



ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

THURSDAY 27TH JUNE 2012 AT 5.30pm
COMMITTEE ROOM 1, PARK NORTH, NORTH STREET, HORSHAM

Councillors: John Bailey
Roy Cornell
Leonard Crosbie
David Holmes
Gordon Lindsay
Jim Rae
Stuart Ritchie

Tom Crowley
Chief Executive

AGENDA

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No.

1. Election of Chairman
2. Apologies for absence
3. Appointment of Vice-Chairman
4. To approve the time of meetings of the Committee for the ensuing year
5. To approve as correct the minutes of the meeting of the Committee held on 27th March 2013 1
6. To receive any declarations of interest from Members of the Committee
7. To receive any announcements from the Chairman of the Committee or the Chief Executive
8. Progress made in respect of the internal audit findings regarding refuse collection, the fuel reconciliation process and fuel theft at Hop Oast Depot – Head of Operational Services/Director of Community Services to attend
9. Chairman's response to the letter from the Auditors on understanding how the Committee gains assurance from management (for information) 9
10. Audit Progress Report – to be presented by the External Auditor - ***please see separate appendix***

11. Audit Committee Briefing by the External Auditor (for information) - ***please see separate appendix***

12. Horsham's Financial Accounts – Outturn for 2012/13 - Revenue, Capital and Repair & Renewals Budgets
(Members of the Committee: Please refer to the Council agenda for 26th June 2013 for the supporting papers for this item)
(The supporting papers for this item are available online with this agenda at:
<http://www.horsham.gov.uk/council/agendas-reports.aspx>
If required, hard copies are available from the Democratic Services Section.)

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| 19. Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances | |
| 20. To consider the following exempt or confidential information: | |

| | Reason for exemption | |
|--|-----------------------------|-----------|
| (a) <u>Report of the Chief Internal Auditor</u> | | |
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**ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
27TH MARCH 2013**

Present: Councillors: David Holmes (Chairman), Gordon Lindsay (Vice-Chairman), John Bailey, Roy Cornell, Leonard Crosbie, Jim Rae, Stuart Ritchie

Also present: Helen Thompson, Audit Director, Ernst & Young
Kevin Suter, Senior Audit Manager, Ernst & Young

AAG/37 MINUTES

The minutes of the meeting held on 12th December 2012 were approved as a correct record and signed by the Chairman.

With reference to Minute AAG/34, the Head of Financial & Legal Services indicated that she would send details of the one identified case where monies secured under a Section 106 agreement, in the sum of £20,000, had had to be returned to the developer.

AAG/38 DECLARATIONS OF INTEREST

There were no declarations of interest.

AAG/39 ANNOUNCEMENTS

There were no announcements.

AAG/40 ANNUAL CERTIFICATION REPORT 2011/12

Kevin Suter, Senior Audit Manager, Ernst & Young, presented the outcomes of the certification work on the 2011/12 claims and returns. The claims involved were for the Housing and Council Tax Benefit scheme (£35.5m) and National Non-Domestic Rates return (£37.6m).

It was noted that the Auditor had not identified any amendments to the claims and returns for the year ended 31st March 2011; that he had not issued any qualification letters with the certificates on the Council's claims and returns; and no recommendations were required.

In response to the chairman the Senior Auditor confirmed that the Council's performance had been good.

RESOLVED

That the report be noted.

AAG/41 **AUDIT PLAN 2012/13**

Helen Thompson, Audit Director, Ernst & Young, presented the External Auditor's plan for the 2012/13 audit. The Plan set out the audit work the Auditor proposed to undertake for the audit of financial statements and the statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in 2012/13.

The Audit Director drew attention to two key strategic or operational risks that she had identified as being relevant to the audit of the accounting statements and indicated how she would audit these areas:

- Accounting for property, plant and equipment (PPE) by means of a spreadsheet.
- The risk of misstatement due to fraud and error. This risk had always been addressed in previous audits and it was not a case that this was now a greater risk than in previous years but it was Ernst & Young's policy to identify it as specific risk.

With regard to Economy, Efficiency and Effectiveness, the Audit Director had identified two specific risks - financial standing due to funding challenges from national policies and the National Fraud Initiative - and indicated how she would address these.

The outcome of the 2012/13 audit would be reported to the meeting of the Committee in September 2013.

RESOLVED

That the Audit Plan 2012/13 be noted.

AAG/42 **UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

Kevin Suter, Senior Audit Manager, Ernst & Young, reported that auditing standards required them to update their understanding of the management processes and arrangements on an annual basis and, in previous years, this had been achieved by means of a letter to and response from the Chairman of the Committee. A copy of the Auditor's letter containing the questions to which responses were sought was submitted.

The Chairman of the Committee suggested that he should draft a proposed response in consultation with the Director of Corporate Resources and the Head of Financial & Legal Services and circulate it to all Members of the Committee for comment before submission to the Auditor.

Members discussed the level and depth of knowledge required of them in

AAG/42 Understanding How the Audit Committee Gains Assurance from Management (cont.)

responding to the questions and it was acknowledged that the letter served to remind the Committee of its responsibilities.

It was important that the Committee sought assurance regarding management processes and arrangements from more than one source such as Internal and External Auditors, reports to Committee and by direct questioning of responsible officers and/or Cabinet Members, if considered necessary. The Audit Director advised Members that it was open to them to seek their own independent assurance in private from either the Internal or External Auditors (as appropriate) regarding information provided to them.

In response to a question from the Chairman, the external auditor indicated that Horsham's Accounts, Audit & Governance Committee received more information than many comparable committees at other local authorities.

The Chairman asked Members of the Committee to advise him if they considered there was anything additional that the Committee should be doing to fulfil its terms of reference.

RESOLVED

That a proposed response to the letter be drafted by the Chairman of the Committee, in consultation with the Director of Corporate Resources and the Head of Financial & Legal Services, and circulated to all Members of the Committee for comment before submission to the Auditor.

REASON

To discharge the Committee's responsibility to respond to the questions posed by the External Auditor.

AAG/43 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since December 2012 and seeking approval of the Internal Audit Strategy and the Annual Audit Plan for 2013/14.

The CIPFA Code of Practice in Local Government required the Head of Internal Audit to produce an internal audit strategy, a high-level statement of how the Internal Audit Service would be delivered in accordance with the terms of reference and how it linked to organisational objectives and priorities. The Internal Audit Strategy was therefore submitted for approval.

AAG/43 Internal Audit – Quarterly Update Report (cont.)

The Committee agreed that performance indicator A01 in the Internal Audit Strategy should be amended to read “Percentage of agreed action items implemented within the agreed timescale.” In addition, the Chief Internal Auditor and the Director of Corporate Resources would review the target for this indicator, which was currently set at 100%.

The Internal Audit Plan for 2013/14 was also submitted for approval and included an element of flexibility to enable the audit team to respond to current issues. The Plan had been reviewed and challenged by Members of the Committee at an informal meeting in February 2013. It had been intended that the new Public Sector Internal Auditing Standards would be presented to this meeting. However, the work involved had been underestimated and, therefore, a time allocation to address this work had been added to the audit plan for 2013/14, with a compensatory reduction in time allocation for audit advice and special investigations being made.

In response to Member queries regarding staff resources, the Chief Internal Auditor indicated that, provided an experienced candidate was found to replace the impending vacancy in his team, the current staffing level of 3.5 full-time equivalents was adequate. However, if a less experienced replacement were recruited, he considered that more resources might be required.

A summary of audit findings in respect of Refuse Collection (moderate assurance), Cash & Bank, Commercial Rents, Server Room (County Hall North), Horsham Museum and Housing allocations (all substantial assurance) was submitted. Special investigations had also been undertaken and recommendations made in respect of the fuel reconciliation process and a fuel theft, both in relation to Hop Oast Depot.

The Committee noted that an overall audit opinion of moderate assurance had been reached in respect of Refuse Collection but expressed concern regarding the control weaknesses identified and indicated that they required assurance at the next meeting that all these issues had been addressed. In this respect, the Committee agreed that the Head of Service should be required to attend the next meeting to answer Members’ questions and address progress made.

It was also agreed that the Head of Service should attend the next meeting of the Committee to answer Members’ questions regarding the fuel reconciliation process and fuel theft at Hop Oast Depot. The Committee also requested further information in this respect.

An update was given on the current position in respect of the Project Assurance Core Team, which held regular monthly meetings with project

AAG/43 Internal Audit – Quarterly Update Report (cont.)

managers to identify current risks and issues and tracked progress to ensure that projects were being delivered within budget and in accordance with agreed timescales. It was noted that the team had tested new project management software (VERTO), which had now replaced the previous software.

Due to the two special investigations and the need to become involved in new risk areas, it was anticipated that some audits might not be completed within the current year and would therefore be slipped to 2013/14. However, it was still estimated that 87% of the original audit plan would be completed, which was within the agreed target of 85%.

The Chief Internal Auditor also reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2012/13, 2011/12, 2010/11 and 2009/10, together with details of agreed actions not yet implemented, an update for each item (including an assessment of priority) and a revised implementation date. It was noted that there had been a marked improvement in the number of outstanding actions that had now been implemented.

RESOLVED

- (i) That the Internal Audit Strategy be approved.
- (ii) That the Internal Audit Plan for 2013/14 be approved.
- (iii) That the summary of audit work undertaken since December 2012 be noted.
- (iv) That the Head of Operational Services be required to attend the next meeting of the Committee to answer Members' questions and address progress made in respect of the internal audit findings regarding refuse collection and the fuel reconciliation process and fuel theft at Hop Oast Depot.

REASONS

- (i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.
- (ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/44 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor presented the latest quarterly update in respect of the Corporate Risk Register.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and that risk CRR27 (Health & Safety (Failure to comply with Council policy & procedures and legislative requirements)) had been removed, as agreed at the last meeting of the Committee, as all planned actions had been implemented and the level of risk reduced to an acceptable level. Risk CRR39 (relating to the review of Staff Terms and Conditions) had been added as a new risk.

Members expressed concern regarding the lack of progress in respect of CRR05 (Information security), particularly in relation to Member awareness and training.

The Chairman suggested that CRR29 (Pressure on the Council's finances due to the localisation of Council Tax Benefit) and CRR36 (relating to the implementation of the Localism Act) no longer needed to appear on the Corporate Risk Register as they had been assessed as low impact and moderate likelihood.

Members were also concerned regarding the lack of progress in respect of CRR38, which related to failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2014 due to the delay in preparing the District Planning Framework.

It was noted that all departmental risk register reviews had been completed in respect of the last quarter.

The Operational Risk Management Group had held its second meeting in December 2012 and a peer review had been undertaken of two departmental risk registers.

In January 2013, Internal Audit had met with the Head of Planning & Environmental Services and a number of risk champions to identify ways of improving the risk management process. It had been agreed that the Risk Management procedure document required very little change, although a number of good suggestions had been made which would be taken on board.

RESOLVED

- (i) That the updated Corporate Risk Register be approved.

AAG/44 Risk Management – Quarterly Update Report (cont.)

- (ii) That the progress made in respect of departmental risk registers be noted.
- (iii) That the progress made in implementing the Risk Management Strategy action plan be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/45 URGENT MATTERS

There were no urgent matters to be considered.

AAG/46 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/47 INTERNAL AUDIT – QUARTERLY UPDATE REPORT (PARAGRAPH 3)

The Committee considered the detailed information submitted concerning the implementation of agreed actions arising from internal audit reports.

The meeting finished at 7.43pm having commenced at 5.30pm.

CHAIRMAN



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Your ref:
E-mail: david.holmes@horsham.gov.uk
Direct line: 01403 267712
Contact: David Holmes
Date: 21st May, 2013

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FAO: Helen Thompson

Dear Sirs

Understanding how the Audit Committee gains assurance from management

Thank you for your letter dated 18th March, 2013 to which I would respond as follows:-

1. *How does the Audit Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:*

- ▶ ***undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);***

Members of the Accounts, Audit and Governance Committee scrutinise the Council's financial statements and request explanations for specific items. Members of the Committee have received training from LG Futures. The Committee seeks assurances regarding the experience and skills of officers preparing the accounts, and to a certain extent, reliance is placed on these officers to ensure that the financial statements are accurately presented. The Committee also reviews the annual internal audit plan to ensure that key financial systems are included and receives feedback on those audits. If any significant weakness is identified in financial controls, further questions are asked to ensure that the issue is appropriately addressed.

- ▶ ***identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;***

The Accounts, Audit and Governance Committee places reliance on the work of the Internal Audit team and ensures it is adequately staffed. Members receive a quarterly report on the audits carried out, and ask questions, seek assurance and monitor the follow up of actions agreed.

Cont'd/2

- ▶ ***communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority code of conduct);***

The Accounts, Audit and Governance Committee reviews the Annual Governance Statement in which management sets out the arrangements for ensuring effective communication to staff on matters of behaviour and ethics. These are incorporated in the Code of Conduct for Employees and other policies, eg the Acceptable Use Policy for IT Services and Systems and the Data Protection Policy. As Chairman of the Committee I have sought assurance from the Chief Executive that these matters are being actively promoted and obtained the required assurance.

- ▶ ***encouraging employees to report their concerns about fraud;***

The Council has a Whistle-Blowing Policy and staff are reminded of this and are encouraged to report any concerns to their line manager, the Chief Internal Auditor or other senior manager.

- ▶ ***communicating to you the processes for identifying and responding to fraud or error?***

The Accounts, Audit and Governance Committee receive quarterly reports from the Chief Internal Auditor on all audits carried out, including special investigations. These reports are reviewed and action plans to address any significant weaknesses are also monitored.

2. ***How does the Audit Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?***

The Committee reviews the Council's Financial Regulations and ensures that adequate resources are provided to the Internal Audit function. It approves the annual audit plan, receives regular quarterly reports on the progress against the plan and the results of audits carried out. It also monitors that agreed actions are being implemented.

3. ***Is the Committee aware of any:***

- ▶ ***breaches of, or deficiencies in, internal control;***

The Accounts, Audit and Governance Committee receives a quarterly report from the Chief Internal Auditor outlining any significant breaches or deficiencies in internal control, together with details of remedial action agreed with line managers.

- ▶ ***actual, suspected or alleged frauds during 2012/13?***

Concerns about a discrepancy in fuel stocks have been reported to the Committee, together with details of the investigation and measures to tighten controls.

4. *Is the Committee aware any organisational or management pressure to meet financial or operating targets?*

Given the reduced and uncertain funding of local authorities the Committee is aware of substantial pressure to meet challenging financial targets.

5. *How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2012/13?*

The Committee places reliance on the professional skills of staff and relies on officers to identify concerns. An adequate training budget ensures that key staff keep up to date with changing requirements. Such matters are also addressed by the work of the Internal Audit team and Health and Safety Officer. The Committee is aware of some instances of non-compliance as identified in audit reports and is satisfied that these are being addressed.

6. *Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?*

The Committee is not aware of any litigation other than that identified in the accounts.

7. *How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?*

The Council has adopted a Medium Term Financial Strategy and the Director of Corporate Resources keeps the financial projections under regular review. The MTFS establishes a minimum level of reserves of £6m needed to cover of emergencies and contingencies and the Council's reserves are in excess of this. The Council has taken measures to increase its income and there are no concerns about the future financial viability of the Council which would cast doubt on the authority as a going concern.

Yours faithfully

Councillor David Holmes

GPS assurance

Local Government Sector

Audit Committee briefing

Introduction

Contents at a glance

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Find out more

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists who transferred from the Audit Commission form part of Ernst & Young's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by rich resource of wider expertise across Ernst & Young's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



Government and economic news

March 2013 budget

The Chancellor of the Exchequer delivered his Budget to Parliament on 20 March 2013, alongside the publication of the Office for Budget Responsibility's updated forecasts for growth and borrowing. In the budget he announced the Government will:

- ▶ Reduce departmental spending by £1.1bn in 2013-14 and £1.2bn in 2014-5. Schools and health budgets remain unchanged.
- ▶ Make savings from current spending of £11.5bn in the spending review for 2015-16. The themes of the spending review will be growth, efficiency and public service reform, including localism and fairness.
- ▶ Move funds from revenue to capital of £3bn a year from 2015-16.
- ▶ Exercise public sector pay restraint of one percent.
- ▶ Introduce a new funding model for adult social care based on the recommendations of the Dilnot Commission.
- ▶ Introduce housing measures aimed at increasing the supply of new housing through equity loans and mortgage guarantees.
- ▶ Introduce a firm limit on a significant proportion of Annually Managed Expenditure (AME) including areas of welfare reform.
- ▶ Reduce the main rate of corporation tax to 20 percent.
- ▶ Bring in a £5.4bn package of financial support for housing.
- ▶ Introduce a single-tier State Pension and implementing the £72,000 cap on social care costs from April 2016.

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by Ernst & Young issued its response to the budget, concluding that:

- ▶ The shortfall in public spending was much larger than expected.
- ▶ The switch from current to capital spending would reduce the current deficit and help ease the pressure on the government's main fiscal target.

- ▶ The housing market package would be geared up so it has a major impact, in a sector that has a lot of pent up demand: and that this should stimulate construction and improve the consumer outlook.
- ▶ The reduction in the growth outlook means that businesses are likely to remain in 'wait and see mode'.

The Club has also issued its coming year economic forecasts to help with financial planning.

Final Local Government Finance Settlement 2013/14

On 4 February 2013, the Department for Communities and Local Government (DCLG) published the final 2013/14 Local Government Finance Settlement. Details of the provisional 2014/15 settlement were also issued.

The settlement shows a reduction in funding levels (after education and public health funding has been removed) of 3.7 percent. This has not impacted on all local authorities equally. The average reduction in individual local authority revenue spending power, not including the public health grant, is 1.7 percent.

The Institute of Fiscal Studies (IFS) has issued bleak forecasts of Local Government funding plans beyond 2014/15. It estimates that Local Government funding will reduce by an additional 3.2 percent in 2015/16 and 16.2 percent over the period 2015/16 to 2017/18.

Many authorities are now identifying significant gaps in their medium term financial plans, the need for more radical reforms to address these, including the likelihood that there will be cuts in front line services.

The National Audit Office (NAO) has published a report examining central government's approach to local authority funding. This highlights the increasing difficulties local authorities face in absorbing reductions in government funding without reducing services. It recommends the Department for Communities and Local Government (DCLG) works with other government departments to improve evaluation of the impact of decisions on local authority finances and services.

Whole-place community budgets

Community budgets work by bringing together public sector money and resources in local areas and giving public bodies the freedom to integrate their work and design services around the needs of people who use them. They mark a fundamental shift away from the traditional public sector method of funding services organisation by organisation and government department by government department.

Independent analysis from Ernst & Young, published by the Local Government Association (LGA) showed that more than £4 billion of public money could be saved every year by radically shaking up the way public services are provided and paid for in England; cutting unnecessary waste, duplication and red tape.

A year-long pilot of community budgets modelled to a national level by Ernst & Young, shows that devolving more decisions to local areas would provide better services and save between £9.4 billion and £20.6 billion over five years across local and central government.

The evidence from the pilots shows that:

- ▶ Better outcomes at reduced cost can be achieved through a replicable and scalable approach to community budgets.
- ▶ Success may require new forms of governance and new delivery and investment models for public services.
- ▶ There will be significant variation across areas in the benefits that may be realised as there are a range of local factors which will affect this.

The pilot report sets out what local and national factors need to be in place to achieve some of the potential benefits.

Following the development of whole-place business plans for community budgets in the four pilot areas, the Government confirmed in its budget that it will support other places to take similar approaches and that it is committed to extending the approach across the country as part of the 2015-16 spending round.

The Local Government Association (LGA) and the Government have jointly published 'The Community Budgets guide', intended to help other areas which aim to take a similar Community Budget approach to reforming services. The NAO has also published a review of the pilots of whole place community budgets, settling out key lessons.

The Government's response to the Heseltine review

On 8 March 2013 HM treasury published its response to Lord Heseltine's report 'No Stone Unturned'. The Government is accepting in full or in part 81 of Lord Heseltine's 89 recommendations to advance the process of decentralisation, promote the potential of local economies, strengthen partnerships with industry and foster economic growth. The March budget also specifically confirmed that government intends to take forward Lord Heseltine's recommendation on the creation of a Single Local Growth Fund.

The core proposition of Lord Heseltine's report is a de-centralised approach that breaks Whitehall's monopoly on resources and decision making, and empowers Local Enterprise Partnerships (LEPs) to drive forward growth in their local areas. Alongside this, Lord Heseltine makes a number of recommendations that strengthen the underpinnings of long-term growth, from changes to the way in which Whitehall supports growth, to strengthening partnerships between government and business and business education.

Draft Care and Support Bill update

In December 2012, the Department of Health (DH) published a summary of consultation responses on its Draft Care and Support Bill.

The draft Bill represents a major reform of care and support legislation. It proposes a single law for adult care and support and aims to transform the social care system to focus on prevention and the needs and goals of people requiring care.

In February 2013, the Government also announced new measures for funding care to ensure that the elderly and those with disabilities get the care they need without facing unlimited costs:

- ▶ From April 2015, no one will have to sell their home in their lifetime to pay for residential care. If people cannot afford their fees without selling their home, they will have the right to defer paying during their lifetime'.
- ▶ People will have clearer entitlements.
- ▶ A national minimum eligibility will make access to care more consistent around the country and carers will have a legal right to an assessment for care for the first time.

The new measures are based on the recommendations made in 2011 by the Dilnot Commission; an independent panel set up to look at the fairest and most sustainable way to fund care and support in England. The full changes are due to come into effect in April 2017.

A case for sustainable funding of adult social care published

In January 2013, a report by London Councils, supported by Ernst & Young was published on the scale of funding pressures on adult social care and the extent to which these could be mitigated through achieving greater efficiencies in the way that social care is managed, procured and delivered.

Adult social care is one of the largest spend areas for local authorities across the country. However, adult social care budgets have not kept pace with the growing demand for social care services.

The LGA found that social care is absorbing a rising proportion of the resources available to councils. They estimate that spending on other council services will drop by 66 percent in cash terms by the end of the decade to accommodate the rising costs of adult care. This is the equivalent of an 80 percent real terms cut.

The report sets out a series of recommendations for central government and four main options for local authorities to drive out additional savings:

- ▶ Greater health and social care integration.
- ▶ Implementation of alternative delivery models, moving away from in house provision to social enterprises or local authority trading companies.
- ▶ A more systematic approach to the procurement of goods and services.
- ▶ Using local government's new public health responsibilities to improve the health of communities and delay or prevent the need for health and social care.

However, the report still recognises that even if all potential savings were achieved from the above, there would still be a funding gap.

The report sets out further details about the challenges, the potential cost implications of implementing the proposed changes and ways in which local authorities could respond to the growing demand without compromising the quality or quantity of care that is available.





Health and local government working together

Public health

The responsibility for public health has transferred from the NHS to local authorities in April 2013. This has been backed by a ring-fenced public health grant and a specialist public health team, led by the director of public health. Each top tier and unitary authority will have a health and wellbeing board (HWB) which will have strategic influence over commissioning decisions across health, social care and public health.

A £5.45 billion two-year ring-fenced public health budget for local authorities was announced on 10 January 2013. From April 2013, public health budgets will be protected for the first time with local authorities taking the lead for improving the health of their local communities. This will help drive local efforts to improve health and wellbeing by tackling the wider determinants of poor health.

In February 2013, the Department of Health published guidance to local authorities on what health improvement activity they can charge for and what must be free at the point of delivery. It explains the two circumstances in which a local authority may charge for services and the type of activity it may charge for in those permitted circumstances:

- ▶ Where the activity relates to an organisation, not an individual – private companies, academic institutions, etc.
- ▶ Where the activity relates to an individual, but is not for the purpose of improving that individual's health – training an individual to provide public health advice, for example.

Health and Wellbeing Boards

The Local Authorities (Health and Wellbeing Boards and Health Scrutiny) Regulations 2013 were published by the Secretary of State for Health early in 2013. There are new obligations on both NHS bodies, relevant health service providers and local authorities around consultations on substantial developments or variations to services to aid transparency and local agreement on proposals.

The LGA and Association of Democratic Services Officers have published a joint guide to support local authorities in interpreting and implementing the constitutional and governance aspects of the Regulations 2013.

The NHS Confederation has published a report which looks at health and wellbeing boards' engagement with providers; drawing on the experiences and learning of local authorities, health providers and commissioners. It concludes health and wellbeing boards are unlikely to successfully deliver a Joint Health and Wellbeing Strategy unless they involve and engage local providers; many of which already have strong relationships with service users.

Local outcomes information for Clinical Commissioning Groups and local authorities

As well as publishing the financial allocations to Clinical Commissioning Groups (CCGs) for 2013/14 the NHS Commissioning Board has published CCG and local authority information packs on local outcomes which will support and inform planning and strategy development:

- ▶ The Local Authority level packs present high level comparative information on the NHS, the Adult Social Care and the Public Health Frameworks.
- ▶ The CCG level packs provide a more detailed analysis of NHS outcomes and other relevant indicators.

The purpose of these is to provide CCGs and health and well being partners with a quick and easy-to-use summary of their current position on outcomes as they take up their role; building on the data sets in the CCG outcomes indicators and other existing data sets.

The information is intended to be used alongside the local intelligence that is being collected to inform local Joint Strategic Needs Assessments (JSNAs) and it will support commissioners working together to set the priorities for the Joint Health and Wellbeing Strategy (JHWS).



Regulation and inspection

Draft Local Audit Bill update

On 17 January 2013, the Draft Local Audit Bill ad hoc Committee published its report 'Pre-Legislative Scrutiny of the Draft Local Audit Bill'. It recommended a new financial impact assessment be published alongside the Bill and highlighted a number of serious concerns regarding the practicability, workability and completeness of the proposals outlined in the draft Bill.

The Committee concluded that the Draft Bill:

- ▶ Would provide a more complex and fragmented audit regime than exists currently.
- ▶ Fails to provide adequate safeguards to guarantee the independence of audit.
- ▶ Falls short in addressing many of the technical aspects of audit and is silent on how high quality statutory local audit will be obtained and reviewed in the new regime.
- ▶ Contains a number of risks and gaps which require urgent attention.
- ▶ Provides insufficient safeguards to whistle-blowers that have drawn attention to serious governance failure.

A formal response from the Local Government Minister is expected in due course.

Tough times: councils' financial health in challenging times

On 22 November 2012 the Audit Commission published its second Tough Times report, looking at how councils are dealing with the spending review. It is relevant to council leadership teams, both members and officers in preparing future spending plans and allows comparison with the national picture.

The report highlights that Government funding to councils fell in real terms by £1.6 billion in 2012/13, compared to a cut of £3.4 billion in 2011/12. This two year reduction in funding of £5 billion is equivalent to 9.3 percent of councils 2011/11 revenue spending.

The report finds that in 2011/12, councils largely delivered their planned savings and in many cases added to reserves. However, auditors reported that signs of financial stress were visible. A sizeable minority of councils had to make additional in-year cuts, seek additional funding or restructure efficiency programmes in order to deliver their budgets.

The report says that auditors are concerned that 12 percent of councils are not well-placed to deliver their 2012/13 budgets. They feel that a further 25 percent will cope in 2012/13 but may struggle in the remaining years of the Spending Review period.

Auditing the accounts 2011/12

Audited accounts are the main way public bodies show accountability for managing public money. Publishing timely audited accounts is a fundamental feature of good governance.

The Audit Commission's Auditing the Accounts 2011/12 report summarises the results of auditors' opinion work for 2011/12. It covers the timeliness and quality of financial reporting. Overall, both principal and small bodies improved their standard of performance on financial reporting for 2011/12. This is a notable achievement given the continuing financial constraints facing local public bodies.

The report also summarises the key financial reporting and financial management challenges facing bodies for 2012/13:

- ▶ Continued financial uncertainty with 2012/13 being the second of four years of reductions in government funding announced in the 2010 Spending Review. Over this period, reductions in government funding to councils of 26 percent, fire and rescue authorities of 13 percent and police bodies of 20 percent, are planned.
- ▶ Significant changes for councils in respect of non-domestic rates and council tax benefit introduced by the Local Government Finance Act 2012.

- ▶ An increased focus on Whole of Government Accounts (WGA) with the Public Accounts Committee recommending the Treasury should ensure local bodies are obliged to prepare and provide transparent, timely and accurate information and that WGA is delivered earlier in the future.

The NAO has also highlighted the different approaches used by local and central government to valuing infrastructure assets and a lack of evidence supporting the completeness and valuation of schools' assets, in particular the omission of some local authority maintained schools and academies. The Financial Reporting Advisory Board and CIPFA/LAASAC are leading on addressing these and other technical accounting issues with a view to improving the consistency of future WGA. This work could result in changes to the Local Authority Code.

Not Just a Number: review of Homecare Services

In February 2013 Care Quality Commission (CQC) issued its report 'Not Just a Number: Review of Homecare Services'. The review looked at whether people receiving care at home are treated with dignity and respect, have a choice about the care they receive and benefit from effective systems to keep them safe.

The findings of the review of home care services show that good care is being delivered but a minority of people are affected by late or missed calls, lack of continuity of care workers, poor care planning and more.

CQC recommends that services must now work closer with commissioners to improve care, find solutions to these common problems and put systems in place to monitor the impact of missed or late visits.

Inequality of access and driving improvement: ofsted – annual report

Her Majesty's Chief Inspector (HMCI) Annual Report 2011/12 published in November 2012 drew national attention to the marked inequality of access by children and young people to a good school across the country and to the wide variation between areas. The Annual Report states that the role of local authorities has reduced in terms of the direct control they have over schools. However, local authorities have statutory responsibility as set out in section 13A of the Education Act 1996 and a range of powers they may use to drive school improvement.

Ofsted is consulting on its proposals to introduce a new framework for the inspection of local authority services for supporting improvement in schools and other providers. Consultation closed 19 March 2013.



Accounting and governance news

2012/13 CIPFA code of practice and updates

The key changes introduced by the Code and Code guidance notes for 2012/13 include:

- ▶ **Housing Revenue Account (HRA)** – from 2012/13 authorities will be expected to fund all HRA revenue and capital expenditure from existing resources such as rental income and debt finance. The level of rent collected and the depreciation or impairment of HRA assets will therefore have a real impact on the HRA surplus/deficit. DCLG has introduced transitional arrangements for the period 2012-2017, allowing authorities to defer the impact of the depreciation or impairment of HRA dwellings. This arrangement only applies to depreciation on dwellings.
- ▶ **Carbon Reduction Commitment** – IAS 37: Provisions, Contingent Liabilities and Contingent Assets will need to be considered in light of the scheme, where material.
- ▶ **Exit packages** – the 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages.
- ▶ **Conceptual Framework** – the first phase of the IASB's new Conceptual Framework for Financial Reporting 2010 has been adopted by the 2012/13 Code. The definition of the users of financial statements moves from being 'stakeholders' to 'present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit'.
- ▶ **Financial Instruments** – guidance regarding the new disclosures required for transfers of financial assets has been added to the Financial Instruments section.

Updates to the 2012/13 Code of Practice and the 2012/13 Service Reporting Code of Practice have also been issued by CIPFA. Both updates apply for the 2012/13 financial year-end.

Closure of the 2012/13 accounts – LAAP bulletin 96

CIPFA have published LAAP96 – closure of the 2012/13 accounts and related matters. It aims to clarify any areas of uncertainty in the 2012/13 Code that will affect the 2012/13 accounts. It also includes clarification of a small number of issues relating to the 2012/13 Code Guidance Notes.

It provides a brief summary of the key reforms and other accounting issues that will face Local Government accounting in 2013/14 and which may require disclosure in the 2012/13 financial statements, particularly in relation to the non-domestic rate and public health reforms.

Local government pension scheme fund accounts 2012/13: example accounts and disclosure checklist

This recent CIPFA publication identifies and illustrates the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) in relation to accounting for pension funds. It applies to accounting periods commencing on or after 1 April 2012. The checklist is intended to help preparers to meet the requirements of the Code but is not a substitute for the Code.

Public sector accounting workshops

Ernst & Young have been running a series of workshops to help those preparing accounts for the 2012/13 year and over 150 delegates have attended these. The workshops highlight the following key areas for focus during the 2012/13 close down period:

- ▶ Non-current assets: valuation process and principles, assets held for sale, componentisation and de-recognition
- ▶ Joint Ventures (including pooling and groups)
- ▶ Financial Instruments
- ▶ Housing Revenue Account – Self Financing

The workshops also cover key changes in 2013/14 and beyond including:

- ▶ Possible changes to accounting for schools from 2014/15
- ▶ A proposed move away from accounting for transport infrastructure assets at depreciated historic cost from 2014/15. Councils will need to ensure infrastructure databases are robust
- ▶ Revaluing assets under IFRS 13. Specific exclusions to the general definition set out in IFRS13 are included in the Code
- ▶ Service concession arrangements (IPSAS 32). IFRIC12 on Service concession arrangements applies only to the operator. IPSAS 32 mirrors IFRIC 12 on relevant accounting issues from the grantor's point of view. CIPFA augments the Code by applying IPSAS 32
- ▶ Accounting for business rates retention and council tax support
- ▶ Employee benefits (IAS 19 update)

New UK Public Sector Internal Audit Standards

The UK Public Sector Internal Audit Standards (PSIAS) were published in December 2012. These set out definitions and principles for providing and evaluating internal audit services within the UK public sector and are based on the mandatory elements of the Institute of Internal Auditors (IIA) and International Professional Practices Framework (IPPF).

The Standards will apply across the whole of the public sector. The PSIAS replace the Code of Practice for Internal Audit in Local Government in the United Kingdom, last revised in 2006.

In local government, the PSIAS are mandatory for all principal local authorities, other relevant bodies, the Office of the Police and Crime Commissioner, constabularies, fire authorities, national park authorities, joint committees and joint boards in the United Kingdom.

The PSIAS are new and complex and CIPFA recognises the need to provide guidance for the bodies set out above in applying them and has produced an Application Note to provide that guidance.

National Fraud Initiative: the latest

The National Fraud Initiative reported on 8 March 2013 that it has now helped identify over £1 billion potentially lost to fraud, overpayment or error, across the UK since its inception in 1996. The outcomes, in England, from the most recent exercise include the prevention and detection of £103 million pension overpayments, £79 million council tax single person discounts incorrectly awarded and £42 million housing benefit overpayments. Others include:

- ▶ 164 employees identified as having no right to work in the UK
- ▶ 321 false applications removed from housing waiting lists
- ▶ 1,031 prosecutions, 921 of them for housing benefit fraud
- ▶ 32,633 blue badges and 52,635 concessionary travel passes cancelled

The NFI has introduced real-time and flexible matching alongside the traditional two-yearly national matching NFI exercise. The new modules align with the government's key policies focusing on protecting the UK economy from fraud.

Fighting Fraud Locally: 2012 review

December saw the publication of Fighting Fraud Locally (FFL) 2012 Review. FFL is the sector led local government counter fraud strategy initially launched in December 2011. The 2012 Review updates progress on delivery of the strategy, identifies a series of good practice case studies and outlines strategic delivery areas for 2013.



Find out more

To find out more on any other above areas please follow the links below.

The March 2013 budget

To see LGA's reaction and summary go to:

http://www.local.gov.uk/web/guest/briefings-and-responses/-/journal_content/56/10171/3924610/ARTICLE-TEMPLATE

To read the full details of the Ernst & Young's ITEM Club's Budget Reaction go to:

<http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy>

The ITEM Club holds regular events locally and are keen to increase representation from local public services to maximise the opportunities for networking, partnership working, cross sector learning and to secure improved outcomes for local communities. For further information about these events contact your local audit team.

Final Local Government Finance Settlement 2013/14

For more details of the settlement go to:

<http://www.local.communities.gov.uk/finance/1314/settle.htm>

To read the NAO report on the financial sustainability of local authorities go to:
www.nao.org.uk/.../local-services-financial-sustainability-of-local-authorities/

Whole-Place community budgets

Read more about the pilots at:

http://www.local.gov.uk/c/document_library/get_file?uuid=3e06dd05-6204-4ae8-9b41-81f516cb9a5b&groupId=10171

Access the LGA Guide at:

<http://www.local.gov.uk/community-budgets>

See the NAO report at

<http://www.nao.org.uk/wp-content/uploads/2013/03/Whole-Place-Community-Budgets-Executive-summary.pdf>

The Government's response to the Heseltine Review

Read more about the government response at:

http://www.hm-treasury.gov.uk/ukecon_heseltinereview_index.htm

Draft Care and Support Bill update

Read more about the proposals at:

<https://www.gov.uk/government/publications/policy-statement-on-care-and-support-funding-reform>

A case for sustainable funding of adult social care published

Read more about the report on sustainable funding at:

<http://www.londoncouncils.gov.uk/policylobbying/healthadultservices/socialcare/fundingadultcare.htm>

Public health

Read more at on public health budgets at:

<https://www.gov.uk/government/publications/baseline-spending-estimates-for-the-new-nhs-and-public-health-commissioning-architecture>

Read more on Public health charging at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/141386/local-authority-charging-for-public-health-activity.pdf

Health and Wellbeing Boards

Read more at:

<http://healthandcare.dh.gov.uk/hwbs-health-scrutiny-regulations-2013/>.

Access the LGA and Association of Democratic Services Officers guide on interpreting and implementing the constitutional and governance aspects of the Regulations 2013 at:

http://www.local.gov.uk/c/document_library/get_file?uuid=ca8437aa-742c-4209-827c-996afa9583ca&groupId=10171

Access the NHS Confederation report 'Stronger together: How health and wellbeing boards can work effectively with local providers' at:

<http://www.nhsconfed.org/Publications/reports/Pages/Stronger-together.aspx>

Local outcomes information for Clinical Commissioning Groups and local authorities

Access outcome information for your council at

<http://www.commissioningboard.nhs.uk/la-ccg-data/#la-info>

Draft Local Audit Bill update

Access the pre legislative report at

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmdraftlocaudit/696/69602.htm>

Tough times: councils' financial health in challenging times

Read the report at:

<http://www.audit-commission.gov.uk/2012/11/tough-times-2012/>

Auditing the accounts 2011/12

Read the report at:

<http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/auditing-the-accounts/>

Not just a number: review of homecare services

Read the report at:

http://www.cqc.org.uk/sites/default/files/media/documents/9331-cqc-home_care_report-web_0.pdf

Inequality of access and driving improvement: ofsted – annual report

Read more at:

<http://www.ofsted.gov.uk/resources/good-education-for-all-inspection-of-local-authority-services>

Code of practice on local Authority Accounting in the United Kingdom 2012/13

The 2012/13 Code Update can be found at:

<http://www.cipfa.org/-/media/files/policy%20and%20guidance/panels/lasaac/201213%20code%20update%20including%20tracked%20amendments.pdf>

The 2012/13 Service Reporting Code of Practice for Local Authorities Update can be found at:

www.cipfa.org/Policy-and-Guidance/Technical-Panels-and-Boards/Local-Authority-Accounting-Panel/Update-to-the-201213-Service-Reporting-Code-of-Practice

New UK Public Sector Internal Audit Standards

Read about the new standards at:

<http://www.cipfa.org/Policy-and-Guidance/Publications/L/Local-Government-Application-Note-for-the-United-Kingdom-Public-Sector-Internal-Audit-Standards-Book>

National Fraud Initiative-the latest

The Audit Commission NFI update is at:

<http://www.audit-commission.gov.uk/2013/03/1-billion-of-fraud-found/>

Fighting Fraud Locally: 2012 Review

Read more at:

<http://www.fightinglocalfraud.co.uk/>

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Report to Accounts, Audit and Governance Committee

27th June 2013

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since March 2013.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit and project work undertaken since March 2012.
- ii) Note the summary of agreed actions outstanding (exempt item).

Reasons for Recommendations

- i) To comply with the requirements set out in the new Public Sector Internal Audit Standards 2013.
- ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

| | |
|---------------------------|---|
| Background Papers: | Public Sector Internal Audit Standards & Internal Audit Reports |
| Consultation: | N/A |
| Wards affected: | All |
| Contact: | Paul Miller, Chief Internal Auditor. |

Background Information

1. Introduction

The Purpose of this Report

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since March 2013, and to provide an update on progress against the internal audit plan.

2. Statutory and Policy Background

Statutory Background

- 2.1 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

Relevant Government Policy / Professional Standards

- 2.2 Internal Audit follows the new mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

Relevant Council Policy

- 2.3 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

3. Summary of Audit Findings

- 3.1 Creditors

OVERALL AUDIT OPINION: MODERATE ASSURANCE (*previously assessed as “Moderate”*)

The results of the Creditors audit were an improvement on the previous review undertaken for 2011/12. However, the audit opinion has remained as “Moderate” on the basis that the following fundamental weaknesses were identified:

- The Council has failed to fully exploit the enhanced controls available within the new “purchase to pay system”. The system is designed to support authorisation at the point of ordering. The majority of invoices continue to be authorised for payment after goods and services have been received. The target set for 2012/13 was 60%, but the percentage achieved was only 26%. A number of measures have been agreed which will help to increase the percentage in

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2013/14. In the longer term the Council will prevent invoices being processed without an authorised order.

- In the previous audit, it was reported that there was a problem with the audit trail relating to changes to creditor master file records. Whilst a temporary fix was identified and implemented, it was discovered from audit testing that two new creditors had been created but again, there was no audit trail. Consilium (the supplier of the Council's financial system, TOTAL) are working on a solution to resolve this issue. The Principal Accountant (Systems) has introduced additional controls to prevent the deletion of the audit trail.
- The majority of new creditor/supplier accounts created in TOTAL have been created by the interface with Academy system. Council Tax and NNDR rebates generated in the Academy system are posted into the Creditor Module within TOTAL in order to generate a payment. Because the interface cannot establish whether a creditor account already exists, a new account is automatically created. Multiple accounts are the main cause of duplicate payments within any Creditors system. The Principal Accountant (Systems) has agreed to investigate the possibility of preventing orders or invoices being processed for accounts created through the interface.

3.2 Business Rates (NNDR)

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE *(previously assessed as "Substantial")*

There is generally a sound system of control for the management of NNDR for the CenSus partnership. A number of minor issues were identified which have been brought to the attention of the CenSus Management Team, and remedial action has been agreed.

3.3 Debtors

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE *(previously assessed as "Moderate")*

This area has improved since the last audit as reflected in the overall audit opinion. Whilst there is basically a sound system of control over the management, recovery and write-off of sundry debts, some areas for improvement were identified and appropriate action has been agreed. In particular, the auditor identified that there had been delays in moving recovery cases forward, although it was acknowledged that new procedures had only recently been brought in to address this issue. The remaining audit findings were all low risk items.

3.4 Payroll

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE *(previously assessed as "Substantial")*

The auditor was satisfied that a sound system of control is in place for the operation of Payroll. Systems and processes are well established and documented. Audit testing identified a few areas for improvement which related to casual worker timesheets and the timeliness of reviewing payroll exception reports.

3.5 Treasury Management

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE (*previously assessed as "Moderate"*)

The auditor was satisfied that a sound system of control is in place for the operation of Treasury Management, including financial controls and the maintenance of associated records. Audit testing identified a few areas for improvement. In particular, there is a need to ensure that the Council's investment transactions are always acknowledged by counterparties confirming the details of the investment.

3.6 Voluntary Sector Grants

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE

There is in general a satisfactory system of control over voluntary sector grants, however, some control weaknesses were identified. In particular, there was a lack of documentary evidence to demonstrate how Service Level Agreement and Small Community grants were assessed and approved. In addition, financial and monitoring checks are not always being carried out.

3.7 Hackney Carriages

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE

There is a sound system of control in place for the administration of the Hackney & Private Hire licensing system. A few minor weaknesses were identified and appropriate remedial action has been agreed.

4. Audit Plan ~ Progress Update

4.1 The audit plan for 2012/13 has now been completed with the exception of a few audits which have slipped into the audit plan for 2013/14 as previously reported.

4.2 The Council's part-time auditor has given notice to terminate his contract and will be leaving on 20th July. Discussions are taking place between the Chief Internal Auditor and Director of Corporate Resources regarding audit resources. The audit plan for 2013/14 is currently at risk.

5. Audit Follow ups

5.1 Table 1 shows agreed actions implemented expressed as a percentage of the total of agreed actions followed up.

Table 1 ~ Percentage of Agreed Actions Implemented

| Financial Year | Sep 2012 | Dec 2012 | Mar 2013 | Jun 2013 |
|----------------|----------|----------|----------|----------|
| 2009/10 | 86% | 88% | 97% | 98% |
| 2010/11 | 80% | 93% | 97% | 97% |
| 2011/12 | 59% | 69% | 89% | 91% |
| 2012/13 | | | 85% | 83% |

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Table 2 below provides a summary of the number of agreed actions followed up which haven't yet been implemented. Column 2 shows the total number of agreed actions which have been followed up, and Column 6 (June 2013) shows the number of agreed actions which are currently outstanding.

In the last quarter, a total of 12 outstanding items (reported to the AAGC in March) have been implemented.

A further 94 agreed actions have been followed up for audits undertaken in 2012/13 of which 25 are outstanding.

The net result is that the total number of agreed actions followed up that have not been implemented by the due date has increased from 45 to 58.

Details of the outstanding items can be found in Appendix 3 which is an 'exempt' document.

Table 2 ~ Outstanding Agreed Actions

| Financial Year | Total Actions Followed up | No. of Agreed Actions which are Outstanding | | | |
|-----------------------------------|---------------------------|---|----------|----------|----------|
| | | Sep 2012 | Dec 2012 | Mar 2013 | Jun 2013 |
| 2009/10 | 128 | 18 | 16 | 4 | 2 |
| 2010/11 | 155 | 31 | 11 | 5 | 5 |
| 2011/12 | 215 | 41 | 39 | 24 | 19 |
| 2012/13 | 177 | | | 12 | 32 |
| Total No. of actions outstanding: | | 90 | 66 | 45 | 58 |

Please Note: The number of agreed actions total for 2012/13 will increase as and when agreed actions are formally followed up. The current total of agreed actions followed up for 2012/13 as at 1/6/13 was 177.

6. Next Steps

6.1 Not applicable.

7. Outcome of Consultations

7.1 Not applicable.

8. Other Courses of Action Considered but Rejected

8.1 Not applicable

9. Staffing Consequences

9.1 There are no direct staff consequences.

10. Financial Consequences

10.1 There are no financial consequences.


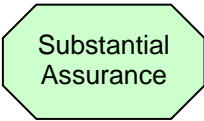


Appendix 1

Consequences of the Proposed Action

| | |
|---|---|
| Consequences of the proposed action on: | |
| Risks | All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions). |
| Risk Assessment attached Yes/No | No |
| Crime and Disorder | This report has no effect on Crime & Disorder issues. |
| Equality and Diversity/ Human Rights | The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values. |
| Equalities Impact Assessment attached Yes/No/Not relevant | Not relevant. |
| Sustainability | This report has no effect on sustainability. |

Appendix 2

Categorisation of Audit Opinions

| | |
|--|---|
|  <p>Full Assurance</p> | <p>System of Control: There is a sound system of control in place which minimises risk to the Council; and</p> <p>Compliance with Controls: Audit testing identified that all expected controls are being consistently applied.</p> |
|  <p>Substantial Assurance</p> | <p>System of Control: Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with controls in a few areas.</p> |
|  <p>Moderate Assurance</p> | <p>System of Control: There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with two or more key controls.</p> |
|  <p>No Assurance</p> | <p>System of Control: The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or</p> <p>Compliance with Controls: Audit testing identified a high number of key controls which are not being complied with.</p> |

Report to Accounts, Audit and Governance Committee

27th June 2013

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



Annual Internal Audit Report 2012/13

Executive Summary

This report has been compiled to:

- Summarise the work undertaken by Internal Audit during 2012/13 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.
- Summarise the effectiveness of audit work.
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

Recommendations

- i) To note the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems.
- ii) To note the performance of internal audit against performance targets.
- iii) To note the statement of compliance with the Public Sector Internal Audit Standards.

Reasons for Recommendations

- i) To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013.
- ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers: Internal Audit Reports and Quality Assurance and Improvement Programme self assessment document.

Consultation: N/A

Wards affected: All

Contact: Paul Miller, Chief Internal Auditor, Ext 5319

Background Information

Introduction

1.1 Purpose of Report

The main purposes of the report are to:

- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- Comment on the performance of the Internal Audit Section during the year.
- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance improvement programme.

It should be emphasised that internal audit work can provide reasonable, not absolute, assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based solely on the audit work undertaken.

1.2 Quarterly Reports

The Accounts, Audit and Governance Committee receives quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

1.3 Strategic Audit Plan

The Internal Audit Team works to a four year strategic audit plan, prepared by the Chief Internal Auditor, and aims to review the Council's major areas of operation and systems on a rolling cycle. The strategic plan was developed using a risk-based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or which are considered to be high risk, are normally reviewed on an annual basis.

1.4 Staffing

During 2012/13, the audit team operated with 3.5 members of staff (three full time employees and one part-time). All auditors have the requisite experience to effectively fulfil their responsibilities, and three members of staff are professionally qualified.

Statutory and Policy Background

Statutory Background

- 2.1 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

Relevant Government Policy / Professional Standards

- 2.2 Internal Audit follows the new standards set out in the “Public Sector Internal Audit Standards”.

Relevant Council Policy

- 2.3 The Council's Constitution supports the statutory requirements outlined above. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the results of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

3. Compliance with the Public Sector Internal Audit Standards

The Council's Internal Audit Service is operated in accordance with the new Public Sector Internal Audit Standards (PSIAS) which came into effect from 1st April 2013.

The new standards require the Chief Internal Auditor to undertake a self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report. There are a few areas of non-conformance which are detailed in Appendix 4. The only significant issue relates to the requirement for the internal audit function to be reviewed by an external organisation on at least a five yearly basis.

The Internal Audit Team has maintained its independence throughout 2012/13 in accordance with the Audit Charter. Where the Chief Internal Auditor has an influence in non-audit areas such as risk management and project assurance, another auditor within the section reviews the area and reports directly to the Director of Corporate Resources.

4. Effectiveness of Internal Audit

4.1 Progress against Annual Audit Plan

In order to respond to a number of risk areas identified during the year, the audit plan was sufficiently flexible to allow for additional audits to be undertaken.

During the year, 87% of audits were completed against a target of 85%. A summary is given below:

| | <u>No. of Audits</u> |
|---------------------------------|----------------------|
| Original Audit Plan | 31 |
| Less Audits deferred to 2013/14 | <u>(4)</u> |
| Audits Completed | <u>27</u> |

In addition to the 27 audits completed, 3 special investigations were undertaken and reported on.

4.2 Implementation of Agreed Actions

The percentage of agreed action items implemented is one of the key measures used to demonstrate the effectiveness of the section, although the actual implementation of agreed actions is a management responsibility. This area has seen substantial improvement following a request by the Accounts, Audit and Governance Committee for details of outstanding items to be incorporated into the internal audit update reports. From a review of 215 agreed actions for 2011/12, 193 have been implemented (90%). Performance continues to be reported to and monitored by the Accounts, Audit & Governance Committee on a quarterly basis.

4.3 Reporting

Draft audit reports and working papers are subject to a quality review undertaken by the Chief Internal Auditor before the final report is issued. A new performance indicator was introduced in April 2010, to measure the percentage of reports issued within 15 days of the final audit meeting. The target for 2012/13 was set at 85%, and 96% has been achieved. The average timescale for all reports issued was 8.8 days compared to 10.6 days in the previous financial year.

4.4 Management Feedback

On completion of each assignment, we consult management formally as to their opinion on the approach and value of the audit work. 13 replies were received, expressing 10 constituent opinions, and these are summarised as follows:

| <u>Opinion</u> | <u>2012/13</u> |
|----------------|----------------|
| Very Satisfied | 73 |
| Satisfied | 55 |
| Unsatisfied | 2 |

The percentage of “very satisfied” and “satisfied” responses achieved was 98% against a target of 95%.

5. Opinion on the Control Environment

- 5.1 This section of the report draws attention to any issues the Chief Internal Auditor considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.
- 5.2 My overall opinion is that “**Substantial**” assurance can be given that there is generally a sound system of internal control designed to meet the Council’s objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year and project work (such as information security). The number of outstanding agreed action items from audit follow ups has also been taken into account.

| Assurance Areas: | |
|-------------------------|---|
| Governance | The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice. Amendments to the Council’s Financial Regulations and Contract Standing Orders were approved in December and a group of officers meets periodically to review other aspects of the Constitution as the need arises. |
| Risk Management | <p>In 2012, the Council’s Risk Management Strategy was updated and Horsham District Council has made further progress in embedding risk management into the culture of the organisational. The Strategy includes an action plan (updated annually) for further improvement.</p> <p>In the Autumn of 2012, an Operational Risk Management Group was set up under the chairmanship of the Director of Corporate Resources, and this group meets on a quarterly basis. Peer reviews of Departmental Risk Registers are a</p> |

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| | |
|------------------|---|
| | standing agenda item adding an independent layer of scrutiny which is helping to ensure consistency of approach throughout the organisation. Where appropriate, cross-cutting risks are escalated onto the Council's Corporate Risk Register. |
| Internal Control | <p>Internal controls are basically sound in most areas, but there are some significant weaknesses which are outlined below:</p> <ul style="list-style-type: none"> • <u>Disaster Recovery.</u> In December 2012, Adur/Worthing (one of our CenSus IT partners) lost its ICT systems for an extended period of time. An independent review was commissioned and a 'lessons learnt' report was issued detailing a number of shortcomings in the control environment. In particular, the report highlighted the need for an inventory of hardware components (together with a replacement programme), and the need to develop a robust disaster recovery plan for IT within the CenSus Partnership. An 'interim' Head of CenSus IT has been appointed to drive forward an improvement plan, and it is anticipated that a disaster recovery plan will be in place by the end of the year. • <u>Operational Services.</u> Security controls at the Hop Oast Depot are in need of urgent improvement, which was highlighted following the theft of a substantial amount of fuel in December 2012. Internal Audit undertook a review and has made a number of recommendations for improvement. Before proceeding with the implementation of the audit recommendations, it has been agreed that a security consultant from Zurich (the Council's insurers) will visit the site to provide some specific advice for achieving a cost effective solution. A new fuel tank is currently being procured (which has enhanced security features), and will replace the existing tank which does not meet modern day environmental standards. In the meantime, the Council's vehicle fleet will continue to use the local service station until new security arrangements are in place. • <u>Information Security.</u> During 2012/13, Internal Audit was asked to undertake a special investigation into information security, and an action plan has been agreed for implementation. <p>A suite of Information Security Policies has been written, and work is now underway to write procedures which will underpin these policies. A programme of training is also</p> |

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| | |
|--|--|
| | <p>underway, and it is anticipated that further significant progress will be made during 2013/14.</p> <ul style="list-style-type: none">• <u>Health and Safety.</u> A comprehensive review of Health and Safety policy was undertaken in December 2011 and a report was issued which contained a number of recommendations for improvement. A prioritised action plan was developed to help the Council to work towards an efficient and compliant corporate Health & Safety Management system by the end of December 2013. More than 50% of the action plan has been achieved, and a new Health and Safety Officer is now in post to address the outstanding items. <p>The table of internal audit assurance opinions, at Appendix 2, shows the balance of substantial and moderate audit opinions on individual audit reports.</p> |
|--|--|

5.3 Qualification to the Opinion

My opinion is based upon, and limited to, the work performed during the year. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council, but is based upon the range of individual opinions arising from risk based audit assignments completed during 2012/13. Opinions for individual audits are detailed in Appendix 2 of this report, and definitions of the opinions can be found in Appendix 3 of this report.

6. Next Steps

Not applicable.

7. Outcome of Consultations

Not applicable.

8. Other Courses of Action Considered but Rejected

Not applicable.

9. Staffing Consequences

There are no direct staffing consequences.

10. Financial Consequences

There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

| | |
|---|---|
| Consequences of the proposed action on: | |
| Risks | The Internal Audit function contributes to the effectiveness of the Council's risk management arrangements. |
| Risk Assessment attached Yes/No | No |
| Crime and Disorder | This report has no effect on Crime & Disorder issues. |
| Equality and Diversity/ Human Rights | The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values. |
| Equalities Impact Assessment attached Yes/No/Not relevant | Not relevant. |
| Sustainability | This report has no effect on sustainability. |


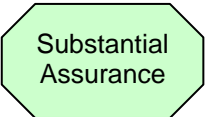


Appendix 2

| AUDITS | INTERNAL AUDIT ASSURANCE OPINIONS | | | |
|--|-----------------------------------|-------------|----------|------|
| | FULL | SUBSTANTIAL | MODERATE | NONE |
| Benefits | | ✓ | | |
| Cash & Bank | | ✓ | | |
| Creditors | | | ✓ | |
| Council Tax | | ✓ | | |
| Debtors | | ✓ | | |
| Business Rates | | ✓ | | |
| Payroll | | ✓ | | |
| Treasury Management | | ✓ | | |
| Information Security | | | ✓ | |
| Parks & Countryside Services | | | ✓ | |
| Private Sector Housing Assistance Grants | | ✓ | | |
| Risk Management | | ✓ | | |
| Main Accounting System | | ✓ | | |
| Project Management | | | ✓ | |
| Planning Section 106 Agreements | | ✓ | | |
| Reprographics | | ✓ | | |
| Purchase Cards | | ✓ | | |
| Use of Consultants | | | ✓ | |
| Emergency Planning | | | ✓ | |
| Repairs & Maintenance | | | ✓ | |
| Housing Allocations | | ✓ | | |
| Commercial Rents | | ✓ | | |
| Horsham Museum | | ✓ | | |
| Server Room Controls (County Hall North) | | ✓ | | |
| Refuse Collection | | | ✓ | |
| Voluntary Sector Grants | | ✓ | | |
| Hackney Carriages | | ✓ | | |

Note: Internal audit at Horsham audited the NNDR system on behalf of Horsham, Mid Sussex and Adur District Councils (the CenSus Partnership). The opinions for Housing Benefits and Council Tax have been provided by the Internal Audit teams working on behalf of Mid Sussex District Council and Adur District Council respectively.

Appendix 3

Categorisation of Audit Opinions

| | |
|--|---|
|  <p>Full Assurance</p> | <p>System of Control: There is a sound system of control in place which minimises risk to the Council; and</p> <p>Compliance with Controls: Audit testing identified that all expected controls are being consistently applied.</p> |
|  <p>Substantial Assurance</p> | <p>System of Control: Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with controls in a few areas.</p> |
|  <p>Moderate Assurance</p> | <p>System of Control: There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or</p> <p>Compliance with Controls: Audit testing identified a lack of compliance with two or more key controls.</p> |
|  <p>No Assurance</p> | <p>System of Control: The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or</p> <p>Compliance with Controls: Audit testing identified a high number of key controls which are not being complied with.</p> |

Appendix 4

PSIAS Quality Assurance & Improvement Plan ~ Results of Self Assessment

| Standard | Requirement | Explanation / Actions |
|----------|---|---|
| 1110 | <p>Organisational Independence</p> <p>The Chief Internal Auditor (CIA) should report “functionally” to the Board.</p> | <p>At Horsham, the CIA reports functionally to the Accounts, Audit and Governance Committee for:</p> <ul style="list-style-type: none"> • Reviewing and approving the Internal Audit Charter. • Reviewing and approving the Internal Audit Strategy. • Reviewing and approving the Annual Internal Audit Plan. • Receiving communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters. • Making appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impedes the ability of the internal audit activity to execute its responsibilities. <p>As stated in the Internal Audit Charter, full Council is responsible for the following:-</p> <ul style="list-style-type: none"> • Approving the internal audit budget. • Approving decisions regarding the appointment and removal of the Chief Internal Auditor. • Approving the remuneration of the Chief Internal Auditor. <p>The Director of Corporate Resources is responsible for approving the resource plan.</p> |
| 1312 | <p>External Assessments</p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the Board.</p> | <p>This requirement is currently under discussion with other local heads of internal audit at the Sussex Audit Group to identify a cost-effective, collaborative arrangement for this requirement to be met.</p> <p>Action by date: 31/03/14</p> |

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| | | |
|------|--|--|
| 1321 | <p>Use of “Conforms to the International Standards for the Professional Practice of Internal Auditing”.</p> <p>The Chief Internal Auditor may only state that internal audit activity “conforms” if the results of the Quality Assurance and Improvement Programme (QAIP) support this statement.</p> | <p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p> <p>Action: An appropriate statement will be incorporated into the end of year report.</p> |
|------|--|--|

Report to Accounts, Audit & Governance Committee

27th June 2013

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



“Draft” Annual Governance Statement 2012/13

Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2012/13. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

The aim of the review process is to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. Additionally, the review process has identified any shortfalls in these arrangements to enable them to be addressed.

Recommendations

- i) The Committee is asked to approve the Annual Governance Statement for 2012/13.

Reasons for Recommendations

- i) As part of good governance, it is important that the Annual Governance Statement is approved by Members of the Accounts, Audit and Governance Committee.

Background Papers: Supporting evidence and Annual Internal Audit Report

Consultation: The Corporate Management Team and Monitoring Officer

Wards affected: All

Contact: Paul Miller

Background Information

1 Introduction

- 1.1 The Accounts and Audit (England) Regulations 2011 require the Council to review, at least annually, the effectiveness of its governance arrangements and publish an Annual Governance Statement.

Background/Actions taken to date

- 1.2 Senior officers have been consulted (see 5.1 below) and supporting documentation has been updated to reflect the current position.

2 Statutory and Policy Background

Statutory background

- 2.1 Regulation 4 of The Accounts and Audit (England) Regulations 2011 requires that:-

- 4(1) the Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk; and
- 4(2) the Council shall conduct a review at least once in a year of the effectiveness of its system of internal control; and
- 4(3)
 - a) the findings of the review must be considered by the Members of the Council meeting as a whole or by a committee
 - b) following the review the body or committee must approve an Annual Governance Statement prepared in accordance with proper practices in relation to internal control; and
- 4(4) the Annual Governance Statement shall accompany the Statement of Accounts.

- 2.2 In 2007 CIPFA/SOLACE published a framework for Corporate Governance: "Delivering Good Governance in Local Government Framework". This framework provides a useful and practical update to the original Framework and follows the six core principles of good governance outlined in the Good Governance Standard for Public Services (2004) which was developed by the Commission on Good Governance in Public Services. CIPFA and SOLACE reviewed the Framework in 2012 to ensure that it remains "fit for purpose". The Framework urges local authorities to review and report on the effectiveness of the governance arrangements,

3 Details

3.1 Scope of Responsibility

Horsham District Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for, and that funding is used economically, efficiently and effectively. In

discharging these responsibilities the Council is responsible for putting arrangements in place for the proper governance of its affairs in accordance with statute.

In discharging this responsibility, Horsham District Council is responsible for putting in place suitable arrangements for the governance of its affairs, which facilitate the effective exercise of its functions and include arrangements for the management of risk.

3.2 Purpose of the Governance Framework

The governance framework comprises of the systems and processes, and culture and values, by which the authority is directed and controlled, together with the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable 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 Horsham District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.3 The Council's Governance Framework

The Council follows the CIPFA/ SOLACE framework for delivering good governance. The Annual Governance Statement is based on this framework and is prepared and submitted to the Accounts, Audit and Governance Committee (AAGC) for approval. The Annual Governance Statement is linked to the preparation of statutory accounts which are published in accordance with CIPFA guidelines.

Some of the key principles of the governance framework are set out in the following paragraphs:

The District Plan for Horsham 2011–2015 which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. Delivery of the Plan is supported by service plans, team plans and individual performance development reviews.

The Authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government 2010.

The Chief Internal Auditor is a fully qualified member of the Chartered Institute of Internal Auditors and follows the Public Sector Internal Audit Standards.

The AAGC receives external assurance reports from the Audit Commission, and the Council receives minutes from that Committee. Internal and External Audit produce reports on the adequacy of Corporate Governance arrangements across the Council, and one of the key roles of Internal Audit is to ensure that there are robust systems of internal control in place to mitigate risks and provide assurance to Members.

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The Annual Governance Statement is approved by the AAGC. The terms of reference for the AAGC include responsibility for reviewing the key areas which comprise corporate governance, namely: - accounts, audit, treasury management and risk management. Members of the Accounts, Audit, and Governance Committee have received external training on how to review the Council's Annual Statement of Accounts and their responsibilities as members of the Committee. Internal Audit has provided training to Members on the Council's risk management process. In addition, the Chair of the Accounts, Audit and Governance Committee attended a workshop in London entitled "The Influential Audit Committee Workshop" in January 2013.

On an annual basis the Council publishes the Annual Statement of Accounts, and also produces the Council's Annual report, which provides information on the Authority's performance against its priorities as identified in the District Plan. The Cabinet is responsible for approving the Council's Risk Management Strategy. The Council reviews and agrees the Treasury Management Strategy, and the AAGC receives reports on the Council's treasury management performance. The Chief Internal Auditor reports quarterly to the AAGC providing details of key audit findings and remedial actions agreed.

Internal Audit undertakes a four year rolling programme of audits and carries out annual audits of the Council's key financial systems which are reviewed by the Council's external auditors as part of the International Standards of Auditing (ISA) requirements. Internal Audit reports include "SMART" risk-assessed agreed action plans which are followed up at six-monthly intervals (or sooner if considered appropriate). Actions followed up, which have not been implemented, are routinely reported to the Accounts, Audit and Governance Committee on a quarterly basis.

The Chief Internal Auditor also presents an annual report to the AAGC. Within this report, in accordance with the requirements of the CIPFA Code of Practice for Internal Auditing in Local Government 2006, the Chief Internal Auditor provides an overall opinion on the overall adequacy and effectiveness of the Council's internal control environment, governance and risk management systems. The overall opinion for the 2012/13 financial year is that "substantial" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. Details of significant improvements to the Council's control environment and significant control issues are detailed below in sections 3.4.2 and 3.4.3 respectively.

3.4 CIPFA / SOLACE – Fundamental Principles of Corporate Governance

Core Principle (1) ~ Determining the Council's Purpose, its vision for the local area and intended outcomes for the Community.

The Council aims to deliver high quality services that meet the needs of the local community. This is set out in the Council's District Plan for Horsham 2011–2015 which is the core of the Council's purpose and vision and defines the Council's key priorities and strategic aims. The District Plan supports the Council's Sustainable Community Strategy which is produced by the Horsham District Community Partnership, a broad partnership of groups and organisations, covering a wide range of public, private, voluntary and community interests, which sets out the Council's vision for working in partnership over the longer term. The District Plan is formally reviewed and updated each year and a new District Plan 2011-15 was introduced in April 2011.

Service Plans are produced by each department in accordance with the Council's strategic aims and objectives, and are also linked to their own national and local performance indicators and the risks recorded on their risk registers. In this way, the Council's performance is continuously monitored against its objectives to provide assurance to the community.

The Council conducts a wide range of service specific surveys to ascertain the views and needs of its residents. In addition, it consulted widely as part of developing the Sustainable Community Strategy. A priority within the new District Plan is "The customer is at the heart of what we do" and a key element of that priority is to consult residents, businesses and staff regularly and provide feedback. Prior to the changes introduced by the current government, the Council conducted a Residents' Survey in autumn 2011 using the Horsham District News magazine which goes to every home in the District as a means of disseminating the survey, supported by various measures to encourage participation. The results were shared with Members, respondents and the public, and the information provided is used as a resource which informs the Council when setting and reviewing its priorities. The next Resident's Survey will be conducted in the Autumn of 2013.

The Council has a clear complaints procedure which is available via the Council's website or paper based from the Council's offices. A six-monthly report on all complaints dealt with by the Local Government Ombudsman is presented to the Standards Committee. Complaints, suggestions and comments received are reported quarterly to Corporate Management Team and the Performance Management Working Group.

The Council carries out a regular survey of users of its services and the forms and guidance are available on the Council's website. The Local Government Ombudsman has, in the past, recommended Horsham District Council's quarterly complaints; compliments and suggestions process nationally as an example of best practice.

Core Principle (2) ~ Members and Officers working together to agree common goals with clearly defined functions and roles.

The Council's Constitution gives guidance on the roles and responsibilities of Members, the Chief Executive and Chief Officers and the Scheme of Delegation is periodically reviewed. The Council's Financial Regulations and Contract Standing Orders were reviewed, updated and approved by Full Council in December 2012.

The Leader and the Chairmen and Vice Chairmen of Standing Committees receive verbal briefings from Chief Officers on a regular basis and Members now receive training as part of the induction process. A Protocol for Partnership working has been incorporated into the Council's Constitution which details the roles and responsibilities of Members.

The Director of Corporate Resources is the designated Section 151 Officer and the Council's Constitution contains specific details of the overall financial responsibilities of that role. Managers are responsible for legal compliance and the Council Solicitor works closely with departments to advise on legal issues which affect the Council.

The Council's District Plan for 2011–2015 defines the Council's vision and strategy and sets out the Council's key priorities and strategic aims. The Council uses 'Covalent' performance monitoring software and key performance indicators are monitored monthly by Corporate Management Team and reviewed quarterly by Cabinet. The Finance and Performance Working Group (a sub group of the Scrutiny and Overview Committee) provides a scrutiny function of the Council's performance through its quarterly meetings and raises issues with the Cabinet as appropriate. The Annual Report reviewing the Council's activity, costs and performance is made available on the Council's website. Following the introduction of Central Government's 'Transparency Agenda', the Council releases details of payments to suppliers exceeding £500 on the Council's website on a monthly basis.

In promoting the Council's activities externally, the most visible methods are the Council's website and online presence, the Horsham District News magazine (which won a national silver award for best publication in the LG Communications Reputation Awards 2012), media relations, publicity leaflets, campaigns and events, and the use of outdoor media.

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The Council is also developing its social media usage and uses Facebook, Twitter and YouTube for videos. Amongst the internal communications methods used for staff and Members are the 'Grapevine' newsletter, monthly key messages, team and other meetings, Tom's Talks, Ask Tom (questions to the Chief Executive), the 'Eureka' staff suggestion scheme, the Intranet, and the weekly Members' Bulletin. A Corporate Communications Strategy was approved by Council in September 2011 and the Leader created a Cabinet responsibility for Communication in its reshuffle in 2012.

Face to face discussions take place with staff through the Management Team / Staff Joint Meeting (to discuss matters of relevance and importance to staff) and the Joint Consultative Forum (a formal meeting between staff representatives and representatives of the Council's Personnel Committee).

There are structured working arrangements in place between Heads of Service and accountants on budget issues. Budgetary reporting and areas of ownership and accountability are clearly defined.

A Project Assurance Group, which was formed in July 2011, reviews the Council's 'key' projects on a monthly basis. Issues, risks and progress against the key milestones are formally reported to the Corporate Management Team (CMT) on a monthly basis. A quarterly report is also submitted to Members.

Core Principle (3) ~ Promoting our Values and Upholding High Standards of Conduct and Behaviour.

The culture of the organisation sets the foundation for the prevention of fraud and corruption by creating an environment that is based on openness and honesty in all Council activities. The culture is founded upon good organisational performance, external recognition, high staff morale and good employee attitude to internal controls.

The Council has the following policies/procedures/accreditations in place which aim to prevent or deal with such occurrences:

- Anti-Fraud and Corruption Policy.
- Confidential Reporting Code.
- HR Disciplinary Policies.
- Council's Equality Scheme.
- Information security policies (including an Acceptable Use Policy)

The Council has adopted a Single Equality Scheme and produces an annual Equality and Diversity Report monitoring progress against the scheme. Both are available on the Council's website along with a wide range of Equality and Diversity information. A new Single Equality Scheme is being drafted for 2013 with close links to the District priorities. Internal training on Equality and Diversity is addressed through the corporate induction process and specific training on equality impact assessments is provided.

The Council has incorporated in its Constitution a Member Code of Conduct, an Employee Code of Conduct for employees and a protocol on Members/staff relations. The Council's Standards Committee promotes and maintains high standards of conduct by Councillors and also investigates allegations of misconduct by Members. The Council is in the process of establishing a revised Standards regime for Members in order to accord with the provisions of the Localism Act 2011.

A register of interests is held for officers which is reviewed annually by the relevant service head or director. Members are required to declare any interests and Member Registers are available on the Council's website. Members are asked by the Monitoring Officer to review

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their registers annually. The completion and review of the Member Register of Interests is part of the work programme of the Standards Committee. Revisions to the Member Register of Interests were made in July 2012 to comply with the new provisions of the Localism Act 2011 upon receipt of government regulations defining the new “disclosable pecuniary interest”.

Core Principle (4) ~ Taking informed and Transparent Decisions and Managing Risk.

The Council's Constitution sets out how the Council operates and the process for policy and decision-making.

A new Risk Management Strategy was developed in April 2012 and has been signed by the Cabinet Member for Efficiency and Resources under delegated authority. The AAGC has responsibility for reviewing the effectiveness of the risk management framework to ensure that the process is embedded into the culture of the authority. All major projects incorporate a full risk assessment prior to action being taken. All project initiation documents include a risk assessment in the report to committee. Internal Audit undertakes an independent review of the risk management framework annually and provides assurance that risk is being managed in accordance with the Council's Risk Management Strategy and procedures.

Core Principle (5) ~ Effective Management – Capacity and Capability of Members and Officers.

There is a comprehensive induction and training programme for new officers. Training programmes for Council employees are identified from staff appraisals and personal development programmes. In addition, as specific issues arise, training and development opportunities are provided to ensure that the lessons learned can be shared. Appropriate management training for senior managers is also considered for management conferences which are held on a six monthly basis (for example, the staff appraisal process was incorporated in March 2013). New Members to the Council also have an induction programme. They have a comprehensive training programme that incorporates dealing with new legislation, understanding current legislation and developing their personal skills.

Core Principle (6) ~ Engaging with Local People and other Stakeholders to Ensure Robust Accountability

The Council's policy on Complaints, Compliments and Suggestions clearly sets out an invitation to residents to contact the Council. Consultation is important on all major issues especially around long term planning for the future of the district, and input from residents is welcomed. The Council listens to resident's comments and reacts accordingly.

The Council's Committee meetings are held in public. The press and public are only excluded when a report is presented as a Part 2 item in accordance with Part 1 of Schedule 12A to the Local Government Act 1972.

The Council's Scheme of Delegation is incorporated into the Council's Constitution. Any amendments to the Scheme of Delegation are subject to Council approval. The Scheme of Delegation was updated in February 2012 following management restructures and a further review commenced in March 2013

“All Our Futures” is the Sustainable Community Strategy for Horsham District. The Strategy provides a framework for meeting the needs of local people looking ahead to 2026 but concentrating on what needs to be done over the next three years. An independent review of the work of the Community Partnership was conducted by the Council's Social Inclusion Working Group on behalf of the Scrutiny and Overview Committee in 2011 and reported a number of positive findings along with some recommendations to further strengthen the

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Partnership. The Council has developed its engagement with the County Council and Parish/Neighbourhood Councils through a new community engagement programme in 2012 to reflect the localism agenda and the role of the HDCP is being revised in light of the changes. The Council has also engaged in the sharing of some of its key services with neighbouring authorities through the Central Sussex Partnership (CenSus). This has resulted in operational and administration efficiencies producing savings.

The Council has improved arrangements on partnerships by moving management of the CenSus Partnership to a Joint Committee comprising elected Members from Horsham, Mid-Sussex and Adur and Worthing District Councils.

3.5 Significant Governance Issues

3.5.1 Introduction

New significant governance issues are reported to the AAGC. The process of preparing the Annual Governance Statement has in itself added value to the corporate governance and internal control framework of the Council. Appendix 2 details the outcomes of actions agreed in the 2011/12 Annual Governance Statements together with agreed actions in respect of the 2012/13 Annual Governance Statement.

3.5.2 Improvements to the Council's Control Environment

- i) Budgetary Control. A new requirement has been introduced whereby budget holders forecast their income and expenditure to year end as part of their routine budget monitoring process.
- ii) Information Security. The Council's Information Manager has made huge progress in coordinating the Council's approach to information security. A suite of policies has now been approved, and a programme of training has commenced. The work being undertaken will help to safeguard the Council against significant data breaches and other high impact risks.
- iii) Health & Safety.
Good progress has been made. Approximately 50% of the Consultant's recommendations have been implemented. The Council has also appointed a full time officer as the Council's competent health & safety adviser.
- iv) Business Continuity Planning. Departmental business continuity plans have been developed during 2012/13 for the purposes of minimising service/business disruption in the event of a disaster. A corporate business continuity plan has been produced and was validated in an exercise in February 2013.
- v) Council's Constitution.
A full review of the Council's Financial Regulations and Contract Standing Orders was completed and approved by Full Council in December 2012.
- vi) Audit Follow ups
Agreed actions from internal audit reports which have not been actioned within agreed timescales are now reported quarterly to the Accounts, Audit & Governance Committee. The new process has resulted in a significant improvement in the percentage of agreed actions being implemented.

3.5.3 Significant Internal Control Issues

A number of control issues have been identified during the year, and action plans have been put in place to address these. The following weaknesses are considered to be significant:

i) Disaster Recovery

In December 2012, Adur/Worthing (one of our CenSus IT partners) lost its ICT systems for an extended period of time. An independent review was commissioned and a 'lessons learnt' report was issued detailing a number of shortcomings in the control environment. In particular, the report highlighted the need for an inventory of hardware components (together with a replacement programme), and the need to develop a robust disaster recovery plan for IT within the CenSus Partnership. An 'interim' Head of CenSus IT has been appointed to drive forward an improvement plan, and it is anticipated that a disaster recovery plan will be in place by the end of the year.

ii) Operational Services

Security controls at the Hop Oast Depot are in need of urgent improvement, which was highlighted following the theft of a substantial amount of fuel in December 2012. Internal Audit undertook a review and has made a number of recommendations for improvement. Before proceeding with the implementation of the audit recommendations, it has been agreed that a security consultant from Zurich (the Council's insurers) will visit the site to provide some specific advice for achieving a cost effective solution. A new fuel tank is currently being procured (which has enhanced security features), and will replace the existing tank which does not meet modern day environmental standards. In the meantime, the Council's vehicle fleet will continue to use the local service station until new security arrangements are in place.

iii) Information Security

During 2012/13, Internal Audit was asked to undertake a special investigation into information security, and an action plan has been agreed for implementation.

A suite of Information Security Policies has been written, and work is now underway to write procedures which will underpin these policies. A programme of training is also underway, and it is anticipated that further significant progress will be made during 2013/14.

iv) Health and Safety

A comprehensive review of Health and Safety policy was undertaken in December 2011 and a report was issued which contained a number of recommendations for improvement. A prioritised action plan was developed to help the Council to work towards an efficient and compliant corporate Health & Safety Management system by the end of December 2013. More than 50% of the action plan has been achieved, and a new Health and Safety Officer is now in post to address the outstanding items.

3.6 Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council.

Signed

.....

Leader of the Council

.....

Chief Executive

on behalf of the Members and senior officers of the Council.

4 Next Steps

- 4.1 The Committee is asked to approve the Annual Governance Statement.

5 Outcome of Consultations

- 5.1 The Corporate Management Team and Council's Monitoring Officer have been consulted, and comments have been incorporated into the Annual Governance Statement.

6 Other Courses of Action Considered but Rejected

- 6.1 None.

7 Staffing Consequences

- 7.1 There are no direct staffing consequences arising from this report.

8 Financial Consequences

- 8.1 There are no direct financial considerations arising from this report.

Appendix 1

Consequences of the Proposed Action

| | |
|--|---|
| What are the risks associated with the proposal? Risk Assessment attached Yes/No | There are no additional risk considerations other than those detailed in Appendix 2. See Appendix 2 for Annual Governance Statement Action Plan. |
| How will the proposal help to reduce Crime and Disorder? | Effective risk management helps to ensure that the Council achieves its objectives within this area. |
| How will the proposal help to promote Human Rights? | Effective risk management helps to ensure that the Council achieves its objectives within this area |
| What is the impact of the proposal on Equality and Diversity? Equalities Impact Assessment attached Yes/No/Not relevant | Effective risk management helps to ensure that the Council achieves its objectives within this area. Not relevant. |
| How will the proposal help to promote Sustainability? | This report has no effect on sustainability. |

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2012/13

| No. | Key Risk Identified | Actions | Responsible Officer | Action by Date | Outcomes |
|-----|---|--|----------------------------------|---|--|
| 1. | <u>Council's Constitution</u> Financial loss / corporate fraud due to out-of-date Financial Regulations. | Update the Council's Financial Regulations and Contract Standing Orders. | Director of Corporate Resources. | 30 th September 2012 | The Council's amended Financial Regulations and Contract Standing Orders were approved by Full Council on 19 th December 2012. |
| 2. | <u>Business Continuity</u> Disruption to service delivery in the event of a disaster. | Complete the development of a business continuity plan for the Council. | Director of Community Services. | 31 st October 2012 | A corporate business continuity plan has been produced and was validated in an exercise in February 2013. |
| 3. | <u>Information Security</u> Significant data breach. | Development of information security policies for CenSus and training for staff & Members. | Director of Corporate Resources. | 30 th September 2012 (Implementation programme will be ongoing) | A suite of Information Security Policies has been completed, and procedures to underpin the policies are currently being developed. A programme of training is being rolled out to officers and Members. |
| 4. | <u>Health & Safety</u> Non-compliance with legislation. | Implementation of Consultant's recommendations which have been captured into a prioritised action plan. All actions are due to be implemented by the end of December 2013. | Chief Executive. | 31 st December 2013 | Good progress has been made. Approximately 50% of the Consultant's recommendations have been implemented. The Council has also appointed a full time officer as the Council's competent health & safety adviser. |

ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN FOR 2013/14

| No. | Key Risk Identified | Actions | Responsible Officer | Action by Date |
|-----|----------------------|---|---------------------------------|--------------------------------|
| 1. | Disaster Recovery | A disaster recovery plan will be built and tested for CenSus ICT. | Director of Corporate Resources | 31 st December 2013 |
| 2. | Operational Services | Security controls at the Hop Oast Depot will be substantially improved. | Director of Community Services | 31 st August 2013 |
| 3. | Information Security | Procedures will be written to underpin information security policies, and a programme of training will be rolled out to Members and officers. | Director of Corporate Resources | 31 st December 2014 |
| 4. | Health and Safety | All outstanding actions from the consultant's report will be implemented by the end of the calendar year. | Chief Executive | 31 st December 2013 |

Report to Accounts, Audit and Governance Committee

27th June 2013

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt



Internal Audit – Public Sector Internal Audit Standards

Executive Summary

This report provides details of the new Public Sector Internal Audit Standards which came into effect on 1st April 2013.

Recommendations

The Committee is recommended to:

- i) Note the responsibilities of the Accounts, Audit and Governance Committee as detailed in the standards.
- ii) Note the key issues relating to the new Public Sector Internal Audit Standards.
- iii) Approve the revised Internal Audit Charter.
- iv) Note the outcome of the Quality Assurance & Improvement Programme ~ Self Assessment.

Reasons for Recommendations

- i) To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013.
- ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal audit and to consider the findings of such review.

| | |
|---------------------------|--|
| Background Papers: | Public Sector Internal Audit Standards |
| Consultation: | N/A |
| Wards affected: | All |
| Contact: | Paul Miller, Chief Internal Auditor. |

Background Information

1. Introduction

The Purpose of this Report

- 1.1 The purpose of this report is to introduce the new Public Sector Internal Audit Standards which encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing

The new document replaces the CIPFA Code of Practice for Internal Audit and contains some specific interpretation guidance for public sector organisations.

2. Statutory and Policy Background

Statutory Background

- 2.1 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

Professional Standards

- 2.2 The Public Sector Internal Audit Standards are based on the Institute of Internal Auditors (IIA) International Standards with additional requirements and interpretations added for the UK public sector. These are **mandatory** and have been developed by the IIA working alongside CIPFA. The UK public sector’s adoption of this new guidance sets higher expectations for the role and scope of internal audit and provides a consistent framework for its delivery across the sector.

Relevant Council Policy

- 2.3 Internal Audit is conducted in accordance with the Council’s Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

3. Responsibilities of the Accounts Audit & Governance Committee

The new Public Sector Internal Audit Standards (PSIAS) clearly sets out the governance responsibilities in relation to Internal Audit.

The main responsibilities of the Accounts, Audit and Governance Committee are as follows:

- Review and approve the Internal Audit Charter.
- Review and approve the Internal Audit Strategy.
- Review and approve the Annual Internal Audit Plan.
- Receive communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impede the ability of the internal audit activity to execute its responsibilities.

4. Key Issues

4.1 Definition of Internal Auditing

For the first time there is just one definition that applies to the whole of the public sector. This definition recognises the assurance and consulting elements of the role:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.2 IIA Code of Ethics

Compliance with the IIA Code of Ethics is required, in addition to compliance with any other professional code of ethics of other professional bodies that auditors belong to. All members of the Horsham Internal Audit Team are required to give an annual confirmation that these have been read, understood and will be complied with. In addition, the new Standards state that internal auditors must have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

4.3 Standards

For the purposes of clarity, any reference to "the **Board**" means the Accounts, Audit and Governance Committee, and references to "**senior management**" means the Council's Corporate Management Team.

4.3.1 Internal Audit Charter

Please see Section 5 below.

4.3.2 Independence

- The Chief Internal Auditor must confirm independence annually to the Board.
- The Head of Internal Audit must report functionally to the Board.
- The Chief Internal Auditor must have free and unfettered access to the Chief Executive and the Chair of the Board.
- To help ensure that the Chief Internal Auditor's performance assessment is not inappropriately influenced by line management with a vested interest, the Chief Executive and Chair of the Board must review and / or have an input into the performance appraisal.
- Where it is intended to take on significant consulting activity which is not in the plan then this must be approved in advance.

4.3.3 Qualifications and Continuing Professional Development

- The Chief Internal Auditor must hold a current relevant professional qualification (CMIIA, CCAB or equivalent).
- All auditors must undertake continuous professional development.

4.3.4 Quality Assurance and Improvement Programme

- Internal self assessments – ongoing monitoring of work quality and periodic review (at least annually) of compliance with standard.
- External assessments – to be carried out at least every five years to ensure compliance with the standards. These can be full external assessments, peer reviews or self assessments with peer review validation.
- External assessors must be qualified by having relevant experience.
- Results of internal and external assessments should be communicated at least annually to the Board and senior management.
- Improvement plans and progress against them must be reported annually.

4.3.5 Conformance with Standards

- Must state in the annual internal audit report whether the internal audit team conforms to the standards, and non-conformances should be set out.
- Any significant failings should be recorded in the Annual Governance Statement.

4.3.6 Audit Plan

- Must take account of the need to give an annual opinion of the assurance framework.

- Must communicate plans and resource requirements to the Board, including significant interim changes.
- Must report on any adverse impact of inadequate resources on the ability to give the annual opinion.

5. Internal Audit Charter

- 5.1 The Internal Audit Charter which details the internal activity's terms of reference was last approved by the Accounts, Audit and Governance Committee in March 2011.

The Charter has now been re-written to incorporate the requirements of the new Public Sector Internal Audit Standards, and the revised document is attached as Appendix 3 to this report for consideration and approval.

The Internal Audit Charter clearly sets out the following:

- 1.0 The definition of internal auditing
- 2.0 Clarification of roles
- 3.0 Professional Standards Framework
- 4.0 Access rights to records, physical properties and personnel
- 5.0 Reporting and communication channels
- 6.0 Independence and objectivity requirements
- 7.0 Responsibilities of internal audit and management
- 8.0 Scope of internal audit work
- 9.0 Internal audit plan
- 10.0 Reporting and monitoring
- 11.0 Quality assurance and improvement plan.

- 5.2 The new Standards include the following requirements for the public sector:

- Sets out the purpose, authority and responsibility of internal audit, and needs to be approved by the top of the organisation.
- Must recognise the definition of internal audit, the Code of Ethics and the Standards (see section 1.0 and 3.0).
- Must define the terms "Board" and "Senior Management" for the purposes of internal audit activity (see section 2.0).
- Sets out reporting relationships (see section 9.0).
- Confirms access rights (see section 4.1).
- Cover the arrangements for appropriate resourcing (see section 5.1 and 5.2).
- Defines the role of internal audit in any fraud-related work (see section 8.1).
- Explains how conflicts of interest are addressed if internal audit undertakes non-audit activities (see section 6.2 and 6.3).
- If assurances are to be provided to outside organisations this must be explained (see section 8.1).

6. Quality Assurance & Improvement Programme ~ Self Assessment

- 6.1 The internal audit service operates to an Internal Audit Charter which is approved by the Accounts, Audit and Governance Committee and reflects standards of best professional practice applicable to internal audit.
- 6.2 A Quality Assurance and Improvement Programme review (internal assessment) has now been completed which indicated no significant issues with the operation of the internal audit service. However, a few areas of potential “non-compliance” were identified and an explanatory note (or details of action to be taken) has been provided in Appendix 2.

7. Next Steps

- 7.1 Not applicable.

8. Outcome of Consultations

- 8.1 Not applicable.

9. Other Courses of Action Considered but Rejected

- 9.1 Not applicable

10. Staffing Consequences

- 10.1 There are no direct staff consequences.

11. Financial Consequences

- 11.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

| | |
|---|---|
| Consequences of the proposed action on: | |
| Risks | Not applicable |
| Risk Assessment attached Yes/No | No |
| Crime and Disorder | This report has no effect on Crime & Disorder issues. |
| Equality and Diversity/ Human Rights | Not relevant. |
| Equalities Impact Assessment attached Yes/No/Not relevant | Not relevant. |
| Sustainability | This report has no effect on sustainability. |

Appendix 2

PSIAS Quality Assurance & Improvement Plan ~ Results of Self Assessment

| Standard | Requirement | Explanation / Actions |
|----------|--|--|
| 1110 | <p>Organisational Independence</p> <p>The Chief Internal Auditor (CIA) should report “functionally” to the Board.</p> | <p>At Horsham, the CIA reports functionally to the Accounts, Audit and Governance Committee for:</p> <ul style="list-style-type: none"> • Reviewing and approving the Internal Audit Charter. • Reviewing and approving the Internal Audit Strategy. • Reviewing and approving the Annual Internal Audit Plan. • Receiving communications from the Chief Internal Auditor on the Internal Audit activity’s performance. • Making appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impedes the ability of the internal audit activity to execute its responsibilities. <p>Full Council is responsible for the following:-</p> <ul style="list-style-type: none"> • Approving the internal audit budget. • Approving the resource plan. <p>Decisions regarding the appointment and removal of the Chief Internal Auditor are governed by the Council’s Recruitment and Selection policy.</p> <p>Decisions regarding the Chief Internal Auditor’s remuneration are governed by the corporate pay and evaluation scheme.</p> |
| 1312 | <p>External Assessments</p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The scope of the assessment and qualifications / independence of the external assessor must be agreed with the Board.</p> | <p>This requirement is currently under discussion with other local heads of internal audit at the Sussex Audit Group to identify a cost-effective, collaborative arrangement for this requirement to be met.</p> <p>Action by date: 31/03/14</p> |
| 1321 | <p>Use of “Conforms to the International Standards for the Professional Practice of Internal Auditing”.</p> <p>The Chief Internal Auditor may only state that internal audit activity “conforms” if the results of the Quality Assurance and Improvement Programme (QAIP) support this statement.</p> | <p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p> <p>Action: An appropriate statement will be incorporated into the end of year report.</p> |

Appendix 3



Internal Audit Charter

1.0 Introduction:

- 1.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 Where assurance is being provided by outside organisations, internal audit may be required to assess the reliability of the work undertaken.

2.0 Role:

- 2.1 The internal audit activity is established by the Council's Corporate Management Team (herein referred to as "senior management"), and the Accounts, Audit and Governance Committee (AAGC) which is referred to in the Public Sector Internal Audit Standards as the "Board." The internal audit activity's responsibilities are defined by the Director of Corporate Resources and are overseen by the AAGC.

3.0 Professionalism:

- 3.1 The internal audit activity will govern itself by adherence to The Institute of Internal Auditors **mandatory** guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 3.2 The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to organisation relevant policies and procedures and the internal audit activity's standard operating procedures manual.

4.0 Authority:

- 4.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of Horsham District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees

Agenda Item 17

are requested to assist the internal audit activity in fulfilling its roles and responsibility. The internal audit activity will also have free and unrestricted access to the AAGC.

5.0 Organisation:

5.1 The Chief Internal Auditor will report functionally to the AAGC on the following:

- Approve the Internal Audit Charter.
- Approve the Internal Audit Strategy.
- Approve the risk based internal audit plan.
- Receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that impede the ability of the internal audit activity to execute its responsibilities.

5.2 Full Council is responsible for approving the internal audit budget and resource plan.

5.3 Decisions regarding the appointment and removal of the Chief Internal Auditor are governed by the Council's Recruitment and Selection policy.

5.4 Decisions regarding the Chief Internal Auditor's remuneration are governed by the corporate pay and evaluation scheme.

5.5 The Chief Internal Auditor will report administratively (i.e. day-to-day operations) to the Director of Corporate Resources.

5.6 The Chief Internal Auditor will communicate and interact directly with senior management and the AAGC, including attendance at Corporate Management Team meetings as appropriate and quarterly AAGC meetings.

5.7 The Chief Internal Auditor will establish effective communication with, and have free and unfettered access to, the Chief Executive and the Chair of the AAGC.

6.0 Independence and Objectivity:

6.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

6.2 The Internal Audit Team will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal audit's judgement.

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- 6.3 Where the Chief Internal Auditor has direct responsibility for a non-audit activity, or heavily influences a non-audit activity, independent assurance will be obtained in one of two ways:
- Either the non-audit activity will be audited by another member of the audit team, reporting directly to the Director of Corporate Resources.
 - Or the activity will be reviewed by another auditor from outside the Horsham D.C. Internal Audit Team.
- 6.4 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 6.5 The Chief Internal Auditor will have freedom to report in his or her own name, to all officers and Members and particularly to those charged with governance.
- 6.6 The Chief Internal Auditor will confirm to the AAGC, at least annually, the organisational independence of the internal auditing activity.

7.0 Responsibility:

- 7.1 Management's role is to ensure that effective governance arrangements are in place to manage strategic and operational risks and to maintain an effective system of control to mitigate these risks. They are also responsible for ensuring that members of staff are aware of the processes and procedures required to operate the control systems. This includes responsibility for the prevention and detection of fraud and other illegal acts. Where recommendations are made by Internal Audit and appropriate actions are agreed, managers are responsible for ensuring that these actions are completed within the agreed timescale.
- 7.2 Internal Audit is responsible for promoting the benefits of good governance and helping to raise governance standards. The audit function should contribute towards the improvement of risk management processes, and is responsible for reviewing all aspects of internal control throughout the authority's activities and advising the Director of Corporate Resources on the soundness, adequacy and application of internal controls in relation to all key financial systems. The internal auditor should have regard to the possibility of malpractice and should seek to identify serious defects in internal control that might permit the occurrence of such an event. Whilst Internal Audit is not responsible for the prevention and detection of fraud and other illegal acts, it should evaluate the potential for the occurrence of fraud, and when it does occur, make recommendations for improving controls to prevent further occurrences.

8.0 Scope of Internal Audit Work:

- 8.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in

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carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organisation's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the system established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which the resources are employed.
- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organisation's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the AAGC.
- Undertaking investigations into fraud and irregularity.
- Evaluating specific operations at the request of the AAGC or management, as appropriate.
- Providing assurance to CenSus partners when reviewing partnership systems (such as Revenues and Benefits) or undertaking IT audits.

9.0 Internal Audit Plan:

- 9.1 At least annually, the Chief Internal Auditor will submit to senior management and the AAGC an internal audit plan for review and approval. The internal audit plan will consist of a work schedule and planned resource requirements for the next fiscal year. Where appropriate, the Chief Internal Auditor will communicate the impact of resource limitations to senior management and the AAGC.
- 9.2 The internal audit plan will be developed on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the AAGC. The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the AAGC through periodic activity reports.

10.0 Reporting and Monitoring:

- 10.1 A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the AAGC.
- 10.2 The internal audit report will include agreed actions, timescales for implementation and the name of the officer responsible for implementation. An explanation for any corrective action(s) that will not be implemented will also be provided where applicable. Medium and high risk items where no action has been agreed will be referred to the appropriate senior manager.
- 10.3 The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issue file until cleared.
- 10.4 The Chief Internal Auditor will periodically report to senior management and the AAGC on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the AAGC.
- 10.5 The Chief Internal Auditor will report annually to the Accounts, Audit and Governance Committee and provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

11.0 Quality Assurance and Improvement Programme:

- 11.1 The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identified opportunities for improvement.
- 11.2 The Chief Internal Auditor will communicate to senior management and the AAGC on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments, and external assessments conducted at least every five years.

Approved this 27th day of June, 2013

Chief Internal Auditor

Director of Corporate Resources

Chair of the Accounts, Audit & Governance Committee

Report to Accounts, Audit and Governance Committee

27th June 2013

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt



Risk Management – Quarterly Update Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews. The report also provides a summary of the main points of discussion from the Operational Risk Management Group meeting which took place on 14th May.

Recommendations

The Committee is recommended to:

- 1) Consider the updated version of the Corporate Risk Register (see Appendix 2).
- 2) Note the main points of discussion at the May 2013 Operational Risk Management Group meeting.
- 3) Note the progress which has been made with the departmental risk registers.

Reasons for Recommendations

As part of good governance, it is important that these documents are considered by Members.

| | |
|---------------------------|--|
| Background Papers: | Management Information obtained from Covalent and the Minutes of the Operational Risk Management Group Meeting |
| Consultation: | The Corporate Management Team and Chief Internal Auditor |
| Wards affected: | All |
| Contact: | Paul Miller, Ext 5319 |

Background Information

1. Introduction

The Purpose of this Report

- 1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers. Feedback from the Operational Risk Management Group meeting held in May 2013 is also provided for information.

2. Risk Management Update

2.1 Corporate Risk Register

The Corporate Management Team (CMT) has reviewed all outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk.

The following risks have been added:

- CRR40 - The Council may lose planning application appeals due to a shortfall in the Five Year Land Supply.
- CRR41 - Increased risk of loss of IT services through unforeseen circumstances due to the lack of a tested Disaster Recovery Plan.

(See Appendix 2 for more details and planned remedial action).

The following risks have been removed as suggested at the last Accounts, Audit and Governance Committee meeting as risk exposure is currently assessed as low:

- CRR29 - Pressure on the Council's financial position due to new government initiative to localise Council Tax Benefit.
- CRR36 - Legislative breach due to failure to update policies, systems and procedures in readiness for the implementation of the Localism Bill.

CMT has agreed that CRR30 should also be removed as the financial risk has now been quantified as 7.5% and will be limited to a figure of £135,000.

2.2 Operational Risk Management Group (ORMG)

The Operational Risk Management Group (ORMG) met on 14th May, and the main points from the meeting are summarised below:

- The Chief Internal Auditor (CIA) explained the decision to move from a 3x3 risk matrix to a 5x5 matrix as agreed by the Corporate Management Team.

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Many organisations, including our CenSus partners, are operating with a more sophisticated model. The 5x5 matrix will be more granular and will also be consistent with other 5x5 models which have been introduced in other areas of the Council (for example health and safety and business continuity).

The CIA will develop the new 5x5 risk model which will be forwarded to members of the ORMG for comment. The Risk Management Strategy will then be amended and submitted to the AAGC for approval in September.

- The new Health and Safety Officer provided an update on progress regarding the action plan she has inherited from her predecessor. She reported that since her appointment, her main area of focus has been Hop Oast Depot and the Capitol Theatre. There was some discussion around the “Contact with Caution” Register and the need to develop a cascade system to help ensure that notes on computer application systems are kept up to date.
- The Council’s Insurance Manager provided feedback on claims experience, and a number of accident summary reports were presented. It was reported that the number and value of motor claims has steadily reduced during the past three years. It was agreed that more detailed information on driver accidents will be supplied to the Operational Services Manager for performance management purposes.

2.3 Departmental Risk Registers

3 out of 20 departmental risk registers had not completed by the cut-off date.

At the ORMG meeting (referred to in 2.2) above, a peer review of the Waste & Recycling Risk Register and Economic Development / Leisure Risk Register was undertaken. A number of actions have been agreed.

3. Next Steps

3.1 Not applicable.

4. Outcome of Consultations

4.1 Not applicable.

5. Other Courses of Action Considered but Rejected

5.1 Not applicable.

6. Staffing Consequences

6.1 There are no direct staff consequences.

7. Financial Consequences

7.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

| | |
|--|--|
| Consequences of the proposed action on: | |
| Risks | The report provides an update on the Council's corporate risks and how these are being managed by the Corporate Management Team. |
| Risk Assessment attached ~ No | See Appendix 2 for the latest version of the Council's Corporate Risk Register. |
| Crime and Disorder | Effective risk management helps to ensure that the Council achieves its objectives within this area. |
| Equality and Diversity/ Human Rights | Effective risk management helps to ensure that the Council achieves its objectives within this area. |
| Equalities Impact Assessment attached Yes/No/Not relevant | Not relevant. |
| Sustainability | This report has no effect on sustainability. |

Statutory and Policy Background

| | |
|---|---|
| Statutory Background | The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk". |
| Relevant Government Policy / Professional Standards | Risk management is an essential element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements. |
| Relevant Council Policy | The Council's Risk Management Strategy 2012/15 has been published on the Council's Intranet. The Corporate Risk Register is managed by the Council's Corporate Management Team, and each Head of Service is responsible for managing one or more departmental risk registers. When undertaking major projects, a risk log is maintained which is a requirement of the Council's project management methodology. |

Copy of Corporate Risk Report with Actions June 2013 V2

Generated on: 18 June 2013

Status Symbols:



= Completed.



= Ongoing or future implementation date.








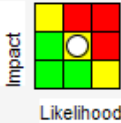

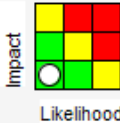

= Overdue.



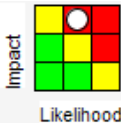
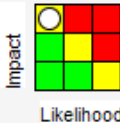
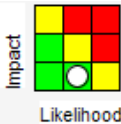
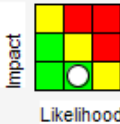
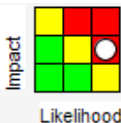

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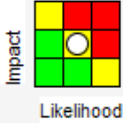

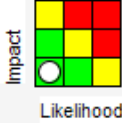


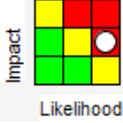

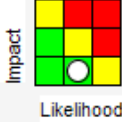


| Risk Code & Description | Consequences | Risk Owner | Current Risk Matrix | Action Code & Title | Action Owner | Status | Target Risk Matrix | Quarterly Update |
|---|---|--------------------|---------------------|---|--------------|--------|--------------------|---|
| CRR01 Failure to identify appropriate actions to deal with reduced funding. | Job losses, reduced income, capital receipts reduced or not realised, service cuts (non-statutory functions, increased workload (e.g. debt recovery), and possible damage to reputation. Loss of discretionary services impacting on quality of life. | Katharine Eberhart | | CRR.01.10 Scope key projects and identify timelines. together with dependencies and critical resource requirements (Ongoing). | CMT | | | June 2013 Update: The next MTFS is due to go to Cabinet at the end of July 2013. |
| | | | | CRR.01.8 Develop & Deliver a new Medium Term Financial Strategy (to Council 19/12/12). | CMT | | | |
| | | | | CRR.01.9 Develop and deliver Business Transformation Programme. | CMT | | | |
| CRR05 Inadequate "information security" | Financial penalties & damage to reputation. | Peter Dawes | | CRR.05.1 Develop an ICT Security Policy (by 30/09/12) | Peter Dawes | | | June 2013 Update: Member training dates agreed for June 2013. Systems and processes updated for reporting and managing information security issues. |
| | | | | CRR.05.2 Develop processes & procedures which underpin the IT Security Policy (by 31/12/14, then annual review). | Peter Dawes | | | |
| | | | | CRR.05.4 Provide a programme of training on Information Security to all staff (by 31/12/13, then ongoing). | Peter Dawes | | | |
| | | | | CRR.05.8 Member training will be provided to ensure the use of HDC e-mail only (or emails received / sent from private email boxes are copied to HDC email box) (by 30/6/13). | Peter Dawes | | | |

APPENDIX 2

| Risk Code & Description | Consequences | Risk Owner | Current Risk Matrix | Action Code & Title | Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|---|----------------------|---|--|---------------|---|---|---|
| CRR06 Lack of a tested Business Continuity Plan | Disruption to service, legislative breaches (if critical paperwork lost), loss of income & failure to achieve objectives. | Natalie Brahma-Pearl |  | CRR.06.1 Develop corporate business continuity plan and regular review (to be completed by 30/11/13). | Trevor Beadle |  |  | June 2013 Update: An action group has been established and a meeting chaired by Natalie Brahma-Pearl convened on 09/05/2013 to discuss and implement the recommendations outlined from the recent exercise. Deadline dates for specific actions were recorded at this meeting and it was envisaged that the majority of actions would be completed by September 2013. The BCP and associated MOU have been agreed and signed off by CMT as of 14/05/2013. |
| | | | | CRR.06.2 Develop departmental business continuity plans and regular review (by 30/11/13). | Trevor Beadle |  | | |
| | | | | CRR.06.3 To field test reciprocal business recovery arrangements with Crawley Borough Council | Trevor Beadle |  | | |
| CRR21 Whilst there is a formal cascade system in place for calling out staff in the event of an emergency, there is no formal arrangement in place for calling out support services such as ICT & Buildings Maintenance staff (31/3/13). | An incident which cannot be resolved causing service interruptions at HDC Offices or other buildings for which we are responsible | Natalie Brahma-Pearl |  | CRR.21.1 Review Duty Officer and Out of Hours system (by 31/3/13) | Peter Dawes |  |  | June 2013 Update: This issue is being picked up as part of the staff terms and conditions review. |
| | | | | CRR.21.2 Review appropriate Role Profiles to ensure that Out of Office cover is addressed (by 31/3/13) | Peter Dawes |  | | |

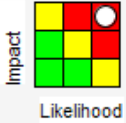

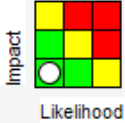

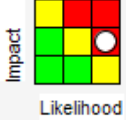

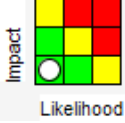

APPENDIX 2

| Risk Code & Description | Consequences | Risk Owner | Current Risk Matrix | Action Code & Title | Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|--|--------------------|---|--|--------------------|--------|---|---|
| CRR24 Loss of Telephone System due to hardware failure | Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation | Peter Dawes |  | CRR.24.02 Explore partnership opportunities. | Peter Dawes | ✓ |  | June 2013 Update: Siemens has been officially awarded the telephony contract. Technical architecture meeting held between Siemens and Capita to agree WAN connectivity design. Installation to be completed by October 2013. |
| | | | | CRR.24.03 Consider acquisition of new system - options report will be produced by December 2012. | Peter Dawes | ✓ | | |
| | | | | CRR.24.04 Complete installation of new telephone system | Peter Dawes | ▶ | | |
| CRR30 Potential financial loss due to new government initiative for the localisation of business rates | Non compliance with statutory requirements. Financial business loss. Disruption of service. Damage to reputation. | Katharine Eberhart |  | CRR.30.1 National updates (31/3/13) | Katharine Eberhart | ✓ |  | June 2013 Update: The loss has now been quantified as 7.5% of the business rate spending baseline, and therefore the estimated loss to HDC is capped at a maximum of £135k. CMT have agreed that this risk should now be removed from the Corporate Risk Register. |
| | | | | CRR.30.2 County Working Group (31/3/13) | Katharine Eberhart | ✓ | | |
| CRR31 Potential financial loss due to new government initiative to move towards the Universal Credit. | Non compliance with statutory requirements. Financial business loss. Disruption of service. Damage to reputation. | Katharine Eberhart |  | CRR.31.1 Review Updates - National Guidelines (31/3/13) | Katharine Eberhart | ▶ |  | June 2013 Update: Continue to monitor the Government's detailed arrangements. |










| Risk Code & Description | Consequences | Risk Owner | Current Risk Matrix | Action Code & Title | Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|--------------------------------|-------------|--|--|---|---|--|--|
| CRR34 Poor performance and/or decision-making following a reduction in the number of directors, increasing work pressures on Directors, Heads of Service and Line Managers | Failure of business objectives | Tom Crowley |  | CRR.34.1 Regular 1-2-1's with Directors and Heads of Service (Monthly) | Tom Crowley; Natalie Brahma-Pearl; Katharine Eberhart |  |  | June 2013 Update: ¹ (See footnote) |
| | | | | CRR.34.2 Review at CMT (Bi-Monthly) | Tom Crowley, Natalie Brahma-Pearl, Katharine Eberhart |  | | |
| | | | | CRR.34.3 Review of performance statistics (Monthly) | Tom Crowley, Natalie Brahma-Pearl, Katharine Eberhart |  | | |
| CRR37 The challenge of delivering the day job and projects against a background of business transformation & new initiatives increases pressure on staff and stress-related absences | Disruption of service | Tom Crowley |  | CRR.37.1 Develop Business Transformation Project Plan (30/6/12) | Tom Crowley |  |  | June 2013 Update: See comments in CRR34 above. |
| | | | | CRR.37.2 Member Advisory Group will set clear priorities (31/7/12) | Tom Crowley |  | | |
| | | | | CRR.37.3 Monitor performance statistics (Monthly) | Tom Crowley |  | | |

¹ Priorities and pressures are regularly reviewed by Chief Executive and Directors, and within CMT. In addition the high level corporate priorities to support the District Plan for 2013/14 have been agreed by Cabinet and built into this year's service plans. Transformation Programme has been fully resourced to avoid unrealistic demands for additional work on managers. Other areas of service pressure (e.g. Legal and Development Management) are getting additional temporary resources pending further reviews through the Transformation Programme. Other staffing changes in Legal have enabled permanent appointments to be made to strengthen key parts of service's activities.

APPENDIX 2

| Risk Code & Description | Consequences | Risk Owner | Current Risk Matrix | Action Code & Title | Action Owner | Status | Target Risk Matrix | Quarterly Update |
|---|---|-------------|---|--|----------------|---|---|---|
| CRR38 Failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2014, due to delay in preparing the District Planning Framework | Failure of business objectives, substantial financial loss and damage to reputation | Tom Crowley |  | CRR.38.1 Raise Member awareness of the impact of further delays to the adoption of the District Planning Framework | Jill Scarfield |  |  | June 2013 update: Draft Strategy for District Planning Framework (DPF) will be reported to Council on July 25th. Additional temporary senior resources applied to process. This will enable progress to be made on CIL. In addition the Government has consulted on extending the CIL deadline to April 2015. Anticipated adoption of DPF and CIL scheme Spring 2015. |
| | | | | CRR.38.2 Explore options available for condensing the CIL policy implementation timescales (by 31/12/12) | Jill Scarfield |  | | |
| CRR39 Low morale of workforce and / or withdrawal of goodwill as a result of the terms and conditions review leading to poor performance, reduced level of office cover and reduced willingness to 'go the extra mile' & respond to out of hours emergencies. | Failure of business objectives, non-compliance with statutory requirements, financial business loss, disruption of service & damage to the Council's reputation | Tom Crowley |  | CRR.39.01 Satisfactory outcomes from negotiations with the Union and timely conclusion of the Ts & Cs. | Tom Crowley |  |  | June 2013 Update: Consultation period ended April. Negotiations with Unions underway. Regular and detailed communication with staff and representatives has taken place. Inevitably concerns will remain until matter resolved and in some quarters beyond that. Whilst no deadline set for conclusion both sides agree that early resolution is a priority. |
| | | | | CRR.39.02 Regular consultations and meetings | Tom Crowley |  | | |

APPENDIX 2

| Risk Code & Description | Consequences | Risk Owner | Current Risk Matrix | Action Code & Title | Action Owner | Status | Target Risk Matrix | Quarterly Update |
|--|--|--------------------|---|---|----------------|---|---|--|
| CRR40 The Council loses planning application appeals due to a shortfall in the Five Year Land Supply. | Failure of business objectives Financial business loss Damage to reputation | Tom Crowley |  | CRR.40.01 Identify five year land supply via the Planning Development Framework (by 30/06/13) | Barbara Childs |  |  | New risk added May 2013. |
| | | | | CRR.40.02 Continue to raise awareness with Members (by 30/06/13) | Barbara Childs |  | | Publication of draft DPF post July 25th will help to construct defence in these cases. However risk will remain until new DPF is adopted and/or land supply deficit is resolved. |
| CRR41 Increased risk of loss of IT services through unforeseen circumstances due to the lack of a tested Disaster Recovery Plan. | Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation | Katharine Eberhart |  | CRR.41.01 Develop Disaster Recovery Plan for HDC / CenSus (by 30/9/13) | Ian Henderson |  |  | New risk added May 2013. |
| | | | | CRR.41.02 Build Disaster Recovery Plan (by 31/12/13) | Ian Henderson |  | | |
| | | | | CRR.41.03 Test Disaster Recovery Plan (by 30/03/14) | Ian Henderson |  | | |