

# PLEASE NOTE VENUE

## AUDIT COMMITTEE AGENDA



**Tuesday 10 July 2007**

**at 10.00am**

**in Conference Room 3  
Belle Vue Community, Sports and Youth Centre,  
Kendal Road, Hartlepool**

MEMBERS OF AUDIT COMMITTEE:

Councillors Hall, G Lilley, Preece, Wallace and Wistow

1. **APOLOGIES FOR ABSENCE**
2. **TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**
3. **TO CONFIRM THE MINUTES OF THE MEETING HELD ON 17 MAY 2007**
4. **ITEMS FOR DISCUSSION/DECISION**
  - 4.1 Audit Commission Report- Audit and Inspection Plan 2007/08 – *Chief Financial Officer*
  - 4.2 Internal Audit Plan 2007/08 Update – *Head of Audit and Governance*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

17th May 2007

The meeting commenced at 10.00 am at Owton Manor Community Centre,  
Hartlepool

**Present:**

Councillor Gerard Hall (In the Chair)

Councillors Arthur Preece and Steve Wallace

Officers: Mike Ward, Chief Financial Officer  
Noel Adamson, Head of Audit and Governance  
Jo Wilson, Democratic Services Officer

Also Present: Caroline Tyrell, Audit Commission

### **27. Apologies for Absence**

Apologies were received from Councillors Mike Turner and Gerald Wistow.

### **28. Declarations of interest by members**

None

### **29. Confirmation of the minutes of the meeting held on 5th April 2007**

Agreed

### **30. Audit Commission Report – Annual Audit and Inspection Letter (Chief Financial Officer)**

#### **Purpose of report**

To present the results of the Audit Commission's Annual Audit and Inspection Letter.

#### **Issue(s) for consideration by the Committee**

The Audit Commission presented the Annual Audit and Inspection Letter as an overall summary of their assessment of the Council. The letter was attached as an appendix to the report. Its findings showed that the Council

had maintained its four-star Comprehensive Performance Assessment (CPA) status and was improving well. Unqualified opinions were given on its accounts and its value for money arrangements and the Council was felt to be working well with its partners to deliver good services and an improving quality of life to the people of Hartlepool.

Caroline Tyrrell advised that the report was a very positive summary, however, the Council needed to address those issues identified by the Corporate Assessment as areas for improvement and develop a robust financial strategy to support their future plans. The Chair welcomed the report and the plans in place to address any shortcomings.

### **Decision**

That the report be noted.

## **31. Audit Committee Annual Review** (*Head of Audit of Governance*)

### **Purpose of report**

To inform members of the work undertaken by the Audit Committee during the municipal year in order for it to meet the requirements of its role and responsibilities as laid down by Council

### **Issue(s) for consideration by the Committee**

Details were given of the remit of the Audit Committee as agreed at Council in November 2004 and the activities undertaken by the Committee to fulfil this remit, including the following

- Review of the Internal Audit Outcome Report 2005/06
- Review and Approval of the 2005/06 Statement on Internal Control
- Internal Audit Plan 2006/07 Update
- Consideration of the District Auditors 2005/06 Annual Governance Report
- Review of Financial Procedure Rules
- Statement on Internal Control Update 06/07
- Consideration of the 2007/08 Internal Audit Plan
- Review and Approval of the Internal Audit Charter
- Review and Approval of the Internal Audit Strategy

This information, training, analysis and reviewing allowed the Audit Committee to fulfil its remit and satisfied the Council's obligation under Regulation 6 of the Accounts and Audits Regulations 2003 as amended 2006, that the relevant body conduct an annual review of its system of internal audit.

### **Recommendation**

That the work undertaken by the Audit Committee in 2006/07 be submitted to Council.

### **32. Internal Audit Outcome Report 2006/07** (*Head of Audit of Governance*)

#### **Purpose of report**

To inform members of the Outcomes of Internal Audit work covering the period April 2006 to March 2007.

#### **Issue(s) for consideration by the Committee**

The report provided accountability for internal audit delivery and performance and allowed Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

Information for Members on the standards of financial administration and management arrangements operating within the authority was detailed in the report, together with a progress report on the extent of implementation of audit recommendations. The report also detailed the performance of internal audit in 2005/06 on a range of key performance indicators.

Appendix A, attached to the report, scheduled all the planned audits completed in 2006/07. Only a minority of systems and arrangements reviewed had required improvement in Hartlepool. Follow up work had been carried out which had revealed that management had taken action, and improvements to controls, processes and procedures had been made. From the work undertaken during the year the Head of Audit and Governance had reached the opinion that key systems were operating soundly and that there was no fundamental breakdown in controls resulting in material discrepancy.

#### **Decision**

That the contents of the report be noted.

### **33. Statement on Internal Control 2006/07** (*Chief Financial Officer*)

#### **Purpose of report**

To provide details of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement that the Council publish a statement on Internal Control with the Statement of Accounts and associated financial statements and the action undertaken by the Council to meet its obligations within the scope of the regulations.

#### **Issue(s) for consideration by the Committee**

The report gave a detailed explanation of the following:

- Why the Council needs a SIC,
- Who is responsible,
- How the SIC was produced.

A copy of the HBC Statement on Internal Control was attached as an appendix to the report

**Decision**

That the Statement on Internal Control for 2006/07 be approved.

G HALL

CHAIRMAN

## AUDIT COMMITTEE

10.07.07



**Report of:** Chief Financial Officer

**Subject:** AUDIT COMMISSION REPORT- AUDIT AND INSPECTION PLAN 2007/08.

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the Audit Commission Report Audit and Inspection Plan 2007/08.

### 2. BACKGROUND

- 2.1 The plan sets out the audit and inspection work that the Audit Commission propose to undertake for 2007/08. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
- audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to local circumstances; and
  - local risks and improvement priorities.

### 3. AUDIT COMMISSION REPORT

- 3.1 Attached, as Appendix 1, is the Audit and Inspection Plan 2007/08 report. The report outlines the work the Audit Commission will undertake in relation to the following areas:
- CPA and Inspection.
  - Work under the Audit Code of practice.
  - Assessing Risks.
  - Work Specified by the Audit Commission.
  - Voluntary Improvement Work.
  - Certification of Grant Claims and Returns.

- 3.2 The report also details the audit and inspection fee.

### 4. RECOMMENDATIONS

- 4.1 That the Audit Committee notes the report of the Audit Commission.

# **Audit and Inspection Plan**

**Hartlepool Borough Council**

**Audit 2007-2008**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Trust**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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## Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999 (best value inspection and audit); and
  - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the statement on internal control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

## CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as 4 stars.
- 10 We have also taken into account the CPA inspection reported in March 2007, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
  - a strong drive to improve life in Hartlepool, based on a very good understanding of needs;
  - excellent partnership working; and
  - good financial capacity.
- 12 Areas for improvement in the Council's performance include:
  - developing a formal approach to medium term financial planning; and
  - a strategic approach to working with the voluntary sector.
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

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**Table 1      Summary of inspection activity**

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

## Work under the Code of Audit Practice

### Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

### Use of resources

#### Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

#### Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 22 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements.</li> <li>• External reporting.</li> </ul>
Financial management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy.</li> <li>• Budget monitoring.</li> <li>• Asset management.</li> </ul>
Financial standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources.</li> </ul>
Internal control	<ul style="list-style-type: none"> <li>• Risk management.</li> <li>• System of internal control.</li> <li>• Probity and propriety.</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Achieving value for money.</li> <li>• Managing and improving value for money.</li> </ul>

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

## Data quality

- 25 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- Stage 1 - management arrangements;
  - Stage 2 - completeness check; and
  - Stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to our review of the Council's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.

- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

## **Best Value Performance Plan**

- 28 We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

## Assessing risks

- 29 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 30 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
  - our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 31 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
  - Change in SORP requirements.
- 32 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 33 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

## **Work specified by the Audit Commission**

### **Whole of government accounts (WGA)**

- 34 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

### **National Fraud Initiative**

- 35 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).



## Voluntary improvement work

- 36 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body.
- 37 We are not proposing to do any voluntary improvement work at the Authority during 2007/08.

## Certification of grant claims and returns

**38** We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

## The audit and inspection fee

- 39 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 40 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £270,850 which compares with the planned fee of £336,135 for 2006/07.
- 41 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Hartlepool Borough Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 42 In addition we estimate that we will charge approximately £14,728 for the certification of claims and returns.
- 43 As indicated in paragraphs 3 and 33, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 40 above. Any changes to the fee will be agreed with you.

## Other information

### The audit and inspection team

- 44 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

**Table 2**

Name	Contact details	Responsibilities
Steve Nicklin Relationship Manager and District Auditor	<a href="mailto:s-nicklin@audit-commission.gov.uk">s-nicklin@audit-commission.gov.uk</a>  0191 4602023	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.  Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and General Purposes Committee.
Caroline Tyrrell Audit Manager	<a href="mailto:c-tyrrell@audit-commission.gov.uk">c-tyrrell@audit-commission.gov.uk</a>  0191 4011688	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Assistant Chief Executive and Chief Financial Officer.
Les Watson Area Performance Lead	<a href="mailto:l-watson@audit-commission.gov.uk">l-watson@audit-commission.gov.uk</a>  0191 4602023	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.

### Independence and objectivity

- 45 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 46 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

## Quality of service

- 47 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the north east (sub) Region Interim Head of Operations, David Jennings.
- 48 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

## Planned outputs

- 49 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

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**Table 3**

Planned output	Indicative date
Opinion Audit Plan	30 November 2007
Data Quality report	30 September 2007
Interim Audit Memorandum (if required)	30 June 2008
Annual Governance report	22 September 2008
Opinion on the Financial Statements and Value for Money Conclusion	30 September 2008
Final Accounts Memorandum (to the Chief Financial Officer)	31 October 2008
Use of Resources report	31 December 2008
Annual Audit and Inspection Letter	Deadline to be confirmed by Audit Commission
BVPP report	31 December 2008

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
The Council is increasingly delivering services in partnership with other bodies. Without robust performance management and governance arrangements, the costs and quality of services may deteriorate.	The Council has established a Children's Trust from April 2007 to formalise arrangements for some services.	Yes	<p>We will carry out the following specific pieces of work:</p> <ul style="list-style-type: none"> <li>• briefly review the Children's Trust arrangements in place to ensure the Trust;</li> <li>• review arrangements across Tees Valley for managing children's placements;</li> <li>• update our previous assessment of LAA management arrangements;</li> <li>• complete Phase 3 of our Health Inequalities cross cutting work. This will also consider equality and user focus;</li> <li>• review arrangements for working with and supporting the voluntary sector; and</li> <li>• consider arrangements for C&amp;YP placements.</li> </ul>	UoR KLOE 5.1 and 5.2

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
The Council does not have a formal medium term financial strategy. This could lead to poor financial management.	Council has recognised the need for a more formal approach, although this is at an early stage.	Yes	Facilitate Council's development of a medium term financial strategy by sharing good practice in financial management.	KLOEs 2 and 3
High levels of staff sickness absence are costly and adversely affect services.		Yes	Review arrangements for managing sickness absence.	KLOE 5
Changes in staff and members could lead to poor governance.		Yes	Governance diagnostic to identify if there are potential governance issues.	KLOE 4

## Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the [planned/actual] fee for 2006/07.

**Table 4**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Planned fee 2006/07 £</b>
<b>Audit</b>		
Financial statements	163832	147,200
Use of resources (including BVPP)	60732	46116
Data quality	19694	27,184
Whole of government accounts	2367	
National Fraud Initiative	1050	
Total audit fee	247675	220500
<b>Inspection</b>		
Relationship management	14750	13747
Direction of Travel	16150	9082
Service inspection	0	0
Corporate inspection	0	92806
Total inspection fee	30900	115635
Total audit and inspection fee (less CLG grant)	270,850	336135
Certification of claims and returns	14728	17,126
Voluntary improvement work	0	0

- 2 The Audit Commission mid point scale fee for Hartlepool Borough Council is £195,640. The fee proposed for 2007/08 is +27 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.



- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

## **Specific audit risk factors**

- 6 In setting the audit fee we have taken into account the following specific risk factors:
  - areas for improvement identified by the CPA; and
  - the implementation of a new payroll system.

## **Assumptions**

- 7 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by [date];
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions Hartlepool Borough Council could take to reduce its audit and inspection fees**

- 10 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions Hartlepool Borough Council could take:
- Formalise longer term financial planning.

## **Process for agreeing any changes in audit fees**

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Assistant Chief Executive and Chief Financial Officer. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the general purposes committee.

## Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



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

**Subject:** INTERNAL AUDIT PLAN 2007/08 UPDATE

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**1. PURPOSE OF REPORT**

To inform Members of the progress made to date completing the internal audit plan for 2007/08.

**2. SUMMARY OF CONTENTS**

At the Audit Committee meeting of 25.10.05 it was agreed that the Head of Audit and Governance would update the Committee on a quarterly basis as to the progress made against the audit plan. This allows members of the Committee to form an opinion as to the robustness of the system of controls in place at the Council and thus fulfil part of the Committee's remit.

**3. RELEVANCE TO PORTFOLIO MEMBER**

N/A

**4. TYPE OF DECISION**

Non-key decision.

**5. DECISION MAKING ROUTE**

Audit Committee tasked with considering adequacy of audit coverage.

**6. DECISION(S) REQUIRED**

Members note the contents of this Report.

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

**Subject:** INTERNAL AUDIT PLAN 2007/08 UPDATE

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**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2006/07.

**2. BACKGROUND**

- 2.1 In order to ensure that the Audit Committee meets its remit, it is important that it is kept up to date with the ongoing progress of the Internal Audit section in completing its plan. Regular updates allow the members of the Committee to form an opinion on the controls in operation within the Council. This in turn allows members of the committee to fully review the Statement on Internal Control, which will be presented to a future meeting of the Committee, and after review, will form part of the statement of accounts of the Council.

**3. AUDITS COMPLETED AND IN PROGRESS**

- 3.1 Appendix A of the report details the pieces of work that have been completed.
- 3.2 As well as completing the afore mentioned audits, Internal Audit staff have been involved with the following working groups:
- ISO 17799 Group.
  - Procurement Working Group.
  - Risk Management Group
  - Statement on Internal Control

In order to comply with the requirement that all secondary schools meet the relevant criteria as outlined in the Financial Management Standard in Schools (FMSiS) award, Internal Audit have also been providing support and advice to the schools based on the audits that have previously been carried out in the secondary schools.

- 3.3 Appendix B details the audits that were ongoing at the time of compiling the report.

#### **4 AUDIT PLAN PROGRESS**

- 4.1 The work completed and currently ongoing is in line with expectations at this time of year, and audit coverage to date has allowed the Audit Commission to place reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

#### **5 RECOMMENDATION**

- 5.1 It is recommended that Members note the contents of the report.

## Appendix A

Audit	Objectives	Recommendations	Agreed
Fleet Management	Examine and evaluate the system and procedures in place for the procurement of vehicles, hiring out of vehicles, fuel management and workshop procedures.	<ul style="list-style-type: none"> <li>- For departmental hires there should be evidence that the budget holder has approved the hire of the vehicle.</li> <li>- Charges made to staff for hire of Fleet vehicles should be consistent. Charges should be included in the proposed SLAs for departments.</li> <li>- That hire charges be reviewed to ensure that the charges paid by HBC staff/departments cover the charges invoiced to Transport Services by the external hire company.</li> <li>- Driver licences should be checked for each hire agreement and evidence of the check maintained.</li> <li>- Stock in the fuel tanks should be reconciled to the fuel management system regularly and these checks evidenced.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Nursing and Residential Accommodation Fees	To ensure the Council receives all income due and makes payment of the correct amounts only to those entitled, calculations and assessments are correct and in accordance with statutory requirements and the Council's agreed policy, all transactions are properly recorded and accounted for, and a clear audit trail exists, supported by adequate documentary evidence and the systems used to calculate and process payments ensure the most effective and efficient use of the Council's resources.	<ul style="list-style-type: none"> <li>- That Services Users or their representative sign an assessment form.</li> <li>- That the Visiting Officer signs or writes name as attending.</li> <li>- Amounts paid into HBC for deferred charges are checked against the Statement of Account.</li> <li>- Statement of Accounts to include interest payable.</li> <li>- Amounts outstanding at the financial year end for deferred charges should be identified for inclusion in the financial accounts along with an appropriate bad debts provision.</li> <li>- Buildings insurance is monitored in the department to ensure that the cover is up to date and not lapsed.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Direct Payments	To ensure Procedures adopted within Adult & Community Services for the administration and management of the Direct Payments system comply with the criteria laid down within the relevant legislation, any direct payments made are reasonable, accurate and timely and adequate monitoring arrangements are in place.	<ul style="list-style-type: none"> <li>- Arrangements should be in place to ensure that service users comply with their responsibilities as employers.</li> <li>- There should be regular monitoring of financial records held within service user files to ensure that Direct Payment monies are used for the purposes that they are provided for.</li> <li>- Meaningful performance indicators designed to measure the effectiveness of the service be determined and reported on a regular basis.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p>
Creditors	To ensure Supplies of goods and services are properly authorised and comply with standing orders and Financial Procedure Rules, procedures ensure that payments are only made for goods and services	<ul style="list-style-type: none"> <li>- Financial Procedure Rules be amended to require that all purchases of goods/services be made on official order forms where appropriate.</li> <li>- That systems of authorisation are standardised as soon as possible.</li> <li>- That the requisitioning process is</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p>



	received, controls over input ensure that it is authorised, complete, accurate, not previously processed and timely, processing controls ensure that all data is processed and accounted for and that back up copies of files are taken at appropriate intervals and held securely, all expected output is produced, appears reasonable and is distributed on time with confidentiality being maintained, cheques and data are securely controlled both as blanks and when completed, policies relating to data protection, information classification and information security within the authority should be adhered to and a management trail exists.	<p>standardised and all staff informed of the procedures to follow.</p> <ul style="list-style-type: none"> <li>- That a method of recording periodic payments is introduced to ensure that budget provision is available and avoid duplicate payments.</li> <li>- That Orders are raised.</li> <li>- That goods received documentation / signatures of receipt are kept with the copy requisition.</li> <li>- That departments are made aware of how information is being retained electronically and encouraged not to photocopy documentation.</li> <li>- That the access review is finalised and steps taken to ensure that staff have the appropriate levels of access to ensure that a division of duties can be maintained.</li> <li>- That control totals are established for those payments to be made to ensure that all payment documents are held in the Payments Unit.</li> <li>- That the system for amending supplier accounts is reviewed to ensure that a division of duties and an audit trail is maintained.</li> <li>- That invoices are marked in some way to show that they have been paid and to help to prevent duplicate payments.</li> <li>- Procedure/guidance notes should be in place for the operation of systems within the Payments Unit and Departments.</li> <li>- That direct debit payments are subject to the usual processing routines of goods received and authorisation.</li> <li>- That full audit trail information is made available.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Pest Control and Public Health Income	Ensure the authority provides members of the public with a pest control facility & receives all income due from that provision, complies with council policies & Statutory Provisions, and provides complete and accurate and reliable evidence in support of pest control activities undertaken and cash collected. Ensure that all stock items are securely held and accountable for and that Health & Safety guidelines are followed. Effectively secures Assets & IT documents with a financial value.	<ul style="list-style-type: none"> <li>- Annual stock checks should be completed and documented by two members of staff.</li> <li>- Passwords for ITECS should be changed on a regular basis.</li> </ul>	<p>Y</p> <p>Y</p>
BVPI 109a,b,c	Systems are in place to provide information that is sound and that the final information used is accurate	- The control parameters for the database are updated to prevent manipulation following applications being signed off.	Y
BVPI 187	Systems are in place to provide	None	

	information that is sound and that the final information used is accurate		
BVPI 199a	Systems are in place to provide information that is sound and that the final information used is accurate	None	Y
BVPI 213	Systems are in place to provide information that is sound and that the final information used is accurate	- The control parameters for the database are updated to prevent manipulation following cases being signed off	
BVPI 223	Systems are in place to provide information that is sound and that the final information used is accurate	None	
BVPI 224a	Systems are in place to provide information that is sound and that the final information used is accurate	None	
BVPI JE17	Systems are in place to provide information that is sound and that the final information used is accurate	None	
BVPI LAA JE18	Systems are in place to provide information that is sound and that the final information used is accurate	None	

## Appendix B

Audit	Objectives
Car Parks Income	To determine whether regular reviews of the charges are completed ensuring the Authority does not suffer loss of revenue. Where revenue is being generated through non-staff car parks that adequate procedures, policies and security measures have been implemented to protect the Authority from any potential misappropriation, vandalism or fraudulent activity. Costs of the administration, collection and recovery of funds are taken into account before beginning the recovery process for parking fines. Adequate and regular review of income is carried out to monitor budget and reveal possible fraudulent activity. Relevant and up to date procedures exist for the maintenance of the Authority's Staff Parking Scheme.
Health and Safety	To ensure an effective H&S Policy agreed by Members is in place, which sets a clear direction for the organisation to follow. The policy should express best practice and comply with legal standards and guidance issued by the HSC/E. An effective management structure is in place with adequate arrangements for delivering the policy across the authority.
Employees Register of Interest	Ensure all relevant guidance is followed and good governance arrangements are in place.
Dyke House Secondary	Ensure school financial and governance arrangements are in line with best practice.
School Catering Recharges	To ensure Contract Procedure Rules and Financial Procedure Rules are adhered to in arranging contracts, processing creditor payments and payroll documents and the collection of income. The Department efficiently and effectively controls the systems in place for the provision of the School Meals Service. Stocks and income are securely held and accounted for.
Building and Development Control Income	The Authority provides a building and development control service in line with statutory obligations, the Authority's policies & procedures comply with relevant legislation/guidance, complete, accurate and reliable evidence is retained and processed in support of planning and building applications, income received is correctly recorded and paid into the Authority's bank account in a timely manner and cash and documents with a financial/confidential value are held securely and in compliance with any relevant legislation e.g. Data Protection.
Licensing BVPI LAA JE 19, 20, 21	Ensure policies & procedures comply with relevant legislation/guidance. Income received is correctly recorded and paid into the Authority's bank account in a timely manner. Systems are in place to provide information that is sound and that the final information used is accurate
Disabled Discrimination Act  Contracts and Commissioning	To ensure the HBC approach to implementing DDA is documented, complies with legislation/guidance, follows best practice and has been agreed by the Executive/Management Board. Executive Members and Senior Managers within Directorate are actively involved in the process as well as operational managers delivering services on the ground. A consistent methodology is used to identify services/access rights etc that do not comply with DDA. Areas of non-compliance are reported to management and acted upon as appropriate. Key staff/members receive adequate training/guidance to enable them to discharge their duties in an efficient manner. Appropriate mechanisms are in place to monitor progress against DDA compliance. Risks associated with non-compliance are identified and entered onto the Risk register. The implications of key decisions made by portfolio holder/executive are raised at the time the decision is made.  To ensure the service is required and is provided in the most appropriate manner, contracts are awarded in line with Financial Procedures / Contract Procedure Rules, adequate procedures are in place to monitor contractor performance and ensure compliance with contract conditions/legislative requirements and that accurate and timely payments are made in line with contract conditions.

Main Accounting System	Correct accounting data is provided, for input into the Council's Final Accounts, Balance Sheets and Statement of Accounts. Council Standing Orders and Financial Procedure Rules are complied with as appropriate. Controls are in place to ensure that data entered to INTEGRA is complete, accurate and can be relied upon for reporting purposes. The administration of the INTEGRA system is carried out effectively without duplication of work. Access to the INTEGRA FM System is adequately controlled.
Community Transport	Any tendering arrangements for contracts with external providers have been made in accordance with the Authority's Contract and Financial Procedure Rules, there are adequate arrangements in place to appropriately assess and register all of the service users, there are adequate procedures in place for the collection, handling and banking of income, adequate monitoring procedures are in place, any statutory obligations have been met.
VAT	Examine and evaluate the systems and procedures in place to administer the council's procedures for dealing with VAT.
Stores	Ensure that systems in place for storing, issuing, ordering and managing stock items are effectively and efficiently controlled.
BVPI 216a,b	Systems are in place to provide information that is sound and that the final information used is accurate
Debtors	To ensure the responsibility for raising sundry debtor accounts is clearly defined, the debtors system is operated with due regard to economy and effectiveness, debtor's accounts are promptly and correctly raised in respect of all miscellaneous and service charges due to the authority, amounts due are credited to the correct income accounts, administrative procedures ensure that debtor's accounts are dispatched promptly and are followed up when no payment has been received, all write-offs of amounts due from debtors are properly authorised, debtors payments received are processed promptly and are correctly posted to the debtors accounts and correct recording of outstanding sums due in the annual accounts.
Budgetary Control	To ensure the responsibilities of management for the setting and control of budgets are formally defined; budgets are set in accordance with pre-determined policy objectives and documentary evidence supports the approval of budgets; budgets are prepared in accordance with the budget timetable; all relevant records are updated with the amount of budget set; budgets are properly controlled through effective monitoring arrangements in accordance with Financial Regulations; variances are identified promptly, reported and acted upon.
BVPI LAA HC15, 16	Systems are in place to provide information that is sound and that the final information used is accurate
BVPI 215a,b	Systems are in place to provide information that is sound and that the final information used is accurate