

# AUDIT AND GOVERNANCE COMMITTEE AGENDA



**Thursday 27 April 2017**

**at 10.00 am**

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

**MEMBERS: AUDIT AND GOVERNANCE COMMITTEE**

Councillors S Akers-Belcher, Belcher, Cook, Hamilton, Harrison, Martin-Wells and Tennant.

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

**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 23 March 2017.

**4. AUDIT ITEMS**

- 4.1 Mazars Report - Audit Strategy Memorandum – *Assistant Director, Finance and Customer Services*
- 4.2 Mazars Report - Requirement for Declarations – *Assistant Director, Finance and Customer Services*
- 4.3 Role of the Chief Finance Officer (CFO) in Public Service Organisations – *Director of Finance and Policy*
- 4.4 Role of the Head of Internal Audit in Local Government – *Assistant Director, Finance and Customer Services*
- 4.5 Internal Audit Outcome Report 2016/17 – *Head of Audit and Governance*
- 4.6 Annual Governance Statement 2016/17 - *Assistant Director, Finance and Customer Services*



5. **STANDARDS ITEMS**

No items.

6. **STATUTORY SCRUTINY ITEMS**

No items.

7. **MINUTES FROM THE RECENT MEETING OF THE HEALTH AND WELLBEING BOARD**

No items.

8. **MINUTES FROM THE RECENT MEETING OF THE FINANCE AND POLICY COMMITTEE RELATING TO PUBLIC HEALTH**

No items.

9. **MINUTES FROM RECENT MEETING OF TEES VALLEY HEALTH SCRUTINY JOINT COMMITTEE**

No items.

10. **MINUTES FROM RECENT MEETING OF SAFER HARTLEPOOL PARTNERSHIP**

No items.

11. **REGIONAL HEALTH SCRUTINY UPDATE**

No items.

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

**For information:**

Date and time of next meeting – to be arranged.



# **AUDIT AND GOVERNANCE COMMITTEE**

## **MINUTES AND DECISION RECORD**

### **23 March 2017**

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

**Present:**

Councillor: Ray Martin-Wells (In the Chair).

Councillors: Rob Cook, Lesley Hamilton and Brenda Harrison

In accordance with Council Procedure Rule 5.2 (ii), Councillor Tim Fleming was in attendance as substitute for Councillor John Tennant.

Also Present: Ali Wilson and Karen Hawkins, NHS Hartlepool and Stockton on Tees Clinical Commissioning Group  
Maureen Gordon and Hannah Winney, North East Ambulance Service  
Sharon Pickering, Chris Lanagan and Jennifer Illingworth, Tees Esk and Wear Valleys NHS Foundation Trust

Officers: Jill Harrison, Assistant Director, Adult Services  
Joan Stevens, Scrutiny Manager  
Laura Stones, Scrutiny Support Officer  
Angela Armstrong, Principal Democratic Services Officer

### **155. Acknowledgement**

On behalf of the Committee, the Chair acknowledged the terrible atrocities earlier in the week from the attack at Westminster in London.

### **156. Apologies for Absence**

Apologies for absence were received from Councillor Stephen Akers-Belcher and Sandra Belcher along with Norman Rollo and Clare Wilson, Independent Persons.

### **157. Declarations of Interest**

None.

**158. Minutes of the meeting held on 16 March 2017**

Confirmed.

**159. Health and Wellbeing Board Referral – Reporting Arrangements for Delayed Transfers of Care** *(Director of Child and Adult Services)*

The Assistant Director, Adult Services provided the Committee with an update on the current position in relation to the implementation of actions agreed in order to address concerns regarding changes to the reporting arrangements for Delayed Transfers of Care. In conclusion, the Assistant Director confirmed that there had been good progress made in relation to Transfers of Care.

**Recommended**

The report and progress made in relation to delayed transfers of care performance and reporting arrangements were noted.

**159. North East Ambulance Service NHS Foundation Trust (NEAS) – Quality Accounts 2016/17** *(Scrutiny Manager/Representatives from North East Ambulance Service)*

Representatives from the North East Ambulance Service (NEAS) gave a detailed and comprehensive presentation which provided an update on the outcomes for 2016/17 and the setting of priorities for 2017/18 which included improving the early recognition of sepsis; reducing response times, improving clinical outcomes for cardiac arrest patients and enhancing the quality and effectiveness of care provided to under 2's not conveyed. It was noted that the overall rating for NEAS was 'Good'. Further data was provided on response performance, national benchmarking and clinical performance. A number of priorities had been identified for 2016/17 and details of the progress in meeting the following priorities were included within the presentation:

- Clinical effectiveness;
- Patient safety; and
- Patient experience.

The next steps in the formulation of the Quality Report for 2016/17 were outlined in the presentation.

There was recognition from a Member of the improvements made to performance across NEAS and clarification was sought on the reference to the culture changes throughout the organisation. A representative from

NEAS commented that the mission of the NEAS had been relaunched which focussed on the vision and values to improve the organisation as a whole and a recent staff survey had shown an improvement in areas of culture.

A discussion ensued on the provision of end of life transport and the representative from NEAS confirmed that all NHS organisations were aware of how to access the three vehicles that were allocated to the provision of this service across the region through a pilot scheme. However, in view of some concerns expressed by Members, the representative indicated that communications in relation to this service provision would be refreshed across all NHS organisations.

In relation to staffing, the representative from NEAS confirmed that work was ongoing to ensure a full staffing establishment was in place by the end of April 2017. It was highlighted that additional funding had been secured to employ a further 42 paramedics. In addition to this, to ensure a more effective service, work was ongoing with Acute Trusts in the region to minimise any potential handover delays. In response to a question from a Member, the representative from NEAS confirmed that additional support was utilised through the British Red Cross and St John's Ambulance to back fill for any unforeseen absences in a similar way to Acute Trusts accessing nursing bank staff. The Chair clarified that at a recent meeting of the North East Joint Health Scrutiny Committee, NEAS had been congratulated on achieving a full complement of staff by the end of April 2017. It was noted that the additional 42 paramedics were over and above this full establishment and would be recruited from trainee paramedics as well as a national and international recruitment process.

The Chair commented on the successful joint working being undertaken with the Cleveland Fire Authority (CFA) in answering red1 and red2 calls and highlighted that this had been extended to operate until November 2017. However, it was suggested that funding be made available to enable the CFA to purchase smaller vehicles to avoid full fire appliances being sent to each incident.

It was noted that the Committee had previously suggested that NEAS provide financial assistance to trainee paramedics to provide funding support towards their studies on condition that NEAS retain their services once qualified. The Chair commented that this may be more financially effective than paying third party providers for additional support and would keep local people in their local area.

The Scrutiny Manager indicated that a response to the NEAS Quality Accounts for 2016/17 will be formulated from the comments and discussions noted above and delegated authority was sought for the Scrutiny Manager in conjunction with the Chair of this Committee to finalise that response.

**Recommended**

- 1) The presentation was noted.
- 2) The discussions and comments noted above will be utilised to formulate a response to NEAS Quality Accounts 2016/17 with the finalised response to be collated by the Scrutiny Manager in conjunction with the Chair of this Committee.

**160. Tees, Esk and Wear Valleys NHS Foundation Trust (TEWV) – Quality Accounts 2016/17** *(Scrutiny Manager/Representatives from Tees, Esk and Wear Valleys NHS Foundation Trust)*

Representatives from the Tees, Esk and Wear Valleys NHS Foundation Trust (TEWV) provided a detailed and comprehensive presentation which provided the quality priorities that had been set for 2016/17. It was noted that of the 9 Quality Metrics, 6 were reported as green and 3 were reported as red. The six green quality metrics were in the areas of patient safety, clinical effectiveness measures and patient experience measures. The three red quality metrics were in relation to patient falls per 1000 admissions, average length of stay for patients with mental health services for Older People Assessment and Treatment Wards and the percentage of complaints satisfactorily resolved. The Quality Priorities and Quality Metrics for 2017/18 were outlined in the presentation.

The next steps in relation to the collation of responses to the Quality Accounts for 2016/17 were included in the presentation and would result in the production of the Annual Report in July 2017.

There was concern expressed by Members in relation to the ongoing training of staff which was significantly less than half the overall clinical workforce. A representative from TEWV confirmed that the provision of safe staffing levels was a priority to ensure the correct number of staff with the correct skills were working to optimise their skill set. Work was ongoing using the Hurst tool to look at the mental health services across the region and identify the level of staffing in place and compare this to what, according to the Hurst tool, would be the optimum staffing level across the region. This tool would be utilised alongside the judgement of senior nursing staff based on the wards. In addition to this, a lot of work was being undertaken in relation to recruitment through local Universities including ensuring any placements offered were good as a lot of qualified nurses tend to return to to work where they experienced a good placement. A representative from TEWV also indicated that recruitment of nurses was a national problem and work was ongoing across the region to explore the potential of utilising associate nurses with a foundation degree through a condensed form of nursing training.

The Scrutiny Manager indicated that a response to the TEWV Quality

Accounts for 2016/17 will be formulated from the comments and discussion noted above and delegate authority was sought for the Scrutiny Manager in conjunction with the Chair of this Committee to finalise that response. In relation the staffing establishment and the ongoing work with the Hurst tool, the Scrutiny Manager sought an update on the outcome of this work when TEWV were in a position to do so regarding recommended safe staffing levels.

### **Recommended**

- 1) The presentation was noted.
- 2) The discussion and comments noted above will be utilised to formulate a response to TEWV Quality Accounts 2016/17 with the finalised response to be collated by the Scrutiny Manager in conjunction with the Chair of this Committee.
- 3) That an update on the outcome of the work undertaken using the Hurst tool regarding recommended safe staffing levels be provided to a future meeting of the Committee when TEWV were in a position to do so.

## **161. Assisted Reproduction Unit at the University Hospital of Hartlepool** *(Scrutiny Manager/Representatives from NHS Hartlepool and Stockton on Tees Clinical Commissioning Group)*

Representatives from NHS Hartlepool and Stockton on Tees Clinical Commissioning Group gave a detailed and comprehensive presentation which provided a recap of the procurement process, proposals for future service delivery and the next steps in the process. Details of the models of care for licensed and unlicensed treatment were included within the presentation. It was highlighted that these models would offer the potential for the majority of the service to still be delivered from the Hartlepool site and yet still provided patient choice. Work was ongoing to develop protocols and communication with patients was ongoing through the North Tees and Hartlepool NHS Foundation Trust. The transfer of cryotanks and materials will be concluded when the model of care was in place as individuals would be offered choice.

In conclusion it was highlighted that the CCG remained committed to keep the service provision within the Assisted Reproduction Unit within the under review to ensure quality of service and good patient experience providing feedback to Audit and Governance Committee as required.

The Chair recognised the valuable assistance provided from Mr Mohammed Menabawey to the Committee during this process and more importantly for his work in Hartlepool across the years.

Clarification was sought on the involvement of Human Fertilisation and Embryo Authority (HFEA) in the development of a comprehensive plan. A representative from the CCG commented that HFEA had strict guidelines in place for moving and storing embryos and work was ongoing with providers

to ensure these were complied with. In addition to this, HFEA had an oversight as the regulator to ensure communications with individuals were effective and the exit plan was managed effectively and that the protocols agreed complied with the guidelines. It was noted that as the commissioner of this service, the CCG can ensure the pathway and process was clearly explained to all clinicians and this will also be included on the CCG website. The representatives from the CCG recognised that the changes to the service provision within the Assisted Fertility Unit had enabled them to think innovatively about how this service was provided and how it can be improved. The Chair acknowledged that the whole process had taken some time, but had been worth it to note that the majority of the Assisted Fertility service provision could be provided in the Town should people choose to do so. However, reassurance was sought that patients on the waiting list at Hartlepool would be slotted in at the appropriate point on the new providers waiting lists and not be added to the end of the existing lists. The Scrutiny Manager commented that it would be useful for the Committee to be kept apprised of the progress of the implementation of the new models including the effectiveness of the transfer and whether any issues were identified.

In response to a Member seeking clarification on whether the full licensed treatment would ever be implemented in Hartlepool in the future, a representative from the CCG commented that it was difficult to predict any future changes to the health service. However, the CCG were committed to providing the most efficient and effective health services to the people of Hartlepool and Stockton and would continue to do so within the context and position the organisation had to work within.

The Chair reassured Members that the Audit and Governance Committee as well as the North East Joint Health Scrutiny Committee would continue to scrutinise the provision of health services across the region, including the Strategic Transformation Programme (formerly Better Health Programme).

### **Recommended**

The models of care to be implemented in relation to the provision of the Assisted Reproductive Unit by NHS Hartlepool and Stockton on Tees Clinical Commissioning Group were noted, with further updates to be provided as and when appropriate.

## **162. Minutes of the meeting of the Health and Wellbeing Board held on 16 January 2017**

Received.



**163. Minutes of the meeting of the Safer Hartlepool Partnership held on 20 January 2017**

Received.

**164. Minutes of the North East Joint Health Scrutiny Committee held on 3 November 2016**

Received.

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

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

**166. Any Other Business – Review of APMS Contract – Fens, Hartfields and Wynyard Road Medical Practices**

The Scrutiny Manager referred to a letter received from the Secretary of State for Health, which had been circulated to the Committee, in response to the referral letter from the Ceremonial Mayor of Hartlepool sent on behalf of the Committee. The Independent Reconfiguration Panel (IRP) had met and considered the referral on its merits and concluded that the referral was not suitable for full review because further local action by the NHS with the Council could address the issues raised. Further details of the reasons behind this decision were included within the letter. In conclusion, the IRP had considered that although closing the Fens Medical Practice would make services slightly further away for some residents, the IRP considered that it was in the best interests of the patients affected, that the current procurement process was brought to a conclusion as soon as possible to ensure the continuation of services and least disruption to patient care.

The Scrutiny Manager sought clarification from the representatives of the CCG how they would respond to the IRP's recommendation that the users of the Fens Medical Practice should be involved in the future development of services. A representative from the CCG indicated that they would ensure the future development of services would be broadly in line with the 5-year review of GP services and the public, including those who use the services currently provided at Fens Medical Practice, would be involved in developing and shaping those plans. The Chair expressed disappointment that the Secretary of State did not consider a full referral was necessary, however, as a scrutiny body, the Audit and Governance Committee had

acted within its remit and the interests of the patients within the medical practices concerned. In view of this and on behalf of the Committee, the Chair requested reassurance from the CCG that the procurement process had been fit for purpose when it was appropriate to do so.

The Chair of Hartfields Patient Participation Group (PPG) was in attendance and declared an interest in view of her husband being a Director of Intrahealth. The Chair of the PPG sought reassurance that the chosen provider was confident they could deliver a sustainable service. A representative from the CCG responded that the Procurement Panel considered all the information considered to ensure that the provider did comply with the requirements as set out in the procurement process. Reassurance was provided that throughout the mobilisation process, the CCG would monitor service delivery to ensure it was effective. It was confirmed that the service would be provided by one provider across two sites.

The Chair acknowledged the efforts of all Officers who put a tremendous amount of work and effort into the referral to the Secretary of State. The Chair did express concerns that this process may result in one provider with patients lists representing more than 25% of the entire population of Hartlepool. However, it was noted that larger practices had a lot more GPs which would provide more flexibility for the provision of services and an evidence based reassurance that this was the best way forward was sought.

### **Recommended**

- 1) That the response from the Secretary of State for Health and Independent Reconfiguration Panel was noted.
- 2) The update provided by the NHS Hartlepool and Stockton on Tees CCG was noted along with the reassurance that the service users from the Fens Medical Practice would be involved in the future development of services for that area.
- 3) That the CCG provide reassurance when appropriate, that the procurement process for the service had been fit for purpose.
- 4) That the CCG provide evidence based reassurance that one provider across two sites was the most effective way forward to a future meeting of the Committee.

The meeting concluded at 11.50 am.

CHAIR

# AUDIT AND GOVERNANCE COMMITTEE

27 April 2017



**Report of:** Assistant Director, Finance and Customer Services

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

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## 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 2017. 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. RISK IMPLICATIONS

- 4.1 There is a risk that Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

## 5. FINANCIAL CONSIDERATIONS

- 5.1 There are no financial considerations.

**6. LEGAL CONSIDERATIONS**

6.1 There are no legal considerations.

**7. CHILD AND FAMILY POVERTY CONSIDERATIONS**

7.1 There are no child and family poverty considerations.

**8. EQUALITY AND DIVERSITY CONSIDERATIONS**

8.1 There are no equality and diversity considerations.

**9. STAFF CONSIDERATIONS**

9.1 There are no staff considerations.

**10. ASSET MANAGEMENT CONSIDERATIONS**

10.1 There are no asset management considerations.

**11. RECOMMENDATIONS**

11.1 That the Audit and Governance Committee:

i. Note the report of Mazars.

**12. REASON FOR RECOMMENDATIONS**

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

**13. BACKGROUND PAPERS**

13.1 Audit Strategy Memorandum.

**14. CONTACT OFFICER**

14.1 John Morton  
Assistant Director, Finance and Customer Services  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY

Tel: 01429 523003  
Email: John.Morton@Hartlepool.gov.uk

# **Audit Strategy Memorandum**

**Hartlepool Borough Council**



**For the year ended 31 March 2017**



# Contents

Executive summary .....	3
Audit scope and approach .....	4
Significant risks and key judgements .....	6
Timetable and communication .....	8
Value for Money Conclusion .....	10
Fees .....	12
Our team .....	13
Appendix A – Experts .....	14
Appendix B – Independence .....	15
Appendix C - Materiality .....	17
Appendix D – Our added value .....	18

# Executive summary

## Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of Hartlepool Borough Council ('the Council') for the year ending 31 March 2017, and forms the basis for discussion at the Audit and Governance Committee meeting on 27 April 2017.

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 overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process. We have determined that the Audit and Governance Committee is those charged with governance for the purpose of our audit.

Timing of our work	Our audit will be delivered in four main phases as outlined in page 8 of this report. The statutory deadline for the completion of our audit work is 30 September 2017 but we are planning to complete by the end of July in line with next year's earlier deadline.
Financial Statements audit	<p><b>Significant risks</b></p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the Council's financial statements.</p> <ul style="list-style-type: none"><li>• management override of controls;</li><li>• revenue recognition; and</li><li>• valuation of the defined benefit pension scheme.</li></ul> <p><b>Materiality</b></p> <p>At the planning stage of the audit we have set materiality for the financial statements as a whole at £4.753 million. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £143,000.</p>
Value for Money conclusion	The work we carry out to form a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources is summarised on page 10. At this stage we have identified one significant risk in respect of our VFM work. This relates to sustainable resource deployment and reflects the ongoing need for the Council to meet the challenges associated with ongoing reductions in the amount of money available to fund services.
Independence	We have considered any actual, potential or perceived threats to our independence on page 15. We have not identified any such threats at this stage of the audit.

# Audit scope and approach

## **The scope of our work**

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

### Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

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

### Value for Money conclusion

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our Value for Money work in greater detail later in this report.

### Whole of Government Accounts (WGA)

We report to the NAO on the consistency of the Council's financial statements with its WGA submission.

### Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

## **Our response to the risk of fraud**

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however our audit should not be relied upon to identify all such misstatements.

Management and the Audit and Governance Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We will enquire of the Audit and Governance Committee as part of our audit. Our enquiries will focus on:

- what role the Audit and Governance Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the enquiries above, towards the end of the audit cycle.



## **Our use of experts and other auditors**

### Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

Appendix A summarises management's experts and our planned audit approach to obtaining assurance over their work.

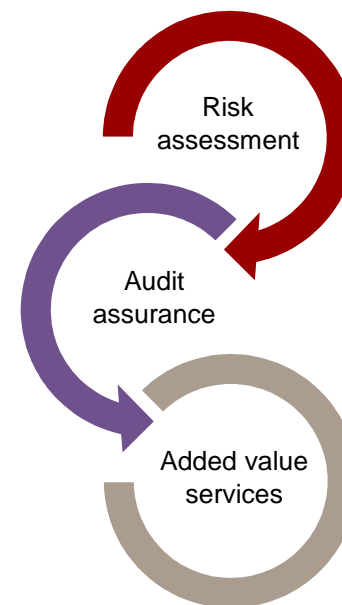
### Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

Where we intend to rely on the work of internal audit, we will evaluate their work and perform our own audit procedures to determine its adequacy for our audit.

## **Audit efficiency and our use of IT**

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of the Local Government sector and providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Council, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

# Significant risks and key judgements

## Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Council's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Audit and Governance Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p><b>Management override of control</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>Our testing strategy will include:</p> <ul style="list-style-type: none"> <li>• review of material accounting estimates, which may be subject to management bias, included in the financial statements;</li> <li>• consideration and review of unusual or significant transactions outside the normal course of business; and</li> <li>• testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>
<p><b>Revenue recognition</b></p> <p>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 2016/17. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• testing receipts in March, April and May 2017 to ensure they have been recognised in the right year;</li> <li>• testing material year end receivables;</li> <li>• testing adjustment journals; and</li> <li>• obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.</li> </ul>

Significant risk	How we will mitigate the risk
<p><b>Pensions estimates (IAS19)</b></p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and</li> <li>• consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> </ul>

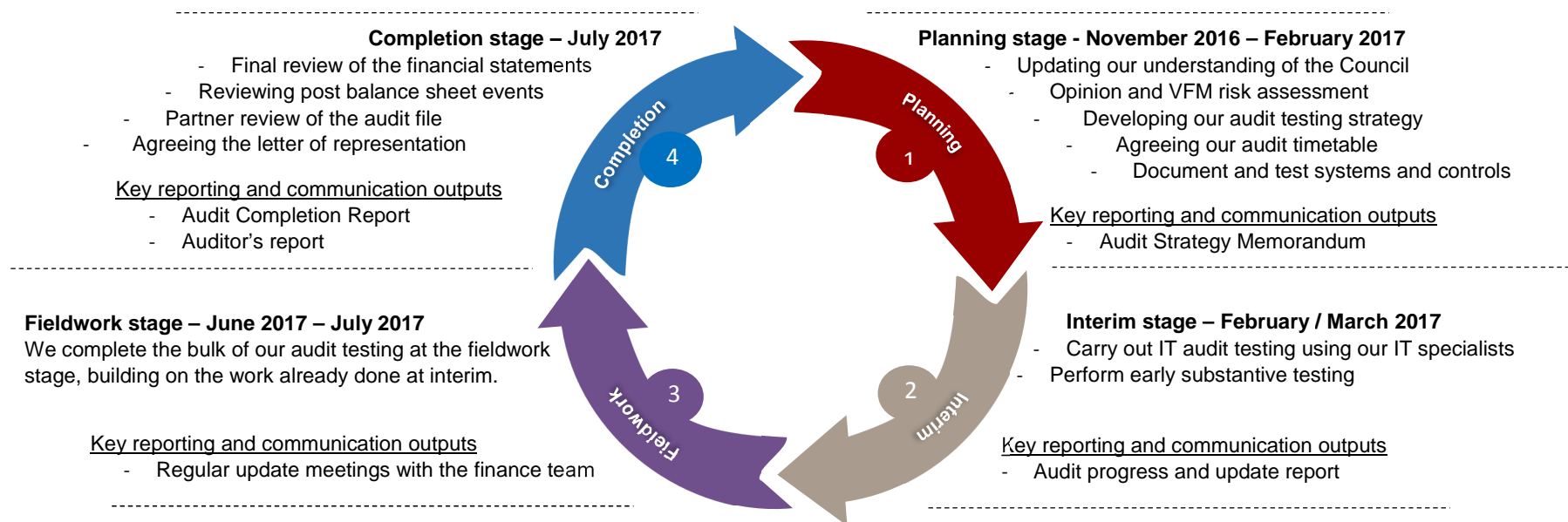
# Timetable and communication

## Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Audit and Governance Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Audit and Governance Committee and the Council's staff as being critical to building a robust knowledge of your business, the risks and challenges you face and the plans you have in place to meet those challenges.

## Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Audit and Governance Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in March 2017, our Audit Completion Report in July 2017 and our Annual Audit Letter in September 2017.



### 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 matters to you. These matters are set out below.

Matter to be communicated	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Audit and Governance Committee through our Audit Progress Reports, presented on a quarterly basis. We also report to the Council on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

# Value for Money Conclusion

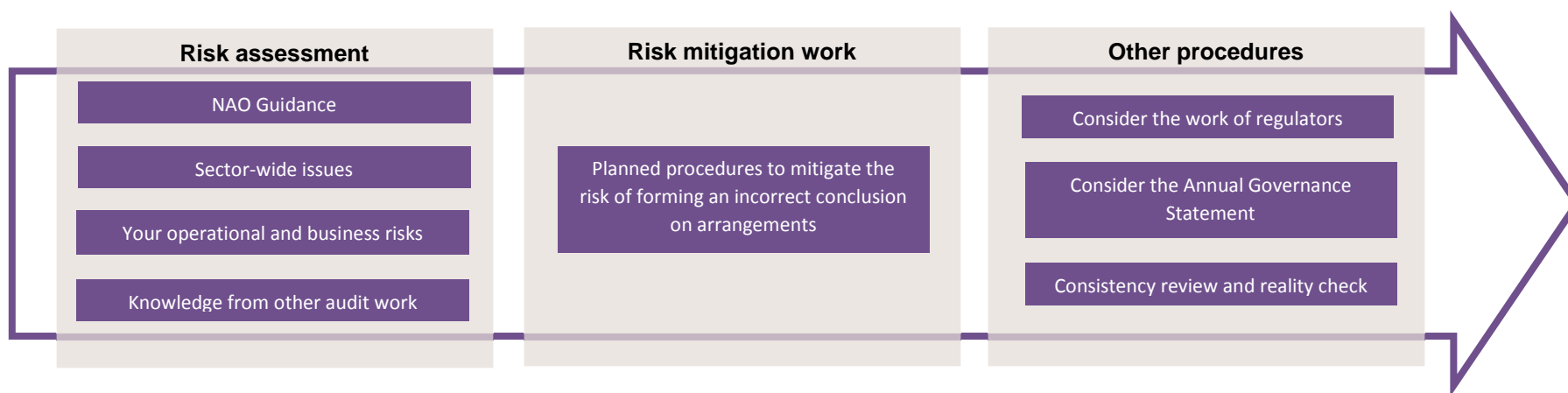
## Our approach to Value for Money work

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are provided set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below.



## Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a risk to the VFM conclusion exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For 2016/17, we have identified a risk for our VFM conclusion. A summary of the risk and the work we intend to undertake to ensure we reach the correct conclusion is set out in the following table.

Value for Money conclusion risk	Work we intend to carry out
<p><b>Sustainable resource deployment:</b> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p> <p>The Council, like many local authorities, is facing significant budget challenges over the period of its Medium Term Financial Plan (MTFP) due to ongoing reductions in funding. Failure to have appropriate arrangements in place to identify and deliver a programme of cost savings poses a significant risk to the Council's ability to deliver its strategic priorities and maintain statutory functions.</p>	<p>We will undertake a programme of work to allow us to conclude whether the Council has arrangements in place to identify and deliver the required cost savings as set out in its MTFS. This programme of work will include:</p> <ul style="list-style-type: none"> <li>• a review of the MTFP and the reasonableness of the assumptions that underpin it;</li> <li>• consideration of the arrangements in place to deliver to overall budget in 2016/17; and</li> <li>• a review of arrangements in place to identify, evaluate, risk assess and deliver savings plans in 2016/17 and future years.</li> </ul>

# Fees

## Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter on 13 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	£108,938	£108,938
Housing Benefit Subsidy certification	£13,860	£10,297

## Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as outlined in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in Appendix B.

Area of work	2016/17 proposed fee	2015/16 final fee
Teachers' Pensions return	£2,500	£2,500



# Our team



**Cameron Waddell** – Partner

**Email:** [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

**Phone:** 0191 383 6314 or 07813 752 053

**Bio:** Cameron is responsible for the overall delivery of the audit. He will sign the auditor reports and liaise with the Chief Executive, Director of Finance and Policy and Audit and Governance Committee. Along with Cath, he will attend Audit and Governance Committees and where appropriate, Council meetings and is available to liaise with Members.



**Cath Andrew** – Senior Manager

**Email:** [cath.andrew@mazars.co.uk](mailto:cath.andrew@mazars.co.uk)

**Phone:** 07815 878 116

**Bio:** Cath will manage and coordinate the audit and be the key point of contact for the Director of Finance and Policy and Head of Finance as well as liaising with Internal Audit. Cath will attend Audit and Governance Committees.



**Rebecca Dearden** – Team Leader

**Email:** [rebecca.dearden@mazars.co.uk](mailto:rebecca.dearden@mazars.co.uk)

**Phone:** 0191 383 6305 or 07881 283 351

**Bio:** Rebecca will be the key contact for the finance team, leading day-to-day audit work, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

# Appendix A – Experts

## Experts

The Council also uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Council to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Defined benefit liability and associated IAS 19 entries and disclosures.	Actuary (Aon Hewitt).	Consider the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office, prepared by pwc.
Property, plant and equipment valuations.	Internal valuer (Hartlepool Borough Council). External valuer (Wilks Head and Eve).	Consider the reasonableness of the valuers' output, referring to an expert's report on regional and national trends in property values which is commissioned annually by the National Audit Office, prepared by Gerald Eve.
Financial instruments: fair value estimates.	Treasury management advisor (Capita).	Consider the reasonableness of Capita's output, referring to central assurances commissioned annually by the National Audit Office.
NNDR data, including an estimate of the appeals provision.	Rateable values database analyst (Analyse Local).	Consider the reasonableness of Analyse Local's output, the Council's own review of the information provided and the likely impact on the financial statements.

# Appendix B – 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 partner.

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 either Cameron Waddell or Cath Andrew.

Prior to the provision of any non-audit services, Cameron will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. The following table outlines the potential threats to our independence and the safeguards put in place.

Area	Perceived threat	Safeguards and procedures
Services in relation to grant and returns certification and assurance.	Self -review	The review does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars.
	Self interest	The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis.
	Management	The work does not involve Mazars making any decisions on behalf of management.
	Advocacy	The work does not involve Mazars advocating the Council to third parties.
	Familiarity	Work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to fall under the Audit Commission's certification regime and were the responsibility of the Council's appointed auditor.
	Intimidation	The nature of the work does not give rise to any intimidation threat from management to Mazars.

# Appendix C - 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 our audit, 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 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 D – Our added value

Our primary responsibilities as the Council's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.



# AUDIT AND GOVERNANCE COMMITTEE

27 April 2017



**Report of:** Assistant Director, Finance and Customer Services

**Subject:** MAZARS REPORT- REQUEST FOR DECLARATIONS

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## 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 Request for Declarations.

## 2. BACKGROUND

- 2.1 International Auditing Standards require auditors to ask management and those charged with governance about arrangements the body has put in place:

- to prevent and detect fraud; and
- to comply with applicable law and regulations.

This requirement applies each year subject to audit.

- 2.2 For Hartlepool Borough Council, Mazars consider the Audit and Governance Committee to be those charged with governance, in line with the scheme of delegation in the Constitution. Mazars have requested responses to the questions detailed in the attached report and would be grateful for a response at the next committee meeting in July 2017.
- 2.3 To meet this request a report detailing a suggested reply to the questions posed will be brought before Members at July's Audit and Governance Committee meeting for consideration.

## 3. FINDINGS OF MAZARS

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

**4. RISK IMPLICATIONS**

- 4.1 There is a risk that Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

**5. FINANCIAL CONSIDERATIONS**

- 5.1 There are no financial considerations.

**6. LEGAL CONSIDERATIONS**

- 6.1 There are no legal considerations.

**7. CHILD AND FAMILY POVERTY CONSIDERATIONS**

- 7.1 There are no child and family poverty considerations.

**8. EQUALITY AND DIVERSITY CONSIDERATIONS**

- 8.1 There are no equality and diversity considerations.

**9. STAFF CONSIDERATIONS**

- 9.1 There are no staff considerations.

**10. ASSET MANAGEMENT CONSIDERATIONS**

- 10.1 There are no asset management considerations.

**11. RECOMMENDATIONS**

- 11.1 That the Audit and Governance Committee:
- i. Note the report of Mazars.
  - ii. Review the suggested response to the questions posed by Mazars at July's Audit and Governance Committee.

**12. REASON FOR RECOMMENDATIONS**

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

**13. BACKGROUND PAPERS**

- 13.1 Request for Declarations.



**14. CONTACT OFFICER**

14.1 John Morton  
Assistant Director, Finance and Customer Services  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY

Tel: 01429 523003  
Email: John.Morton@Hartlepool.gov.uk

# Request for Declarations

**Hartlepool Borough Council**



**March 2017**



# Contents

Purpose of this document.....	3
Questions about arrangements for preventing and detecting fraud .....	3
Questions about arrangements for complying with law and regulations responsibilities .....	3
Questions about the appropriateness of the going concern assumption .....	4
Contact details .....	5

Our reports are prepared in the context of the Public Sector Audit Appointment Limited'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 Council 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.*

# Purpose of this document

International Auditing Standards require auditors to ask management and those charged with governance about arrangements the body has put in place:

- to prevent and detect fraud; and
- to comply with applicable law and regulations.

This requirement applies each year subject to audit.

For Hartlepool Borough Council, we consider the Audit and Governance Committee to be those charged with governance, in line with the scheme of delegation in the Constitution. We request your responses to the questions detailed below and would be grateful for a response at the next Committee meeting in July 2017.

Our request also covers the appropriateness of the going concern assumption.

## Questions about arrangements for preventing and detecting fraud

- How does the Audit and Governance Committee assess the risk that the financial statements may be materially misstated due to fraud?
- Is the Audit and Governance Committee aware of the management's process for identifying and responding to the risks of fraud generally and specific risks of misstatement in the financial statements?

- Is the Audit and Governance Committee aware of the arrangements in place for management to report about fraud to the Audit and Governance Committee?
- Is the Audit and Governance Committee aware of the arrangements management have in place, if any, for communicating with employees, lay members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour?
- Does the Audit and Governance Committee have knowledge of actual or suspected fraud, and if so is it aware of what actions management is taking to address it?
- What arrangements are in place for the Audit and Governance Committee to oversee management arrangements for identifying and responding to the risks of fraud and the establishment of internal control?

## Questions about arrangements for complying with law and regulations responsibilities

- Has management provided a clear statement which confirms its consideration of relevant laws and regulations and its compliance with them?

- How does the Audit and Governance Committee satisfy itself that all relevant laws and regulations are being complied with?
- Is the Audit and Governance Committee aware of any instances of non-compliance with laws or regulations?
- Has management provided a list of litigation and claims?
- Has an assessment been made of the outcome of the litigation or claim and its estimate of the financial implications, including costs involved?
- Has the reasonableness of management's assessments been considered and additional information provided to the auditor where necessary?

## Questions about the appropriateness of the going concern assumption

- Has a report been received from management forming a view on going concern?
- Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the strategic business plan and the financial information provided to the Audit and Governance Committee throughout the year?
- If not, does the report contain a clear explanation, with supporting evidence, for the assumptions used, and are those assumptions appropriate? This should include written evidence of agreed income and expenditure for major funding streams.

- Are the implications of statutory or policy changes appropriately reflected in the business plan, financial forecasts and report on going concern?
- Have there been any significant issues raised with the Audit and Governance Committee during the year (e.g. adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control, or significant variances to activity levels compared to those planned), which could cast doubts on the assumptions made?
- Has an analysis been undertaken of the Council's projected or actual performance against its financial plan? If so, is it robust and does it identify any areas of potential concern?
- Where there are potential concerns what action is being taken to address those areas of potential weakness?
- Does the organisation have sufficient staff in post, with the appropriate skills and experience, particularly at senior management level, to ensure the delivery of the organisation's objectives? If not, what action is being taken to obtain those skills?

# Contact details

Please let us know if you would like further information on any items in this report.

[www.mazars.co.uk](http://www.mazars.co.uk)

Cameron Waddell  
Partner  
0191 383 6314

[cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

Cath Andrew  
Senior Manager  
0191 383 6300  
07815 878 116

[cath.andrew@mazars.co.uk](mailto:cath.andrew@mazars.co.uk)

**Address:**

Rivergreen Centre,  
Aykley Heads,  
Durham,  
DH1 5TS  
0191 383 3000



# AUDIT AND GOVERNANCE COMMITTEE

27 April 2017



**Report of:** Director of Finance and Policy

**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. As Director of Finance and Policy, I am the Councils nominated Section 151 Officer.

## 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. RISK IMPLICATIONS**

4.1 There is a risk that if Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, this could lead to the Committee being unable to fulfil its remit.

**5. FINANCIAL CONSIDERATIONS**

5.1 There are no financial considerations.

**6. LEGAL CONSIDERATIONS**

6.1 There are no legal considerations.

**7. CHILD AND FAMILY POVERTY CONSIDERATIONS**

7.1 There are no child and family poverty considerations.

**8. EQUALITY AND DIVERSITY CONSIDERATIONS**

8.1 There are no equality and diversity considerations.

**9. STAFF CONSIDERATIONS**

9.1 There are no staff considerations.

**10. ASSET MANAGEMENT CONSIDERATIONS**

10.1 There are no asset management considerations.

**11. RECOMMENDATION**

11.1 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.

**12. REASON FOR RECOMMENDATIONS**

- 12.1 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.

**13. BACKGROUND PAPERS**

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

**14. CONTACT OFFICER**

- 14.1 Chris Little  
Director of Finance and Policy  
Civic Centre  
Victoria Road  
Hartlepool  
T24 8AY  
  
Tel: 01429 523003  
Email: [Chris.little@hartlepool.gov.uk](mailto:Chris.little@hartlepool.gov.uk)

## 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. Director of Finance and Policy (DFP) leads on all financial matters and ensures Finance and Policy Committee and Corporate Management Team (CMT) buy-in in to Medium Term Financial Strategy and supporting strategies. DFP is also Deputy Chief Executive.	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.	DFP reports directly to Chief Executive. Has regular 1 to 1 meetings with Chief Executive. Is a member of Corporate Management Team. DFP is also Deputy Chief Executive.	Contributing to the effective corporate management of the organisation, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and	See Above	Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.	See Above.

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

material business decisions; and – direct access to the Chief Executive, other Leadership Team members, the Audit Committee and external audit.		delivery.	(CMT) buy-in in to 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).			Implement best practice in change management and leadership.	Ongoing development through LMDP/ and peer review/mentoring. Involvement in SDO reviews.
				Balance conflicting pressures and needs, including short and longer term trade-offs.	Responsibility for Medium Term Financial Strategy (MTFS) and budgetary control processes.

## 4.3

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

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

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

Governance requirements	HBC Arrangements	Core CFO responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Establish a medium term business and financial planning process to deliver the organisation's strategic objectives, including: – a medium term financial strategy to ensure sustainable finances; – a robust annual budget process that ensures financial balance; and – a monitoring process that enables this to be delivered.	MTFS in place, monitoring arrangements and role of Council, 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	The reporting of key decisions is enshrined within the Constitution.	Maintaining a long term financial strategy to underpin the organisation's financial viability within the agreed performance	See Above.	Link financial strategy and overall strategy.	Responsibility for MTFS and budgetary control processes.

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



### 4.3

opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.	to financial and governance matters.	objective financial analysis and interpretation of complex situations.	Committee and other groups. Ongoing development through LMDP and management review/mentoring.
Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.	Key decision advice in relation to financial and governance matters.	Apply relevant statutory, regulatory and professional standards both personal and organisational.	See Above.
Ensuring that the organisation's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.	Member of Strategic Asset Management Programme Team (SCRAPT).	Demonstrate a strong desire to innovate and add value.	
Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.	Close working relationship with CMT 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	Budget Strategy and monitoring process, key decision advice in relation to financial and governance matters.	Operate with sensitivity in a political environment.	Ongoing development through LMDP and peer review/mentoring. Regular contact with members, TU's local

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

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

<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>
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.	Achieved through 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	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	Develop and sustain partnerships, and engage effectively in collaboration.	

resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.			effective. Influencing force behind LMDP.		
Address the organisation's arrangements for financial and internal control and for managing risk in Annual Governance Reports.	Delegated Powers, FPRs and Standing Orders enshrined within Constitution. 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 PI's.
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 arrangements to identify	Performance and Risk Management Group, Line		

	and manage key business risks, including safeguarding assets, risk mitigation and insurance.	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 and well documented	Direct line management responsibility for all audit matters, FPR's and Standing Orders.

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.

**Principle 4 – The CFO must lead and direct a finance function that is resourced to be fit for purpose.**

<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. DFP 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	Council 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 DFP.	Role model effective staff performance management.	Mentor key finance staff across the Division/regular 1-2-1's. Encourage CPD involvement.
Acting as the final arbiter on application of professional standards.	See Above	Coach and support staff in both technical and personal development.	As above.
		Promote high standards of ethical behaviour, probity, integrity and honesty.	Mentor key finance staff across the Division/regular 1-2-1's. Encourage CPD involvement.
		Ensure, when necessary, that outside expertise is called upon for specialist	Actively seek professional expertise where needed i.e.



advice not available within the finance function.	Treasury management, 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 DFP.			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.	DFP 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.	DFP qualified with CIPFA in 1993 and has held a variety of position with Hartlepool, before appointment as DFP in 2016, was appointed CFO in 2010. Roles include Chief Accountant and ACFO (Corporate Finance). Since 1996 the current DFP has acted as lead finance officer for financial services provided to Cleveland Fire Authority (CFA) and in April 2014 was appointed Treasurer to the CFA.
Understand public service finance and its regulatory environment.	DFP has 24 years' post qualification experience and sound understanding of public service finance and its regulatory environment.
Apply the principles of corporate finance, economics, risk	See above

## 4.3

management and accounting.	
Understand personal and professional strengths.	DFP 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.	DFP role has been refocused on core financial responsibilities to ensure financial challenges faces the Council can be managed. DFP has clear understanding of no-financial areas affecting his role.

# AUDIT AND GOVERNANCE COMMITTEE

27 April 2017



**Report of:** Assistant Director, Finance and Customer Services

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

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## 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.

## 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. RISK IMPLICATIONS**

- 6.1 There is a risk that Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

## **7. FINANCIAL CONSIDERATIONS**

- 7.1 There are no financial considerations.

## **8. LEGAL CONSIDERATIONS**

- 8.1 There are no legal considerations.

## **9. CHILD AND FAMILY POVERTY CONSIDERATIONS**

- 9.1 There are no child and family poverty considerations.

## **10. EQUALITY AND DIVERSITY CONSIDERATIONS**

- 10.1 There are no equality and diversity considerations.

## **11. STAFF CONSIDERATIONS**

- 11.1 There are no staff considerations.

## **12. ASSET MANAGEMENT CONSIDERATIONS**

- 12.1 There are no asset management considerations.

## **13. RECOMMENDATION**

- 13.1 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.

**14. REASON FOR RECOMMENDATIONS**

- 14.1 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.

**15 BACKGROUND PAPERS**

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

**16. CONTACT OFFICER**

- 16.1 John Morton  
Assistant Director, Finance and Customer Services  
Civic Centre  
Victoria Road  
Hartlepool  
T24 8AY

Tel: 01429 523003  
Email: [john.morton@hartlepool.gov.uk](mailto:john.morton@hartlepool.gov.uk)



**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 Director of Finance and Policy (DFP) and Assistant Director of Finance and Customer Services (ADFCS).</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 DFP, ADFCS 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 and confidentiality.	<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.	<i>As above</i>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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 have operational responsibilities the	<i>Not Applicable.</i>	Producing evidence based annual internal audit opinion on the	<i>Annual opinion report HIA is produced and presented to the Audit</i>	Demonstrate integrity to staff and others in the authority.	<i>HIA undergoes CPD tailored to requirements of the role i.e. CIPFA</i>

## 4.4

<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>
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.		authority's control environment.	<i>and Governance Committee by the HIA.</i>		<i>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 24 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 significant concerns.	<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>	Reviewing significant partnership arrangements and major services provided by third parties and the controls in place to promote and protect the authority's interests.	<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 Monitoring Officer, the CFO, Audit Committee and	<i>Relationships with key officers detailed in agreed protocols i.e. Relationship between DFP and ADFCS and IA. Relationships built up over a number of years.</i>

#### 4.4

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		Assessing whether lines of responsibility and assurance are clear.		Members.	
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 24 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 opinion and report are issued in the name of the HIA.	<i>Reported independently by the HIA to the Audit and Governance Committee.</i>	Consulting stakeholders, including senior managers and Members on the internal audit strategy.	<i>Internal Audit Strategy agreed by senior management before approval sought from the Audit and Governance</i>		

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
			<i>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.**

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
Designate a named individual as HIA in line with the	<i>HIA designated individual employed within the Authority.</i>	Escalating any concerns through the line manager, CFO,	<i>Protocols in place and enshrined in Internal Audit Charter and Strategy for</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</i>

## 4.4

<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>
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.		Monitoring Officer, Head of Paid Service, Audit Committee, Leadership Team and external auditor as appropriate.	<i>escalation of concerns.</i>		<i>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 ADFCS 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 24 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with ADFCS 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 Management Team. Where the HIA is not an employee then	<i>HIA senior manager within the Finance function reporting directly to the ADFCS.</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>

## 4.4

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
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, other Leadership Team members, the Audit Committee and external audit	<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>

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
□ 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 24 year Internal Audit career. HIA undergoes CPD tailored to requirements of the role. Regular 1-2-1s with ADFCS 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 the resources, expertise and systems necessary to perform their role effectively.	<i>Internal Audit Strategy and Charter details the resource implications and responsibilities for ensuring they are met.</i>	Leading and directing the internal audit service so that it makes a full contribution to and meets the needs of the authority and external	<i>Approval and consultation process for the Internal Audit plan ensures that it adds value to the organisation. HIA responsible for facilitating</i>	Demonstrate leadership and be an ambassador for internal audit.	<i>HIA undergoes CPD tailored to requirements of the role i.e. CIPFA Certificate in Investigatory Practices.</i>



#### 4.4

<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>
		stakeholders.	<i>this process.</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 and Governance 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 ADFCS 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>
		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>

#### 4.4

<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>
		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 in place adequate ongoing monitoring and periodic review of internal audit work and supervision and review of files, to ensure that	<i>CIPFA guidance in relation to continuous improvement followed.</i>	Manage and coach staff effectively	<i>As above.</i>

#### 4.4

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
		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 Technical Information Service, CIPFA NE IA Group, North East Fraud Forum and National Anti Fraud Network 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 interest and act appropriately	<i>As above as well as procedures for the identification and recording of conflicts of interest are detailed in the Audit Manual.</i>
				Ensure, when necessary, that outside expertise is called upon for specialist advice not available within	<i>Arrangements in place to ensure specialist services can be procured as and when</i>

#### 4.4

Governance requirements	HBC Arrangements	Core HIA Responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				the internal audit service. Promote discussion on current governance and professional issues and their implications.	necessary. HIA mentors audit staff undertaking regular team meetings to facilitate discussion. Role on various working groups ensures topics are discussed and disseminated.

### 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, experience and resources to perform effectively in the role	<i>As above, monitoring and mentoring role undertaken by ADFCS in his role as Deputy Section 151 officer ensures compliance.</i>			Adhere to professional internal auditing (and where appropriate accounting and auditing) standards.	<i>HIA member of CIPFA for 20 years and is bound by all relevant professional and personal requirements.</i>
				Demonstrate a range of skills including communicating, managing	<i>HIA undergoes CPD tailored to requirements of the role as well as</i>

## 4.4

Governance requirements	HBC Arrangements	Core HIA responsibilities	HBC Arrangements	Personal skills and professional standards	HBC Arrangements
				and influencing, as well as an understanding of IT and consultancy.	<i>mentoring by ADFCS.</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 ADCFS.</i>
				Understand the internal audit and regulatory environment applicable to public service organisations.	<i>HIA has 20 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 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>HIA undergoes CPD tailored to requirements of the role as well as mentoring by ADFCS.</i>

# AUDIT AND GOVERNANCE COMMITTEE

27 April 2017



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

**Subject:** INTERNAL AUDIT OUTCOME REPORT  
2016/17

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## 1. PURPOSE OF REPORT

- 1.1 To inform members of the outcomes of audit work covering the period April 2016 to March 2017.

## 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 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 2016/17 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 16 major systems and probity reviews for the CFA during 2016/17.

### **3. AUDIT INPUTS 2016/17**

- 3.1 There were 1023 audit days allocated at 1.04.16 to planned and responsive activities during 2016/17.
- 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 2016/17.

### **4. OUTCOMES**

- 4.1 Appendix A schedules all the planned audits undertaken in 2016/17. At the time this report was completed end of year work was being finalised on the Debtors, Payroll and Loans and Investments Year End Testing, however sufficient reliance could be placed on testing completed for the purposes of the 2016/17 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. From the work undertaken during the year 2016/17, 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 2016/17.

### **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

2016/17, 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 2017/18 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 UK Public Sector Internal Audit Standards, 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 2016/17. Performance against these targets is detailed below:

### Internal Audit Performance Indicators

Indicator	Target Set for 2016/17	Actual Performance 2016/17
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.	30.06.17	27.04.17

## 7. RISK IMPLICATIONS

- 7.1 There is a risk that Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

## 8. FINANCIAL CONSIDERATIONS

- 8.1 There are no financial considerations.



**9. LEGAL CONSIDERATIONS**

9.1 There are no legal considerations.

**10. CHILD AND FAMILY POVERTY CONSIDERATIONS**

10.1 There are no child and family poverty considerations.

**11. EQUALITY AND DIVERSITY CONSIDERATIONS**

11.1 There are no equality and diversity considerations.

**12. STAFF CONSIDERATIONS**

12.1 There are no staff considerations.

**13. ASSET MANAGEMENT CONSIDERATIONS**

13.1 There are no asset management considerations.

**14. RECOMMENDATION**

14.1 That Members note the contents of the report.

**15. REASONS FOR RECOMMENDATIONS**

15.1 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.

**16. BACKGROUND PAPERS**

16.1 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).

**17. CONTACT OFFICER**

17.1 Noel Adamson  
Head of Audit and Governance  
Civic Centre  
Victoria Road  
Hartlepool  
T24 8AY

Tel: 01429 523173

Email: [Noel.Adamson@Hartlepool.gov.uk](mailto:Noel.Adamson@Hartlepool.gov.uk)

## Appendix A

**Summary of Internal Audit Planned Work Undertaken for 2016/17**

<b>Audit</b>	<b>Assurance Level</b>
Members Allowances	<b>Satisfactory</b>
Non Domestic Rates	<b>Satisfactory</b>
Economic Development ERDF Grant	<b>No Assurance</b>
Local Council Tax Support Scheme	<b>Satisfactory</b>
Council Tax	<b>Satisfactory</b>
CareFirst/Controcc Application	<b>Satisfactory</b>
Inspiration Nursery Stock Control	<b>Limited</b>
Creditors	<b>Satisfactory</b>
Disclosure and Barring Scheme	<b>Satisfactory</b>
Voluntary Appointeeship	<b>Satisfactory</b>
Leisure Centres	<b>Satisfactory</b>
Empty Homes Scheme	<b>Satisfactory</b>
Housing Options Centre	<b>Satisfactory</b>
Home Care	<b>Limited</b>
Loans and Investments	<b>Satisfactory</b>
Benefits	<b>Satisfactory</b>
VAT	<b>Satisfactory</b>
Payroll	<b>Satisfactory</b>
I World System Application	<b>Satisfactory</b>
Computer Backups	<b>Satisfactory</b>
Mobile Phones	<b>Limited</b>
Tourism – Museum	<b>Satisfactory</b>
Tourism – Historic Quay	<b>Satisfactory</b>
Better Care Fund	<b>Satisfactory</b>
Stores	<b>Limited</b>
Cash/Bank	<b>Satisfactory</b>
Troubled Families Grant	<b>Satisfactory</b>
Resource Link Computer Application	<b>Satisfactory</b>
Employees Gifts and Hospitality	<b>Satisfactory</b>
Housing Management	<b>Satisfactory</b>
SIMS Computer Application	<b>Satisfactory</b>
Exmoor Grove Children's Home	<b>Satisfactory</b>
Stockton Road Children's Home	<b>Satisfactory</b>
Officers Expenses	<b>Satisfactory</b>
Greatham Primary	<b>Satisfactory</b>
St Aidan's Primary	<b>Satisfactory</b>
Benefits	<b>Satisfactory</b>
Local Council Tax Support Scheme	<b>Satisfactory</b>
Troubled Families Grant	<b>Satisfactory</b>
Council Tax	<b>Satisfactory</b>
Non Domestic Rates	<b>Satisfactory</b>
Community Infrastructure Levy/S106	<b>Satisfactory</b>
Recruitment	<b>Satisfactory</b>
Emergency Planning	<b>Satisfactory</b>

# AUDIT AND GOVERNANCE COMMITTEE

27 April 2017



**Report of:** Assistant Director, Finance and Customer Services

**Subject:** ANNUAL GOVERNANCE STATEMENT  
2016/17

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## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2015 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. The 2016/17 AGS is attached as Appendix A.
- 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
- Director of Finance and Policy
- Assistant Director of Finance and Customer Services
- 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. RISK IMPLICATIONS**

5.1 There is a risk that Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

## **6. FINANCIAL CONSIDERATIONS**

6.1 There are no financial considerations.

## **7. LEGAL CONSIDERATIONS**

7.1 There are no legal considerations.

**8. CHILD AND FAMILY POVERTY CONSIDERATIONS**

- 8.1 There are no child and family poverty considerations.

**9. EQUALITY AND DIVERSITY CONSIDERATIONS**

- 9.1 There are no equality and diversity considerations.

**10. STAFF CONSIDERATIONS**

- 10.1 There are no staff considerations.

**11. ASSET MANAGEMENT CONSIDERATIONS**

- 11.1 There are no asset management considerations.

**12. RECOMMENDATIONS**

- 12.1 That Members review and approve the attached 2016/17 Annual Governance Statement.

**13. REASONS FOR RECOMMENDATIONS**

- 13.1 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.

**14. BACKGROUND PAPERS**

- 14.1 Accounts and Audit Regulations 2015;  
CIPFA/Solace Good Governance Framework;  
Internal Audit Opinion/Reports;  
External Audit Reports.

**15. CONTACT OFFICER**

- 15.1 John Morton  
Assistant Director, Finance and Customer Services  
Civic Centre  
Victoria Road  
Hartlepool  
T24 8AY

Tel: 01429 523003  
Email: [john.morton@hartlepool.gov.uk](mailto:john.morton@hartlepool.gov.uk)

# **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 and 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 *Delivering Good Governance in Local Government Framework 2016*. 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 2015, Part 2 6(1) (a), which requires the Council to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with the statement of accounts. Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015, require that for a local authority that statement is 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 2017 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 the Director of Finance and Policy and the Assistant Director, Finance and Customer Services. As part of the process regular updates have been given to the Performance and Risk Management Officer Group and the Corporate Management Team (CMT).

### **3 Significant Governance Issues Update from 2015/16 Statement**

- 3.1 Progress has been made over the course of 2016/17 to actively manage and address issues identified as part of the 2015/16 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, the sustainability of services and level of performance.	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 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 2016/17 has been largely delivered and is reported to Members via Finance and Policy Committee on a quarterly basis. The Council Plan for 2017/18 has been developed based on the agreed ambition for Hartlepool. This year the Council Plan, Medium Term Financial Strategy and the 5 year Capital Plan have been developed as three parts of a single plan to ensure the links between the three are strengthened.



Ensuring adequate management arrangements for noncore grant funding.	Review of departmental arrangements undertaken to ensure risks are mitigated. Development and agreement of strategies and plans for effective working between HBC and partner organisations.
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#### **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 is scheduled to be reviewed annually and has subsequently been reviewed and the outcomes reported to Council on the 17<sup>th</sup> March 2016, with a supplemental review reported to Council on 8<sup>th</sup> September 2016. A further update was reported to Council on 27<sup>th</sup> October 2016.

- 4.2** Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. 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 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 8<sup>th</sup> December, 2016 and referred to Council for approval on 23<sup>rd</sup> February, 2017 for the financial year 2017/18. 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 Director of Finance and Policy 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. 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 on 3<sup>rd</sup> April 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 produces a Council Plan that sets out the Council's ambitions for the town. The Council Plan 2017/18-2019/20 was agreed by Council on 16<sup>th</sup> March 2017. For the first time, this year the Council Plan, Medium Term Financial Strategy and the 5 year Capital Plan have been developed as three parts of a single plan to ensure the links between the three are strengthened. The Council's performance management arrangements are based on the Council Plan which identifies a series of 6 strategic priorities under which sit a number of key deliverables.
- 4.10 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 Framework includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues. The Framework 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, Comments and Compliments 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. The Council has updated its Fraud and Corruption Strategy in line with CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- 4.14 The Council agreed the current Risk Management 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. Key risks will be identified within the Council Plan and changes 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. 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 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 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 Council's Major Incident Plan which is tested yearly.
- 4.20 A review of the Council's 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. 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 brought 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 - Jan 2017' and 'Workforce Equalities Information 2015-16' 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 are regularly updated. Our latest equality objectives were agreed by Council as part of the Council Plan 2017/18 – 2019/20 on 16<sup>th</sup> March 2017.
- 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 considering impacts on equality as an integral part of our decision-making process and this is reflected in reports to Committees in the Equality & Diversity Considerations section.
- 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". The most recent SIF inspection which is the most comprehensive inspection framework for CS rated Hartlepool CS as 'good'. Most childcare providers and schools are rated "good" or "outstanding" and none are "inadequate". Hartlepool Connect has achieved the Customer Service Excellence standard. In their 2015/16 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.
- Director of Finance and Policy – reports to the Audit and Governance Committee how the Council's financial arrangements conform to 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 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 reports to the Audit and Governance Committee how the Council's financial arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).
  - 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, 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 Council Plan, revised Performance Management Framework and Medium Term Financial Strategy, the sustainability of services and level of performance.	The approved 2017/18 MTFS includes savings proposals to be implemented in 2018/19 and 2019/20. However, after reflecting these proposals the Council still faces net budget deficits in these years. Detailed proposals for addressing the residual budget deficits will be developed during 2017/18, this will ensure these proposals can be implemented in 2018/19 and 2019/20. The implementation and refresh of the new 3 year Council Plan taking into account the impact of the financial challenges facing the Council, with regular performance reporting to CMT and Members.	2017/18 – 2019/20	CMT

2	Ensuring appropriate arrangements for Information Governance – complying with NHS requirements.	From May 2017 the Council will directly employ School Nursing, Health Visiting and Family Nurse Partnership staff who will require direct access to NHS systems for patient records. In order to gain access to these systems the Council must demonstrate compliance with the Department of Health Information Governance Toolkit.	2017	CMT, Information Governance Group
3	Ensuring adequate management arrangements for noncore grant funding.	The Council is accountable body for competitively secured time limited grant resources for projects that requires the authority to have in place robust arrangements for managing such funding streams. Ongoing assurance of adequate systems to ensure appropriate governance. Development and agreement of strategy and plan for effective working between HBC and partners.	2017/18	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)?***

The AGS 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?**