

Audit Detailed Report

August 2005



Interim Audit

Harrogate Borough Council

Audit 2004/2005

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Contents

Summary Report	4
Introduction and background	4
Audit approach	4
Main conclusions	5
Detailed Report	6
Financial aspects of corporate governance	6
Core process review	9
Other key areas	10
Appendix 1 – Action Plan	12

Summary Report

Introduction and background

- 1 The audit plan for 2004/05 explained the work we would be carrying out to meet our Code of Audit Practice responsibilities. This report gives the results of our work in respect of two areas of these responsibilities, as follows:
 - financial aspects of corporate governance (FACG) - an assessment of the Council's arrangements for ensuring the proper conduct of its financial affairs; and
 - core process review - this feeds into our opinion on the Council's annual financial statements and focuses on the core processes that form the basis for the preparation of these statements.
- 2 In addition to this, the Council has recently undergone a number of changes both in terms of its structure and its systems, and we have also reviewed the following key areas:
 - the new e-payments system;
 - revised project management arrangements; and
 - the management reorganisation.
- 3 Our detailed findings are reported on an exception basis. We have only included those areas where we feel the Council should consider strengthening its arrangements, and have not included the many areas where we did not identify weaknesses in the Council's arrangements.

Audit approach

- 4 The review of the Council's FACG arrangements focuses on four main areas:
 - legality of significant financial transactions;
 - financial standing;
 - systems of internal financial control; and
 - standards of financial conduct.
- 5 These areas are consistent with those that were used to form our Auditor Scored Judgement (ASJ) scores as part of the CPA review in May 2004. This review concluded that the Council's governance arrangements were all either 'adequate' or 'better than adequate'.

- 6 Our core process review assesses the controls in place in respect of:
 - main accounting system;
 - budgetary control system; and
 - closure of the accounts.
- 7 The review determines the extent to which we are able to rely on these core processes in relation to the opinion we give on the Council's statement of accounts, and therefore the amount of additional work we need to carry out at the final account's audit in order to give that opinion.

Main conclusions

- 8 The Council's governance arrangements have been maintained at a satisfactory level. There is still a need for some key policies and procedures to be updated, most notably in respect of the Council's standing orders and financial procedure rules.
- 9 Procedures for disseminating new legislation should be formalised through development of a set protocol.
- 10 Risk management procedures are satisfactory, but for risk management to be further embedded within the Council it is important that risk registers are monitored and updated regularly, so that risks identified can be actively controlled.
- 11 Our review of the Council's core processes indicates that we can continue to rely on them.

Detailed Report

Financial aspects of corporate governance

Legality of significant financial transactions

- 12 In our 2003/04 interim report we commented on the continued absence, due to illness, of the Monitoring Officer. Following the MO's retirement, this post has now been filled by the Chief Solicitor.
- 13 The legal department is responsible for reviewing and communicating new legislation. Each lawyer's contract includes a requirement for them to review and implement any relevant new legislation.
- 14 These arrangements could be strengthened further if the Council adopted a protocol for considering and then communicating new legislation to officers and members, that includes:
 - a risk assessment of the key issues from the new legislation and its likely affect on the Council, both in terms of financial and operational issues;
 - production of a summary of the new legislation;
 - raising awareness of the new legislation within the Council through the use of the Council intranet, newsletters, and a named contact to be available to provide any further information;
 - provision of workshops or training sessions to those directly affected; and
 - liaison with other local authorities.
- 15 Such a protocol should help to ensure a standard approach is taken and a standard quality of information is provided.

Recommendation

R1 The legal department should consider adopting a standard protocol for consideration and dissemination of relevant new legislation to Council officers and members.

Financial standing

- 16 The Council has a three year medium-term financial strategy (MTFS). This strategy is updated annually, and is used as the basis for the following year's budget.
- 17 A review of the MTFS has shown that it is based on a reasonable timescale in terms of what the Council is able to predict and therefore plan for.

- 18 The target general fund balance of £2 million to £2.75 million has been discussed with the Director of Resources and is considered reasonable. The methodology for having such a balance could be strengthened through a full assessment of the risks that face the Council and any potential unexpected costs that might be incurred. Some risks, such as dependency on HIC income and treasury management strategy and cashflow are considered when setting and agreeing the medium-term financial strategy.
- 19 The Council is now committed to the improvements planned for the Royal Hall, and this has put considerable strain on capital funding, especially in relation to the asset management plan. A capital assessment methodology is in place to help prioritise capital schemes, but the Council should continue to carefully consider its capital funding requirements, coupled with any potential future use of the prudential code.

Recommendation

R2 The Council should continue to carefully consider its capital funding requirements, and any potential future use of the prudential code.

Systems of internal financial control

- 20 Internal financial control starts with the officers who are responsible for managing the systems in place. They should monitor the operation of financial systems through key controls and performance measures, and take corrective action where necessary.

Performance management

- 21 The Council is introducing a new performance management system. Our initial review of this indicates that it will help officers to be able to monitor the performance of key systems, on a continuous basis, or at set intervals throughout the year.

Internal Audit

- 22 We have carried out a full review of Internal Audit. Detailed findings from this review have been included in a separate report, our key conclusions are that:
- overall, Internal Audit comply with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA, 2003);
 - Internal Audit provides sufficient assurance to management on the operation of the Council's internal control framework;
 - they provide an effective service; and
 - their work is of a standard that we are able to place reliance on.
- 23 There are a number of recommendations in the report to Internal Audit that will need to be considered if the service is to sustain or improve its current level of operation.

Risk management

- 24 The Council introduced a new risk management structure and approved a strategic risk register in 2003. Below the strategic risk register, all departments have adopted their own local risk registers (operational risk registers), and these are then supported by risk registers for specific projects that might impact across a number of different services/departments.
- 25 A review of the Council's risk management procedures identified a number of areas where procedures could be strengthened and the risk management structure made more robust, as follows:
- more regular reporting of changes to the strategic risk register to members, including updates of which risks have improved, stayed the same, worsened, and are new;
 - more regular updates of the risk registers at set intervals throughout the year;
 - more explicit links to central and departmental budgets and service plans;
 - formal action plans to identify and monitor mitigating actions for each identified risk;
 - a set process for identifying new risks and adding them to the risk registers, for example, by including a set agenda item for CMT to consider emerging and existing risks, or through a regular review of minutes; and
 - a clear separation of the risk management strategy and the risk management policies and guidance.
- 26 These have already been identified by the Corporate Improvement Officer (Governance) but the necessary actions to address them have been delayed due to other competing priorities.
- 27 The 2003/04 SIC recognised that some arrangements were not in place, and mirrors some of the areas identified above. Nevertheless, these issues were still found to be outstanding during the audit in February 2005.

Recommendation

R3 Risk management procedures should be strengthened through regular updates of risk registers, more robust processes for identifying new risks, action plans to identify how existing risks can be mitigated, clearer links to budgets and service plans, and more frequent reporting to members.

Standards of financial conduct

- 28 The CIPFA code of practice for treasury management in public services (Part 5) (CIPFA, 2001) recommends four specific clauses that should be adopted by the Council as part of its standing orders and financial regulations.
- 29 These four clauses do not appear to have been explicitly included by the Council within its financial procedure rules, although the procedures do mention that the CIPFA Code has been adopted in its entirety by the Council. However, it is understood that the council has adopted the four clauses in practice.

- 30 The standing orders and financial regulations themselves have not been reviewed and updated since they were issued in 2001. It is our understanding that the Head of Legal and Democratic Services and Internal Audit Manager are both working on updating elements of these documents. Revised financial regulations will be approved by Council in October 2005.
- 31 The 2003/04 SIC also recognised the need to update these documents, but this has not been completed within the 2004/05 timescale indicated.
- 32 It is likely that the introduction of a new financial management system in 2006 will prompt a further revision of the financial regulations, but notwithstanding this, it is important that they are reviewed and where necessary updated on a regular basis for them to remain meaningful working documents.
- 33 In general, it is important for all policies and procedures to be reviewed on a regular basis, either through an annual review of all documents, or by setting a specific review date for each document. In addition, changes may be required due to changes in legislation. This will ensure they remain current and that officers and members are reminded of their content on a regular basis.

<i>Recommendations</i>
<i>R4 The specific clauses referred to in part 5 of the CIPFA code of practice on treasury management should be incorporated into the Council's financial procedure rules.</i>
<i>R5 Revised standing orders and financial procedure rules should be issued within the next six months.</i>
<i>R6 A review and revise date should be included on all Council policies and procedures to ensure they remain up to date.</i>

Core process review

Accounts closedown arrangements

- 34 The Council is again faced with a shorter period in which it is required to closedown and produce the statement of accounts under the whole of government accounts initiative. The deadline this year is 31 July, and we are required to issue our opinion by 31 October.
- 35 In anticipation of the 2005/06 financial statements closedown, where the deadlines are again brought forward by a month, the Officers responsible are aiming to produce an initial draft set of accounts before the end of June, so that any lessons can be learnt and feed into the 2005/06 process.
- 36 A review of the closedown procedures in place for 2004/05 found them to be satisfactory.

Main accounting system and budgetary control

- 37 Internal Audit (IA) carried out a joint review of the general ledger and budgetary control systems for 2004/05. We undertook a detailed review of this work and concluded that we were able to rely on the work undertaken. As IA undertakes certain aspects of this audit on a cyclical basis, we supplemented this with our own work in the areas not covered by IA this year.
- 38 We are satisfied that we are able to place reliance on the main accounting and budgetary control systems. This will feed into our risk assessment as part of the planning process for the final account's audit.

Other key areas

Reorganisation

- 39 The Council undertook a significant reorganisation of its departmental and management structure in 2004/05, and this came into effect from April 2005.
- 40 Discussions with the Director of Resources, and a review of key reports related to the restructure, indicate a fair and open process. In the interim, the Council will need to continue to ensure that there is a smooth transition to the revised departments, and where necessary, officers are clear about any changes to key systems, for example budgetary control.
- 41 It was noted that some officers were concerned about the method of consultation used in respect of the proposed restructure. Although the Chief Executive responded to these concerns in his correspondence to those officers, consideration should be given to any lessons that might be learnt from the process and perhaps feed into future exercises that involve staff consultation.

Recommendation

R7 The Council should consider whether there are any lessons that can be learnt from the consultation exercise carried out in respect of the reorganisation process. These lessons should feed into future consultation procedures.

Project management

- 42 Our review of the revised project management arrangements showed that whilst the new procedures are still being drafted and finalised, the Council is making clear progress on this. The new guidance was tabled at the resources scrutiny commission on 18 July 2005 for comment before going to cabinet.
- 43 The Royal Hall project is the first area that is subject to the new guidance, and we will continue to monitor the approach taken on this key scheme.

E-payments

- 44** The Council introduced a new e-payments system in February. The system represents a significant change in the way that the Council collects income from the public. IA has undertaken some work on this.
- 45** Whilst we have reviewed the purpose and structure of the system through discussion with officers, the output and successful integration of the system with other council systems, such as the general ledger, will be partly tested through our final accounts work on the bank reconciliation.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial aspects of corporate governance						
6	R1 The legal department should consider adopting a standard protocol for consideration and dissemination of relevant new legislation to Council officers and members.	2	Chief Solicitor	Yes, in principle.	Agreed in principle, resources permitting. Chief Solicitor to take a report to CMT to seek their views on an appropriate approach.	2005/06
7	R2 The Council should continue to carefully consider its capital funding requirements, and any potential future use of the prudential code.	1	Steve Hoyes	Yes.	Is already being done on an ongoing basis.	Done

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R3 Risk management procedures should be strengthened through regular updates of risk registers, more robust processes for identifying new risks, action plans to identify how existing risks can be mitigated, clearer links to budgets and service plans, and more frequent reporting to members.	3	Corporate Improvements Officer (Governance)	Yes	Already included in corporate improvement officer's work plan.	2005/06
9	R4 The specific clauses referred to in part 5 of the CIPFA code of practice on treasury management should be incorporated into the Council's financial procedure rules.	1	IA Manager	Yes	The clauses have been included in the draft revised financial procedure rules to be submitted to the general purposes committee in September 2005.	October 2005.
9	R5 Revised standing orders and financial procedure rules should be issued within the next six months	3	Head of Legal and Democratic Services and IA Manager	Yes	Already in hand. To be approved by the Council in October 2005.	October 2005

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R6 A review and revise date should be included on all Council policies and procedures to ensure they remain up to date.	2	IA Manager	Yes	To be considered where appropriate and practicable.	Ongoing
Other key areas						
10	R7 The Council should consider whether there are any lessons that can be learnt from the consultation exercise carried out in respect of the reorganisation process. These lessons should feed into future consultation procedures.	1	IA Manager	Yes	The Council will undertake an informal review of information sharing within departments.	March 2006