
Audit Committee – 19th April 2007

Report of the Director of Finance

Use of Resources

Purpose of Report

1. To update the Committee on those areas of the Annual Use of Resources Assessment, directly related to the Committee's Terms of Reference.

Background

2. As part of the annual Comprehensive Performance Assessment (CPA) process, all local authorities are required to undertake an assessment, known as the Use of Resources assessment, against a set out Audit Commission criteria, covering a range of areas including Financial Reporting, Financial Management, Financial Standing, Internal Control and Value for Money.
3. The external auditor is required to review this Assessment and score each area against one of four levels.
4. Maintaining and improving our Use of Resources score is an important element of the annual CPA assessment by the external auditor.
5. There are three areas, known as "Key Lines of Enquiry (KLOE)" in the Internal Control area which relate directly to the Audit Committee's Terms of Reference. They are:-
 - 4.1 Risk Management – How the Council manages its significant business risks;
 - 4.2 Internal Control – The Council has arrangements in place to maintain a sound system of internal control;
 - 4.3 Fraud – The Council has arrangements in place that are designed to promote and ensure probity and propriety.
6. Details of the criteria and levels of judgement for these three KLOEs are shown at Appendix 1. We ought to be aiming for level 4 in each of the areas.

7. Scores for the last three years (out of a possible four star rating) were:-

	<u>2004/05</u>	<u>2005/06</u>
a. Risk Management	2	2
b. Internal Control	2	2
c. Fraud	3	3

8. A considerable amount of work had been undertaken on Risk Management and Internal Control and we were looking to increase our score to a 3 in both areas.

9. The Audit Commission identified two particular issues which prevented us from reaching Level 3 :-

- a. 4.1 - Risk Management – We were unable to demonstrate that significant partnerships had adequate risk management strategies.
- b. 4.2 - Internal Control – The assurance framework (i.e. the mechanisms whereby the strategic objectives of the Council are linked to risks and controls) had recently been introduced but was not considered by the Audit Commission to be embedded.

10. With regard to Partnerships and Risk Management, further work is underway to ensure that the Corporate Partnership Evaluation Tool includes risk management in more detail.

11. Further work is also ongoing on Internal Control via the Officers Risk Champions Group, Risk Management Section and Audit Services to embed the assurance framework and associated protocols which, should satisfy Audit Commission requirements. Risk will continue to be a regular and recurring item on this Committee agenda.

12. It should be noted that the role of Members generally and the Audit Committee specifically is evident in several places in Appendix A and their input to a wide range of risk and control issues is a vital part of the evidence presented to the Audit Commission.

Finance

13. There are no direct financial implications arising from this report.

Law

14. The Council make Contract Standing Orders under section 135 of the Local Government Act 1972.

Equality Impact

15. This report does not raise any equal opportunities issues.
16. Children and young people were not consulted on, or involved, with the preparation of this report.

Recommendation

17. That the contents of this report are noted.

A handwritten signature in black ink, appearing to read 'M. Williams', with a horizontal line underneath.

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Mike Williams
Director of Finance

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Key lines of enquiry for use of resources

2007 assessments

To be used in conjunction with *Use of Resources Guidance for Councils*
for assessments covering the 2006/07 financial year

Issued November 2006

4. INTERNAL CONTROL		
How well does the council's internal control environment enable it to manage its significant business risks?		
Key line of enquiry		
4.1 The council manages its significant business risks		
Audit Focus		
Evidence that:		
<ul style="list-style-type: none"> the council has a risk management process in place the risk management system covers partnership working 		
Criteria for Judgement		
Level 2	Level 3	Level 4
<p>* The council has adopted a risk management strategy/policy that has been approved by members.</p> <p>* The risk management strategy/policy requires the council to:</p> <ul style="list-style-type: none"> identify corporate and operational risks assess the risks for likelihood and impact identify mitigating controls allocate responsibility for the mitigating controls. <p>* The council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigning ownership for each risk.</p> <p>* Member responsibility for corporate risk management is identified in the terms of reference of one or more committees as appropriate.</p> <p>* Reports to support strategic policy decisions, and project initiation documents, include a risk assessment.</p>	<p>* The risk management process is reviewed and updated at least annually.</p> <p>* The risk management process specifically considers risks in relation to significant partnerships and provides for assurances to be obtained about the management of those risks.</p> <p>* All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own working environment. (now bold)</p> <p>* The members with specific responsibility for risk management have received risk management awareness training.</p> <p>* Members with responsibility for corporate risk management receive reports on a regular basis and take appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council as appropriate.</p>	<p>A senior officer and member jointly champion and take responsibility for embedding risk management throughout the council.</p> <p>The council can demonstrate that it has embedded risk management in its corporate business processes, including:</p> <ul style="list-style-type: none"> strategic planning financial planning policy making and review performance management. <p>All members receive risk management awareness training.</p> <p>The council considers positive risks (opportunities) as well as negative risks (threats).</p>

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4. INTERNAL CONTROL		
How well does the council's internal control environment enable it to manage its significant business risks?		
Key line of enquiry		
4.2 The council has arrangements in place to maintain a sound system of internal control		
Audit Focus		
Evidence that:		
<ul style="list-style-type: none"> the council reviews and reports on its system of internal control the council has an audit committee or equivalent and an internal audit function 		
Criteria for Judgement		
Level 2	Level 3	Level 4
<p>* An appropriate member group has responsibility for review and approval of the SIC and considers it separately from the accounts.</p> <p>* The council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the SIC.</p> <p>* The sources of assurance to support the SIC have been identified and are reviewed by senior officers and members.</p> <p>* There are action plans in place to address any significant internal control issues reported in the SIC.</p> <p>* The core functions of an audit committee, as identified in the CIPFA guidance, are being undertaken by members.</p> <p>* The council has an internal audit function that operates in accordance with the CIPFA code of practice for internal audit in local government.</p>	<p>* The council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances.</p> <p>* The assurance framework provides members with information to support the SIC.</p> <p>* The council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues. (now bold)</p> <p>* The procedure notes/manuals for key financial systems are reviewed and updated as appropriate. (now bold)</p> <p>* The standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate. (now bold)</p> <p>* Compliance with standing orders, standing financial instructions and the scheme of</p>	<p>The assurance framework is fully embedded in the council's business processes.</p> <p>The council can demonstrate corporate involvement in/ownership of the process for preparing the SIC.</p> <p>An audit committee has been established that is independent of the executive function, with terms of reference that are consistent with CIPFA's guidance. It provides effective challenge across the council and independent assurance on the risk management framework and associated internal control environment to members and the public, and can demonstrate the impact of its work.</p> <p>The standing orders, standing financial instructions and scheme of delegation make specific reference to partnerships.</p> <p>Governance arrangements with respect to partnerships are subject to regular review and updating.</p>

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<ul style="list-style-type: none">* There are procedure notes/manuals in place for key financial systems.* The council has a business continuity plan in place which is reviewed on a regular basis. (now bold)* There are standing orders, standing financial instructions and a scheme of delegation in place.* The council has arrangements in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.* All reports to members have been formally considered for legal issues before presentation.* The council has identified its significant partnerships and has appropriate governance arrangements in place for each of them. (now bold)* The council has arrangements in place to ensure that it has a sound system of internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems. (now bold)	<p>delegation is monitored by management, and any breaches identified and appropriate action taken.</p>	
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Use of resources

4. INTERNAL CONTROL		
How well does the council's internal control environment enable it to manage its significant business risks?		
Key line of enquiry		
4.3 The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business		
Audit Focus		
Evidence that:		
<ul style="list-style-type: none"> the council has adopted codes of conduct and monitors compliance the council's arrangements to prevent and detect fraud and corruption are effective 		
Criteria for Judgement		
Level 2	Level 3	Level 4
<p>* The council has formally adopted a code of conduct for members that includes the mandatory provisions of the statutory Model Code of Conduct.</p> <p>* All elected and co-opted members have signed up to the code of conduct.</p> <p>* The council has adopted a code of conduct for staff.</p> <p>* The council has put in place arrangements for monitoring compliance with standards of conduct across the council including:</p> <ul style="list-style-type: none"> register of interests register of gifts and hospitality complaints procedure. <p>* The standards committee's membership and functions are in accordance with the requirements of the Local Government Act 2000.</p> <p>* There is a counter fraud and corruption policy applying to all aspects of the council's business which has been communicated</p>	<p>* The council is proactive in raising the standards of ethical conduct among members and staff, including the provision of ethics training. (now bold)</p> <p>* The council has undertaken an assessment of standards of conduct, including how effectively members are complying with the code of conduct, the number and types of complaints received, and takes action as appropriate.</p> <p>* Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and pecuniary interests. There is evidence that members and staff are making appropriate disclosures in the registers and that they are regularly reviewed.</p> <p>* A strong counter fraud culture is supported and promoted by members and senior officers.</p> <p>* The council undertakes proactive counter fraud and corruption work which is determined by a formal risk assessment.</p>	<p>The council can demonstrate that its members and staff exhibit high standards of personal conduct.</p> <p>The council can demonstrate a strong counter fraud culture across all departments. Staff have clearly acknowledged and accepted their responsibility to prevent and detect fraud and corruption.</p> <p>The risk of fraud and corruption is specifically considered in the council's overall risk management process.</p> <p>The use of publicity in successful cases of proven fraud/corruption is routinely considered to raise awareness.</p> <p>The council has a track record for effective action in response to whistleblowing disclosures. There are periodic reviews of the effectiveness of the whistleblowing arrangements, and there are effective arrangements for receiving and acting upon disclosures from members of the public.</p> <p>The council can demonstrate that effective action has been taken to maximise the potential savings</p>

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<p>throughout the council.</p> <ul style="list-style-type: none"> * The council has arrangements in place to receive and investigate allegations of breaches of proper standards of financial conduct, and of fraud and corruption. * There is a whistleblowing policy which has been communicated to staff and those parties contracting with the council. * The council has provided the required data for the National Fraud Initiative (NFI), has notified data subjects of this use of data, and has established a process to follow-up NFI data matches. 	<ul style="list-style-type: none"> * The council can demonstrate that counter fraud and corruption work is adequately resourced. (now bold) * Investigations into allegations of fraud and corruption are conducted in accordance with statutory requirements, eg, Police and Criminal Evidence Act, Regulation of Investigatory Powers Act, Data Protection Act, by appropriately trained staff. * The whistleblowing policy is publicised within the council and demonstrates the council's commitment to providing support to whistleblowers. <p>The council has effectively identified the key NFI data matches for review from all levels of reports (high, medium and low).</p> <p>The council works with other bodies such as DWP when following-up data matches from NFI. Risks are followed-up promptly to prevent prolonged exposure.</p> <p>Weaknesses revealed by instances of proven fraud and corruption, including NFI data matches, are reviewed to ensure that appropriate action is taken to strengthen internal control arrangements.</p>	<p>available through NFI.</p>
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