and Audit Committee if there are insufficient resources to carry out a satisfactory level of internal audit, and the consequence for the level of assurance that may be given.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met and reporting arrangements if shortfalls are anticipated.</i>	Create a customer focused internal audit service	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>
Ensure that where the HIA is from another organisation that they do not also provide the external audit service.	<i>Not Applicable.</i>	Implementing robust processes for recruitment of internal audit staff and/or the procurement of internal audit services from external suppliers.	<i>Corporate recruitment process followed for any appointments made.</i>	Establish an open culture, built on effective coaching and a constructive approach.	<i>HIA undergoes CPD tailored to requirements of the role.</i>

## 4.2

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		Ensuring that the professional and personal training needs for staff are assessed and seeing that these needs are met.	<i>Professional guidance implemented in respect of training needs and development issues are addressed.</i>	Promote effective communication within internal audit, across the broader organisation and with external stakeholders.	<i>HIA has a clear understanding of these issues and is committed to continuous improvements.</i>
		Developing succession plans and helping staff with their career progression.	<i>As above</i>	Set and monitor meaningful performance objectives for staff.	<i>CIPFA “Excellent Auditor Framework” implemented within section for all training and development needs.</i>
		Establishing a quality assurance and improvement programme that includes: ensuring that professional internal audit standards are complied with; reviewing the performance of internal audit and ensuring that the service provided is in line with the expectations and needs of its stakeholders; providing an efficient and effective internal audit service – demonstrating this by agreeing key performance indicators and targets with the line manager and Audit Committee; annually reporting achievements against targets; putting	<i>CIPFA guidance in relation to continuous improvement followed.</i>	Manage and coach staff effectively	<i>As above.</i>

## 4.2

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that audit plans, work and reports are evidence based and of good quality; ensuring that any internal auditors declare any interests that they have; seeking continuous improvement in the internal audit service.			
		Keeping up to date with developments in governance, risk management, control and internal auditing, including networking with other HIA's and learning from them, implementing improvements where appropriate.	<i>Member of Better Governance Forum, Technical Information Service, CIPFA NE IA Group, North East Fraud Forum in order to ensure up to date with current best practice and ideas.</i>	Comply with professional standards and ethics	<i>Professional standards and ethics outlined within Audit Manual and also bound Public Sector Internal Audit Standards.</i>
		Demonstrating how internal audit adds value to the authority.	<i>Annual report to the Audit and Governance Committee.</i>	Require the highest standards of ethics and standards within internal audit based on the principles of integrity, objectivity, competence and confidentiality. In particular, ensuring that internal auditors identify and report any conflicts of	<i>As above as well as procedures for the identification and recording of conflicts of interest are detailed in the Audit Manual.</i>

## 4.2

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				interest and act appropriately	
				Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the internal audit service.	<i>Arrangements in place to ensure specialist services can be procured as and when necessary.</i>
				Promote discussion on current governance and professional issues and their implications.	<i>HIA mentors audit staff undertaking regular team meetings to facilitate discussion. Role on various working groups ensures topics are discussed and disseminated.</i>

### Principle 5 – The HIA in a local authority must be professionally qualified and suitably experienced

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Appoint a professionally qualified HIA whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the organisation.	<i>Job description and recruitment process ensure only appropriately qualified and experienced individuals considered.</i>			Be a full member of an appropriate professional body and have an active programme for personal professional development.	<i>HIA qualified with CIPFA in 1997 and actively participates in mandatory CPD scheme</i>
Ensure that the HIA has the skills, knowledge,	<i>As above, monitoring and mentoring role undertaken by CFO in his role as</i>			Adhere to professional internal auditing (and where appropriate	<i>HIA member of CIPFA for 18 years and is bound by all relevant</i>

## 4.2

<b>Governance requirements</b>	<b>HBC Arrangements</b>	<b>Core HIA responsibilities</b>	<b>HBC Arrangements</b>	<b>Personal skills and professional standards</b>	<b>HBC Arrangements</b>
experience and resources to perform effectively in his or her role.	<i>Section 151 officer ensures compliance.</i>			accounting and auditing) standards.	<i>professional and personal requirements.</i>
				Demonstrate a range of skills including communicating, managing and influencing, as well as an understanding of IT and consultancy.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>
				Have prior experience of working in internal audit.	<i>HIA has held a variety of position within Local Government, before appointment as HIA in 2008, including Group Auditor at HBC and Head of Audit at a district council.</i>
				Understand and have experience of strategic objective setting and management.	<i>HIA undergoes CPD tailored to requirements of the role as well as mentoring by CFO.</i>
				Understand the internal audit and regulatory environment applicable to public service organisations.	<i>HIA has 18 years post qualification experience and sound understanding of public service governance arrangements and its regulatory environment.</i>
				Demonstrate a comprehensive understanding of governance, risk management and internal control.	<i>Regularly advises management on these issues and is a key member of the Performance and risk Management Group.</i>
				Undertake appropriate	<i>HIA undergoes CPD</i>

## 4.2

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				development or obtain relevant experience as appropriate in order to demonstrate an understanding of the full range of the authority's activities and processes.	<i>tailored to requirements of the role as well as mentoring by CFO.</i>



# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



**Report of:** Chief Finance Officer

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

## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the CIPFA statement – ‘The Role of the CFO in Public Service Organisations’, and 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.

**5. REASON FOR RECOMMENDATIONS**

- 5.1 To ensure that the Audit and Governance Committee meets its remit, it is important that it is kept up to date with best practice in relation to the information it receives from officers.

**6. BACKGROUND PAPERS**

- 6.1 CIPFA Statement on the Role of the CFO in Public Sector Organisations.

**7. CONTACT OFFICER**

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## Appendix A

**How the Five Principles Are Met**

**Principle 1** – The CFO is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.

<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 Policy and Finance Committee and Corporate Management Team (CMT) buy-in in to Medium Term Financial Strategy and supporting strategies.	Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.	Actively engaged in the Leadership and Management Development Programme (LMDP). Provides training regarding financial issues to members and staff. Mentors senior finance staff and has regular Finance Management Team meetings and 1 to 1 meeting with senior finance staff.
Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members.	CFO reports directly to Chief Executive. Has regular 1 to 1 meetings with Chief Executive. Is a member of Corporate Management Team.	Contributing to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance	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

		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. Regular contact with all members including Leader, Policy Committee Chairs and Audit and Governance Committee.
Ensure that organisation's governance arrangements allow the CFO: – to bring influence to bear on all material business	Constitution and Scheme of Delegation in place as well as defined reporting arrangements.	Leading development of a medium term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.	Responsibility for Medium Term Financial Strategy (MTFS) and budgetary control processes matters and ensuring Members and Corporate Management Team (CMT) buy-in in to	Support collective ownership of strategy, risks and delivery.	Member of CMT. Represented on Performance and Risk Management Group. Member of Annual Governance Statement Group.

## 4.3

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

## 4.3

commitment to innovation and performance improvement.	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 behaviour.	Professional standards integral to role. Commitment to Professional CPD and LMDP/Management Academy.

## 4.3

Impartiality is a further fundamental requirement of those operating in the public services.	
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**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, Policy and Finance Committee and Audit and Governance Committee 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 advance of decision	The reporting of key decisions is enshrined within the Constitution.	Maintaining a long term financial strategy to underpin the organisation's financial viability within the agreed performance framework.	See Above.	Link financial strategy and overall strategy.	Responsibility for MTFS and budgetary control processes.



## 4.3

making and used appropriately.					
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. Regular contact with Chief Executive, Directors, other senior officers, members, Trade unions,
		Co-ordinating the planning and budgeting processes.	See Above. Annual budget timetable well established and enshrined in constitution.	Role model persuasive and concise communication with a wide range of audiences internally and externally.	See Above. Externally represent Council in meeting with Business sector and various resident groups/ad –hoc budget consultation events.
		<b>Influencing decision making:</b> Ensuring that opportunities and risks	Budget Strategy and monitoring process, key decision advice in relation to financial and	Provide clear, authoritative and impartial professional advice and objective financial	Addressed in MTFS and associated presentation to Finance and Policy Committee and other

## 4.3

are fully considered and decisions are aligned with the overall financial strategy.	governance matters.	analysis and interpretation of complex situations.	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 ensure early involvement with innovative approaches to services and financial arrangements to ensure compliance with regulatory requirement and proposals are based on robust business cases.	Challenge effectively, and give and receive constructive feedback.	Ongoing development through LMDP and management review/mentoring. 1 to 1 meetings with Chief Executive and key financial staff.
<b>Financial information for decision makers:</b> Monitoring and reporting on financial performance that is linked to related performance information	Budget Strategy and monitoring process, key decision advice in relation to financial and governance matters. Corporate Plan aligned	Operate with sensitivity in a political environment.	Ongoing development through LMDP and peer review/mentoring. Regular contact with members, TU's local business and the

## 4.3

and strategic objectives that identifies any necessary corrective decisions.	with financial PI's.		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 Finance and Policy Committee and CMT in development of financial management strategy and procedures for ensuring good financial management arrangements are in place.
Ensure that systems and processes for financial administration, financial control and protection of the organisation's resources and	Delegated Powers, FPRs and Standing Orders enshrined within Constitution. Audit and Governance Committee in line with legislative arrangements.	Actively promoting financial literacy throughout the organisation.	Allocation of named financial leads to support named budget holders promotes close working relationship and ensure financial management arrangements are effective. Influencing force	Develop and sustain partnerships, and engage effectively in collaboration.	

assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.			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. Audit and Governance Committee 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 and Governance 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 Pl's.

					Review of System of Internal Audit.
Develop and maintain an effective Audit Committee.	Audit and Governance Committee role and responsibility enshrined in Constitution. Regular training of Audit and Governance Committee members.	<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 effectively.	See Above	Ensuring that delegated financial authorities are respected.	Performance review mechanisms PI's, Direct line management responsibility for all audit matters.		
		Promoting	Performance and Risk		

## 4.3

	arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.	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 arrangements are underpinned by clear	Direct line management responsibility for all audit matters, FPR's and Standing Orders.

and well documented internal controls.	
<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 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, complex taxation issues etc.
Promote discussion on current financial and professional issues and their implications.	Mentor key finance staff across the Division/regular 1-2-1's. Encourage CPD involvement.

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

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

## 4.3

	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 22 years post qualification experience and sound understanding of public service finance and its regulatory environment.
Apply the principles of corporate finance, economics, risk management and accounting.	See above

## 4.3

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 no-financial areas affecting his role.

# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



**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) 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'. 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 and Governance Committee. This would include the contribution made by internal audit but would also cover the wider assurance framework and the audit and governance 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 and Governance 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 and Governance 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, 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 and Governance 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.

## **6 REASON FOR RECOMMENDATIONS**

- 6.1 In order for members to fulfil the remit of the committee it is important they receive all relevant information that allows a through review of the governance arrangements in place at the Council to be undertaken.

## **7. BACKGROUND PAPERS**

- 7.1 Internal Audit Reports;  
Internal Audit Charter and Strategy;  
Accounts and Audit Regulations 2011.

**8. CONTACT OFFICER**

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# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



**Report of:** Chief Finance Officer

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

## 1. PURPOSE OF REPORT

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- 2.5 At its meeting of 19.03.09, the Audit and Governance 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.

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## **5 RECOMMENDATIONS**

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## **6 REASON FOR RECOMMENDATIONS**

- 6.1 In order for members to fulfil the remit of the committee it is important they receive all relevant information that allows a through review of the governance arrangements in place at the Council to be undertaken.

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**8. CONTACT OFFICER**

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# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



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

**Subject:** INTERNAL AUDIT OUTCOME REPORT  
2014/15

## 1. PURPOSE OF REPORT

- 1.1 To inform members of the outcomes of audit work covering the period April 2014 to March 2015.

## 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, and has taken into account new UK Public Sector Internal Audit Standards (PSIAS). 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 action plans. The consideration and effective implementation of audit action plans 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 2014/15 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 2014/15.

### **3. AUDIT INPUTS 2014/15**

- 3.1 There were 1040 audit days allocated at 1.04.14 to planned and responsive activities during 2014/15.
- 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 2014/15.

## **4 OUTCOMES**

- 4.1 Appendix A schedules all the planned audits undertaken in 2014/15. At the time this report was completed end of year work was being finalised on the debtors, creditors and council tax systems, however sufficient reliance could be placed on testing completed for the purposes of the 2014/15 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. From the work undertaken during the year 2014/15, 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 2014/15.

## **5. FOLLOW UP**

- 5.1 Audit reports are issued to auditees following a discussion of any audit findings and risks. Each report includes an Action Plan developed by management and agreed with Internal Audit, recording:
- Action taken to revise systems, procedures and operating arrangements;
  - A timescale for introducing the action plan improvements.
- 5.2 In accordance with Public Sector Internal Audit Standards, a system of follow up of agreed action plans is in operation to monitor what action has been taken by management in response to audit work. During 2014/15, 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 2015/16 for those actions not yet implemented.

## **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 2014/15. Performance against these targets is detailed below:

### **Internal Audit Performance Indicators**

<b>Indicator</b>	<b>Target Set for 2014/15</b>	<b>Actual Performance 2014/15</b>
Completion of fundamental systems 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 Action Plans 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.	30.06.15	30.04.15

## **7. RECOMMENDATION**

- 7.1 That Members note the contents of the report.

## **8. REASONS FOR RECOMMENDATIONS**

- 8.1 The information in the report allows members of the committee to review the opinion of the Head of Audit and Governance and fulfils the statutory requirement of the Head of Audit and Governance.

## **9. BACKGROUND PAPERS**

- 9.1 Internal Audit Reports;  
Internal Audit Quarterly Updates;  
CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006;  
UK Public Sector Internal Audit Standards (PSIAS 2013).

## **10. CONTACT OFFICER**

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## Appendix A

**Summary of Internal Audit Planned Work Undertaken for 2014/15**

<b>Audit</b>	<b>Assurance Level</b>
Payroll	Reasonable
Creditors	Reasonable
Budgetary Control	Reasonable
Highways Repairs and Maintenance	Reasonable
Council Tax	Reasonable
National Non Domestic Rates	Reasonable
Cash/Bank	Reasonable
Loans And Investments	Reasonable
Troubled Families	Reasonable
Section 17 Payments	No Assurance
Nursery Provision	Reasonable
West Park Primary	Reasonable
Information Data Management	Limited
St Teresas Primary	Reasonable
Children Services Capital Programme	Reasonable
Town Hall	Reasonable
Borough Hall	Reasonable
Integrated Mental Health Partnership	Reasonable
Tees Archaeology	Reasonable
Inspirations Coffee Shop	Reasonable
Employee Gifts and Hospitalities	Reasonable
Children Home	Reasonable
Procurement Quick Quote System	Limited
Iclipse System Controls	Reasonable
Obesity Management	Reasonable
Academies Handover Procedures	Reasonable
Free School Meals	Reasonable
Lynnfield Primary	Reasonable
Kingsley Primary	Reasonable
Jesmond Gardens Primary	Reasonable
Rift House Primary	Reasonable
St Josephs Primary	Reasonable
Brougham Primary	Reasonable
Golden Flatts Primary	Reasonable
I.T Network Controls	Limited
Officers Expenses	Reasonable
Extra Care Village	Reasonable
Resource Link System Controls	Reasonable
Disabled Discrimination Act	Reasonable
Health and Safety	Reasonable
Debtors	Reasonable
Creditors	Reasonable
Public Health Outbreaks	Reasonable

Internet Controls	Limited
Housing Benefit	Reasonable
Integra Application Controls	Reasonable
St Helens Primary	Reasonable
ITU Concessionary Travel	Reasonable
Middleton Grange Shopping Centre	Reasonable
I World System Controls	Reasonable
Redundancies	Reasonable
Council Tax	Reasonable
Home Care Commissioned Services	Limited
Attendance Management Carers Leave	Limited
VAT	Reasonable
ITU Taxi Hire	No Assurance

# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



**Report of:** Chief Finance Officer

**Subject:** ANNUAL GOVERNANCE STATEMENT  
2014/15

## 1. PURPOSE OF REPORT

1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 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

- Audit and Governance Committee
- CMT
- Assistant Chief Executive
- 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 The AGS will form part of the Councils Statement of Accounts and will be publicised and available on the Councils Website or by request to the Councils Contact Centre.

4.4 In order to support members in the process of approving the Annual Governance Statement the Better Governance Forum has provided briefing papers for Audit and Governance 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. This committee report has been drafted in such a way as to answer the questions posed within the Better Governance Forum Briefing.

## **5. RECOMMENDATIONS**

5.1 That Members review and approve the attached 2014/15 Annual Governance Statement.

## **6. REASONS FOR RECOMMENDATIONS**

6.1 In order for members to fulfil the remit of the committee it is important they review and approve the Annual Governance Statement in the context of all reports and information received over the course of the municipal year.

**7. BACKGROUND PAPERS**

- 7.1 Accounts and Audit Regulations 2011;  
CIPFA/Solace Good Governance Framework;  
Internal Audit Opinion/Reports;  
External Audit Reports.

**8. CONTACT OFFICER**

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## **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 the Accounts and Audit (England) Regulations 2011, Regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

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

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 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 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 2015 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 the Performance and Risk Management Officer Group and Corporate Management Team.

### **3 Significant Governance Issues Update from 2013/14 Statement**

- 3.1 Progress has been made over the course of 2014/15 to actively manage and address issues identified as part of the 2013/14 process. This approach ensures the Council actively manages these issues. The table below identifies action that has been taken to mitigate the areas identified.

<b>Issue Raised</b>	<b>Action Undertaken</b>
Delivery of Medium Term Financial Strategy	Revised Savings Programme encompassing key required programme elements at a corporate and department level were developed and implemented. Strategic multiyear approach to financial management has been implemented. Member's seminars and staff communication strategy in conjunction with budget monitoring and defunding budgets at decision point process have been implemented. Project planning and management reporting to Finance and Policy Committee and CMT have all been implemented.
Delivery of Council Plan	The Council plan has been largely delivered and is reported to Members via Finance and Policy Committee on a quarterly basis. The revised plan for 2015/16 has been developed based on the priorities established and in the light of the revised MTFS and will be the subject of the same approval processes and monitoring.
Welfare Reform Act.	Local Council Tax Support Scheme approved. Update reports provided to Finance and Policy Committee and CMT. Funding strategy for Local Welfare Support also approved.



## **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 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. An officer working group supported the governance working group in developing proposals for the new constitution in line with the outcome of the Mayoral referendum. The new constitution was agreed on 6<sup>th</sup> March, 2013 with training delivered for officers and members in respect of the requirements and expectations. The Constitution has subsequently been reviewed and the outcomes reported to Council on the 3<sup>rd</sup> April 2014 with a supplemental review reported to Council on 30<sup>th</sup> October 2014. A further report is going to Council on 26<sup>th</sup> March 2015.

### **4.2     Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. 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     Committee terms of reference are included in the constitution. A procedure is in place to ensure that all 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 and legislative changes. 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 and Governance Committee on 11<sup>th</sup> December, 2014 and referred to Council for approval on 5<sup>th</sup> February, 2015. 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 DCLG guidance. The Audit and Governance 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 and Governance Committee how the Council financial arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

- 4.5 The full range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Council.
- 4.6 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 Council 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 audit coverage of partnership arrangements.
- 4.9 The Council reviewed and adopted their Community Strategy in 2014 following consultation with residents and key partners. This identified a number of key priorities for Hartlepool which would be the main focus for improvement over the following 5 years. The Council's performance management arrangements are based around an Outcome Framework which has been developed over a number of years and is set out around the 8 themes of the Community Strategy. This integration has enhanced management and political accountability. The Council produces an annual Council Plan that incorporates the strategic priorities of the 4 departments the most recent of which was agreed by Council on 26<sup>th</sup> March 2015 for the 2015/16 financial year.
- 4.10 The Council's Outcome Framework is reviewed annually and agreed by Finance and Policy Committee, most recently on 13<sup>th</sup> October 2014. Departments also complete extensive consultation with service users, forums, partners and residents. 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 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 Council Plan is reported to CMT and Finance & Policy Committee on a quarterly basis.

- 4.11 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.
- 4.12 Key performance indicators are identified in the Council plan. These indicators are monitored throughout the year and quarterly reports are presented to Members on the delivery of performance targets.
- 4.13 Key policies such as the Corporate Complaints Procedure, Proceeds of Crime (Money Laundering), Whistle Blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. The Council 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 2012-13 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. The Audit Commission publication Protecting the Public Purse 2014 is being used to review practices undertaken at the Council.
- 4.14 The Council agreed the Risk Management Framework on 23<sup>rd</sup> August 2013 and this has been subject to review during 2014/15. The Audit & Governance Committee considered the updated Framework on 5<sup>th</sup> March 2015. The Framework sets out the structure of the Council's risk registers and the agreed risk tolerance level which helps to prioritise risk activity. 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 are 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.

- 4.15 The Framework is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the process to all relevant staff in their departments.
- 4.16 There is corporate support at senior management level for development of Risk Management with risk assessment procedures published and training given to officers. Regular risk introduction/refresher sessions are offered as and when individual departments/teams require them.
- 4.17 The Finance and Policy Committee Chair is Hartlepool Borough Councils risk 'champion'. Each department also has a risk co-ordinator. Risks and control measures relating to the Council Plan s are analysed within the quarterly reports to help ensure that risk and performance reporting are linked. The Council Plan is considered as part of the preparation of the AGS.
- 4.18 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. 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 have access to a central funding pot for risk management to assist in the financing of risk mitigation.
- 4.19 The Council has a long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (CEPU). The Council's Emergency Management Response Team (EMRT) meets bi-monthly and contributes to the makeup of the Councils Major Incident Plan which is tested yearly.
- 4.20 A review of the Councils Flu Pandemic Plan is being undertaken by Public Health to take into account the changes in the National Health Pandemic Flu Plan. Once this is completed the plan will be incorporated into the Corporate Business Continuity Plan.
- 4.21 The Corporate Business Continuity Group meets Quarterly and includes lead officers from all departments and the Hartlepool Emergency Planning Officer. A Revised Business Continuity Policy and accompanying Plan has been developed to complement the existing Business Continuity Database. A rolling exercising programme is in place to test the plan focusing on two separate services per year. In 2014-15 it was Regeneration and Neighbourhood and Child and Adults with in Chief Executives and Public Health planned for 2015-16. Work is still ongoing to identify and document formal decant arrangements for the delivery of priority services in the event of a disruption.

- 4.22 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. The Act provides 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.
- 4.23 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 each year; and
  - Develop and publish equality objectives by 6<sup>th</sup> April, 2012 and then every four years.
- 4.24 In order to demonstrate our compliance with the above requirements, we have compiled two equality reports 'Equality Information 2015' and 'Workforce Equalities Information 2014' 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.
- 4.25 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 and Governance 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 Council 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 providers 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 and Hartlepool Connect has achieved the Customer Service Excellence standard. In their 2013/14 Annual Audit Letter, Mazars, the Councils External Auditor, issued an unqualified opinion on the financial statements and value for money conclusion at the Council.

## 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 Council 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 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 and Governance Committee. The CFO reports to the Audit and Governance Committee how the Council's 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 and is reviewing its procedures in line with Public Sector Internal Audit Standards (PSIAS).

- Internal Audit reports to the Section 151 Officer and Audit and Governance 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 and Governance 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.
- Other review and assurance mechanisms: for example, Department of Education, Care Quality Commission, Ofsted, Audit Commission, HMI Probation and Service Excellence.

5.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Governance 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	Delivery of Medium Term Financial Strategy, the sustainability of services and level of performance.	Revised Savings Programme encompassing key required programme elements at a corporate and department level. Strategic multiyear approach to financial management implemented. Member's seminars and staff communication strategy. Budget monitoring and defunding budgets at decision point process. Project planning and management reporting to Finance and Policy Committee and CMT. Enhanced financial management and reporting as identified in peer review.	2015/2017	CMT
2	Delivery of Council Plan	The development and agreement of a revised Council Plan taking into account the impact of the financial challenges facing the Council, with regular performance reporting to CMT and Members.	2015/16	CMT
3	Joint Working Arrangement with Health and other external partners, e.g. the Multi Agency Safeguarding Hub.	Development and agreement of strategy and plan for effective working between HBC and Health partners.	2015/17	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 on behalf of Hartlepool Borough Council:**

.....

Chief Executive

.....

Chair of Audit and Governance Committee

## 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? 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?**

# AUDIT AND GOVERNANCE COMMITTEE

30 April 2015



**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 Director and Engagement Lead of our External Auditor, Mazars, to those charged with governance regarding compliance with laws and regulations and fraud.

## 2. BACKGROUND

- 2.1 In carrying out the annual accounts audit, Mazars have to demonstrate compliance with International Standards for Auditing (UK and Ireland). The Standard requires Mazars 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 Mazars 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 AND GOVERNANCE COMMITTEE RESPONSE**

- 3.1 Attached as Appendix A is a letter to Mazars from the Chair of the Committee detailing how the committee has complied with the requirements of International Standards for Auditing.

### **4 RECOMMENDATION**

- 4.1 It is recommended that Members agree the contents of the letter to Mazars outlining how the activities of the Committee comply with the requirements of International Standards for Auditing.

### **5 REASON FOR RECOMMENDATIONS**

- 5.1 To ensure that in order for Mazars to comply with legislative requirements, those charged with governance supply the requested information.

### **6. BACKGROUND PAPERS**

- 6.1 Letter to Those Charged With Governance - Compliance with Laws and Regulations/ Fraud

### **7. CONTACT OFFICER**

- 7.1 Chris Little  
Chief Finance Officer  
Civic Centre  
Victoria Road  
Hartlepool  
T24 8AY

Tel: 01429 523003

Email: [Chris.little@hartlepool.gov.uk](mailto:Chris.little@hartlepool.gov.uk)

## Appendix A

**Cllr Ray Martin-Wells**  
*Audit and Governance Committee Chair*  
Civic Centre  
Hartlepool  
TS24 8AY

Tel: 01429 266522  
[www.hartlepool.gov.uk](http://www.hartlepool.gov.uk)  
Our Ref:  
Your Ref:

30.04.15

Mark Kirkham,  
Director,  
Mazars.

Dear Mark,

Further to your letter to those charged with governance - compliance with laws and regulations / fraud; in relation to understanding how Mazars gains assurance from management, I have outlined below in the answers to the questions posed, how the Audit and Governance 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.

### *1) Questions about arrangements for preventing and detecting fraud*

As the Audit and Governance Committee we review the Councils Financial Statements and take advice from both officers' internally and externally regarding the accounting statements and processes in place to ensure they are a true and fair view of the Council's financial position. We are regularly updated in relation to issues regarding potential fraud and review and approve the Councils Anti Fraud and Corruption Strategy. The Audit and Governance Committee review and approve the Councils Code of Corporate Governance and also the Councils Risk Management Strategy. As an independent committee of the Council, the Audit and Governance Committee can at any time seek explanation from any officer of the Council regarding issues it considers.

We considered Internal Audit Plan 2014/15 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. As a Committee we are not aware of any breaches of internal control during 2014-15, and will consider those significant governance issues highlighted in the Annual Governance Statement in the context of our knowledge and understanding of the Council over the financial year.

### *2) Questions about arrangements for complying with relevant law and regulations*

As detailed above we considered Internal Audit Plan 2014/15 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. Members of the Audit and Governance Committee are active in other areas of Council activity and bring that knowledge and experience to the Audit and Governance Committee in relation to the Councils operation. The Audit and Governance Committee reviews performance and risk management arrangements in place through the work of Internal Audit and other reports received and is not aware of any non compliance with relevant laws or regulations during 2014-15.

The Committee is not aware of any new significant litigation or claims or changes to any existing litigation / claim that would affect the financial statements.

*3) Questions about the appropriateness of the going concern assumption*

Having reviewed the reports and information provided to the Committee over the course of the year, including reviewing the Councils Financial Statements and Annual Governance Statement, the Committee has no significant doubt as to the Councils ability to continue as a going concern.

In addition to those processes and procedures detailed above, the Committee has also considered the information outlined below:

- *Considered the 2014/15 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 2014/15. 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 2011 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Reviewed the Internal Audit Outcome Report 2014/15* – 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 2011 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *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.
- *Treasury Management Strategy 2015/16* – To enable the Audit and Governance Committee to consider the proposed Treasury Management Strategy for 2015/2016 prior to the strategy being referred to Council in February 2015.
- *Review of External Auditor Reports.*

In relation to the questions posed regarding fraud, the Committee would make the following comments;

*1) Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2014 – 31 March 2015?*

The Committee is aware of fraud perpetrated against the Council in respect of benefit claims.

*2) Do you suspect fraud may be occurring within the Authority?*

- *Have you identified any specific fraud risks within the Authority?*
- *Do you have any concerns that there are areas within your Authority that are at risk of fraud?*
- *Are there particular locations within the Authority where fraud is more likely to occur?*

The Committee does not suspect fraud may be occurring within the Authority and is satisfied that adequate arrangements are in place to tackle suspected fraud.

*3) Are you satisfied that internal controls, including segregation of duties, exist and work effectively? If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?*

The Committee is satisfied that the Council has adequate governance arrangements in place to in relation to its internal control environment and gains assurance from the work of its internal and external auditors.

*4) How do you encourage staff to report their concerns about fraud?  
What concerns about fraud are staff expected to report?*

The Council has a well established and publicised Whistleblowing Policy in place as well as an up to date Anti Fraud and Corruption plan. Staff are expected to report all instance of suspected fraud and corruption and are encouraged to do so.



*5) From a fraud and corruption perspective, what are considered to be high risk posts within your Authority? How are the risks relating to these posts identified, assessed and managed?*

The Committee considers those posts dealing with all aspects of procurement and cash handling to high risk. The Committee takes assurance from the fact that risk assessment of posts is undertaken and training is provided to enable awareness of fraud to be highlighted to staff.

*6) Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?*

The Committee is not aware of any related party relationships or transactions that could give rise to instances of fraud. The Committee is assured that adequate arrangements are in place for the recording and declaration of any relationships or interests that may raise cause for concern.

*7) Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?*

- *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 Authority?*
- *Could a false accounting entry escape detection? If so, how?*

*Are there any external fraud risk factors, such as income collection, which are high risk of fraud?*

The Committee is not aware of any entries made in the accounting records of the authority that we believe or suspect are false or intentionally misleading. We do not believe any assets, liabilities or transactions have been improperly included or omitted from the accounts of the Authority. The Committee takes assurance from both its internal and external audit coverage of the Councils accounting records and is satisfied that sufficient checks and balances are in place.

*8) Are you aware of any organisational, or management pressure to meet financial or operating targets? 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?*

The Committee is not aware of any organisational, or management pressure to meet financial or operating targets or any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating targets. The Committee takes assurance from the governance arrangements the Council has in place and the independent assurance it receives over the course of the year that these arrangements are working in practice.

Yours Faithfully

**Cllr Ray Martin-Wells**  
*Audit and Governance Committee Chair*