

PLEASE NOTE VENUE

AUDIT COMMITTEE AGENDA



Thursday, 15 May 2008

at 10.00 am

in Committee Room A

MEMBERS: AUDIT COMMITTEE:

Councillors: Hall, G Lilley, Preece, Wallace and Wistow

1. APOLOGIES FOR ABSENCE

2. TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS

3. MINUTES

3.1 To confirm the minutes of the meeting held on 3 April 2008

4. ITEMS FOR DISCUSSION/DECISION

- 4.1 Audit Commission Report- Annual Audit and Inspection Letter – Chief Financial Officer
- 4.2 Audit Commission Report – 2006/2007 Annual Governance Report – *Chief Financial Officer*
- 4.3 Audit Commission Report- Statement of Responsibilities for Auditors and Audited Bodies – *Chief Financial Officer*
- 4.4 Audit Commission Report- Hartlepool Ethical Standards – *Chief Financial Officer*
- 4.5 Approval Of 2007/2008 Statement Of Accounts – *Chief Financial Officer*
- 4.6 Audit Committee Annual Review – *Head of Audit and Governance*
- 4.7 Internal Audit Outcome Report 2007/08 - *Head of Audit and Governance*
- 4.8 Annual Governance Statement 2007/08 – *Chief Financial Officer*

5. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

3 April 2008

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

Present:

Councillor A Preece (In the Chair)

Councillors Hall, G Lilley,

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

Audit Commission: Campbell Dearden

20. Apologies For Absence

Councillor Wistow.

21. Declarations Of Interest By Members

None

22. Minutes

The minutes of the meeting held on 3 January 2008 were confirmed as an accurate record.

23. Audit Commission Report – National Fraud Initiative *(Chief Financial Officer)*

Purpose of Report

The report was presented to inform Members of the Audit Committee that arrangements had been made for a representative from the Audit Commission to be in attendance at the meeting to notify them of the results of the Commission's work on the Council's approach to the National Fraud Initiative.

Items for consideration by the Committee

The National Fraud Initiative (NFI) is the Commission's data matching

exercise which runs every 2 years and is designed to help participating bodies identify possible cases of fraud and detect and correct any consequential under or overpayments from the public purse. This is to help reduce the level of housing benefit fraud, occupational pension and tenancy fraud. With housing benefit fraud, error continues to be a major problem for many local authorities and these exercises have helped to detect matters such as claimant's undeclared income and those who claim simultaneously from different authorities.

The overall conclusion was that there had been satisfactory coverage of the NFI exercise and reasonable progress had been made in most areas although this had not always been reflected in the web-based application. The action plan which forms the report stated that Council officers have been pro-active in their approach to NFI and have consequently obtained good results with three frauds reported to date. Currently total savings from the exercise (frauds and errors) are £50,840 with some £23,150 in the process of recovery. It was noted that since the review was undertaken, the cases under investigation had been progressed and savings resulting from the exercise have increased to £52,081. In addition, all of the recommendations made in the Action Plan had been addressed and implemented in a prompt and timely manner within the timescale suggested.

The Audit Commission representative stated that the Authority was pro-active in the NFI with the benefits section having good results. With further work ongoing, there could be more savings. The Authority compares favourably with other Authorities and all Actions in the Plan have been implemented. It was asked whether the system detected errors which were not fraudulent but which could also lead to overpayment and it was established that these were often administrative errors and there were very few errors which were fraudulent.

Decision

The Committee noted the contents of the report.

24. Audit Commission Report – Use of Resources *(Chief Financial Officer)*

Purpose of Report

The report was given to inform Members of the Committee that arrangements have been made for a representative of the Audit Commission to be in attendance in order to present the results of the Audit Commission's work on Use of Resources.

Items for consideration by the Committee

The Audit Commission carries out the Use of Resources assessment to

evaluate how well Councils manage and use their financial resources. 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 and is the third assessment undertaken at this Authority.

The evaluation assesses five themes and scores each one either:-

- 1 – Below minimum requirements – inadequate performance
- 2 – Only at minimum requirements – adequate performance
- 3 – Consistently above minimum requirements – performing well
- 4 – Well above minimum requirements – performing strongly

The five schemes which were scored were:-

- ❖ Financial reporting
- ❖ Financial management
- ❖ Financial standing
- ❖ Internal control
- ❖ Value for money

The Council has maintained its scores in all of the five schemes, despite the 2007 evaluation being more testing than in 2006.

Financial Reporting – Statements, annual audit and inspection letters, and minutes of council meetings are easily accessible on the Council's website. The Council does not produce an annual report or similar document. Summary financial information was included in Hartbeat, although the views of stakeholders had not been sought.

Financial Management – The Council only meets minimum standards and has some way to go before it is performing well. The medium term financial strategy needed to be developed so that it clearly demonstrated how objectives and priorities would be funded over the three year period. Performance was managed effectively against budgets, although this needed to be extended to include all partnerships. The introduction of a new financial ledger meant that financial reports and information available to managers was limited in 2006/7. The Council had a Capital Strategy/Asset Management Plan which linked clearly to the Community Strategy themes and the Corporate Plan.

Financial Standing – The Council had set a balanced budget and managed its spending within available resources. Reserves had been reviewed and balances were planned to support future spending.

Internal Control – The Council was continuing to embed arrangements to manage risk and internal control arrangements were in place although arrangements did not yet extend to all Partnerships. Arrangements to promote and ensure probity and propriety in the

conduct of its business were in place. The Council intended to replace its code of conduct for staff with the national code when it became available. Further monitoring of registers of interest and gifts and hospitality would ensure they were kept fully up to date. The Council could be more proactive in promoting ethical standards.

Value for Money – The Council was providing value for money services when compared with similar councils and generating high rates of public satisfaction for many areas of its work. Although its overall cost of many services per head of population were still high, cost per user is competitive compared to similar authorities in a number of service areas.

In conclusion, the Audit Commission regarded the Council's performance demonstrated overall that arrangements were robust and continued to improve. The key issues to address in order to maintain strong performance, were the development of financial management and proactive monitoring of partnerships to ensure that strong financial management and governance arrangements were in place.

The Chief Financial Officer stated that costs were competitive with other similar authorities, locally Darlington, although there were different areas of deprivation in that Authority. A member queried why Darlington's Council tax was much lower than this Authority and was informed that the level is determined by overall costs but the largest factor is Government input. A member queried the availability of information for the public and asked in what format the information is released. It was also asked whether Audit Committees in other authorities had the role of reviewing and approval of the Council Accounts and it was established that this would bring the Authority in line with other authorities. Discussion took place regarding the role of the Contract Scrutiny Panel and its terms of engagement. Members expressed the view that the Unitary system was preferable to the Two Tier system.

The Chief Financial Officer pointed out that although the overall score remained the same as last year, the standards needed to achieve level 2 have increased so it could be considered as an improvement. The Chief Financial Officer also stated that with regards to annual reporting, there were various issues and themes expected. The Authority uses the Hartbeat magazine to report financial issues, but because it is not in the form of an annual report, no credit is gained for it. He stated that if the Authority did not think that the value of an exercise outweighed the cost of production, then it would not go ahead with it.

The Chair said that he appreciated that the Finance Department were already working to tight timescales regarding the preparation of annual accounts and was satisfied with the quality of reportage of the financial management. He thanked the representative from the Audit Commission for his input.

Decision

The Audit Committee noted the report of the Audit Commission.

25. Internal Audit Plan 2007/08 Update *(Head of Audit and Governance)***Purpose of Report**

The report was to inform members of the progress made to date completing the internal audit plan for 2007/08.

Items for Consideration by the Committee

The Head of Audit and Governance updated the Committee on the progress made against the audit plan. Appendix A to the report detailed pieces of work which had been completed and Appendix B detailed the audits that were ongoing at the time of compiling the report.

As well as completing the aforementioned audits, Internal Audit Staff have been involved with the following working groups:-

- ❖ ISO 17799 Group
- ❖ Procurement Working Group
- ❖ Corporate Risk Management Group
- ❖ Use of Resources Management

In order to comply with the requirement that 40% of all primary schools met the relevant criteria as outlined in the Financial Management Standard in Schools (FMSiS) award by March 2008, Internal Audit had undertaken more comprehensive audit coverage in order to provide support and advice for the schools in order that they could be assessed successfully.

A member queried whether procedures would be put in place to monitor the Adult and Community Services direct payments system and was informed that so far the volume of spend has been low but it will be monitored. It was enquired whether the implementation of Single Status would have been taken into consideration within the School's budgets as any pay increases were to be backdated to April 2007 and the Chief Financial Officer stated that schools had been advised to set aside 5% as a potential cost although an exact figure was unable to be given as when the budgets were set, there had been no determination of pay grades.

Decision

The Members of the Committee noted the contents of the report.

A PREECE

CHAIRMAN

AUDIT COMMITTEE

15 May 2008



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT- ANNUAL
AUDIT AND INSPECTION LETTER

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 results of the Audit Commissions Annual Audit and Inspection Letter.

2. BACKGROUND

- 2.1 The Audit Commission present the Annual Audit and Inspection Letter to provide an overall summary of their assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Attached, as Appendix 1, is the Audit Commission Annual Audit and Inspection Letter. The main messages for the Council included in this report are:
- The Council has maintained its 4 star status and is improving strongly. It also received unqualified opinions on its accounts and on its value for money arrangements and improvements have been made in priority areas.
 - The Council works well with its partners to deliver good services and an improving quality of life to the people of Hartlepool.
- 3.2 It is also noted that the Council needs to ensure that financial plans are clear and action is targeted on priority areas.

4. RECOMMENDATIONS

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

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

Hartlepool Borough Council

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 Local Government Act 1999 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

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

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Key messages

- 1 The Council is improving strongly and remains a four-star council.
- 2 We gave an unqualified opinion on the Council's 2006/07 accounts.
- 3 Improvements have been made in priority areas, in particular housing and education. The Council has an above average number of performance indicators in the top quartile. Some areas remain relatively poor performers, such as the number of young people not in education, training or employment.
- 4 The Council provides value for money. There is scope to improve this further by extending good procurement practice to whole services, and improving capital planning.
- 5 Strong partnership working has helped to improve both services and the environment for local people.
- 6 The Council has significant levels of reserves to support future expenditure, but needs to ensure that financial plans are clear and demonstrate the need for such reserves.

Action needed by the Council

- 7 Target action on priority areas which are failing to improve sufficiently.
- 8 Ensure financial strategies, including capital, are made clearer for the benefit of stakeholders.

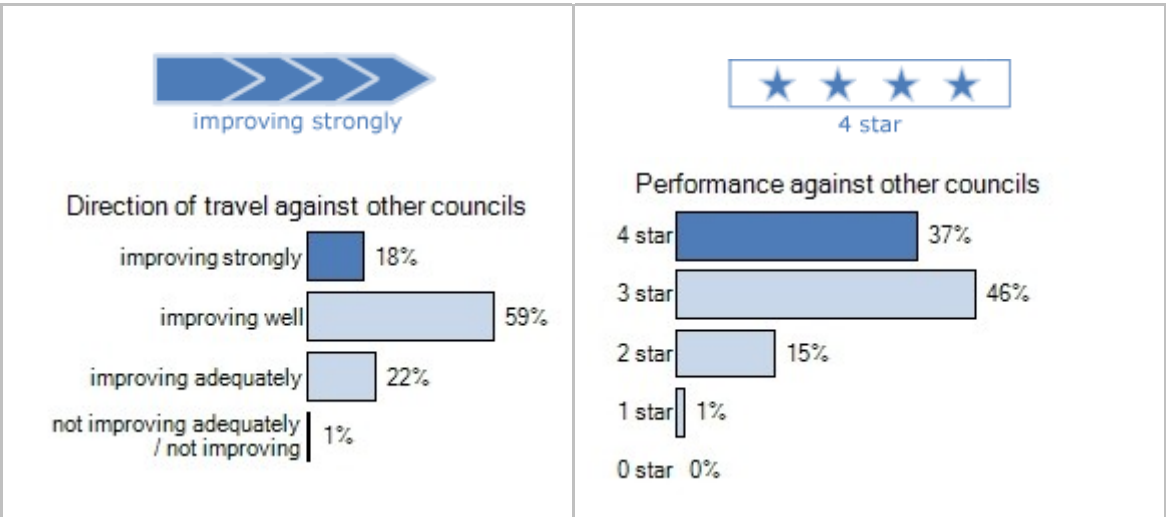
Purpose, responsibilities and scope

- 9** This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter. (It also includes the results of the most recent corporate assessment.)
- 10** We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 11** This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition, the Council is planning to publish it on its website.
- 12** As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 13** This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 14** We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Hartlepool Borough Council performing?

- 15 The Audit Commission’s overall judgement is that Hartlepool Borough Council is improving strongly and we have classified Hartlepool Borough Council as four-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.
- 16 Performance is improving in all priority areas, with an above average number of performance indicators within the top quartile. Employment is increasing and more hard-to-reach groups are engaged in work and decision making. Housing has improved significantly, with land made available for Housing Market Renewal and the provision of private and social housing to meet identified needs. There have been improvements in all education key stages which have caught up to or exceeded the national average. Strong partnership working is helping to improve the health and social care of local people along with environmental quality. Crime and the fear of crime are reducing.
- 17 The Council is improving value for money and high cost services reflect investment to improve priorities. Efficiency targets are being met. There are clear links between corporate, service and financial planning. Capacity to deliver plans is good, through the development of both in-house and partnership arrangements. The Council has identified areas for further organisational development and is tackling areas such as high numbers of young people not in education, employment or training.

Figure 1 Overall performance for this council



Source: Audit Commission

- 18 The detailed assessment for Hartlepool Council is as follows.

Our overall assessment – the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	4 star

Corporate assessment/capacity to improve	4 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	4 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year – our Direction of Travel report

- 19 Hartlepool Council has continued to make strong improvements to service outcomes during 2006/07. It has further improved its comparative position, where 46 per cent of PIs are above the best quartile breakpoint compared to the average for all single tier authorities of 29 per cent. This has been achieved during 2006/07 by improvements to 62 per cent of PIs which is within the average range for single tier authorities but is indicative of very strong improvement given the proportion of PIs already in the top quartile.

- 20 The Council has established its own set of Key Performance Indicators (KPIs) to monitor performance in implementing the Community Strategy aims. Over 72 per cent of these KPIs improved in 2006/07. Almost 50 per cent have improved in each of the last two years, demonstrating a strong track record of improvement in all areas. External benchmarking shows Hartlepool to be the most improved unitary Council in 2006/07. The improvement in performance has been matched by improved satisfaction levels in most service areas when compared with satisfaction in 2003/04. In 2006/07 54 per cent of service satisfaction measures were in the top quartile. However, during the same period satisfaction with the Council overall reduced as with all councils nationally.
- 21 Improvements have been made in each of the Council's seven priority areas.
- 22 Its work with local businesses for jobs and the economy have helped to increase the number of new business start-ups, provide more training for local people and help more people into employment. More hard-to-reach groups have been targeted including drug users, long term unemployed, young people, carers and disabled people. The gap between the local and national employment rates has narrowed.
- 23 The programme for its Lifelong Learning and Skills priority targeted children and young people as well as adult groups. This was recognised by JAR report, published in March 2007, as improving academic standards, increasing attendance and reducing permanent exclusions. There have been further improvements in all education key stages which have caught up to or exceeded the national average. Children's services, the education service and social care services for children have all been given a 'good' rating. Health services for children are considered to be adequate. The Council maintains its score of 3 for Children and Young people services.
- 24 During 2006/07 the Council worked effectively with its partners to improve the Health and Care of local adults. Improvements include increasing intermediate care and extending home care provision of Telecare. Smoking has reduced by 9 per cent. Improved independence for older people and other adults is reflected in top scores in the national performance assessment framework (PAF) indicators. Life expectancy is rising for men and women but not as quickly as the rest of the country. Improvements in the health of children include introducing the new food trust standards and helping children feel safer in school and in their local area. The Council also provides good support for children with learning difficulties and/or disabilities.
- 25 The Council is working effectively with its partners to improve Community Safety. Less people think that anti-social behaviour activities are a problem and there has been a significant reduction in crime overall during 2006/07.
- 26 The Council is continuing to improve its environment and housing services for local people by improving waste, recycling and cleansing performance. It has also made land available for the Housing Market Renewal Programme and facilitated the provision of private and social housing in accordance with local housing needs.

- 27** Culture and Leisure services are contributing to the social regeneration of the area including the health and well-being of local people, tourism and lifelong learning within the Borough and investments include improved sport facilities. The 2006 Maritime Festival was successful in attracting 60,000 people and which contributed to the build up and planning for the 2010 Tall Ships event.
- 28** The Council is improving access and the quality of its services to all citizens including hard to reach groups. Significant progress has been made with the 'Strengthening Communities' priority, including the delivery of environmental services at a neighbourhood level. It has encouraged minority groups including young people and BME representatives to be involved in decision making including through the LSP. Improved information has contributed to increased satisfaction with the local area as a place to live.
- 29** The Council is improving value for money. Although the revenue spend per head is 22 per cent higher than the unitary authority average reflecting the needs in an area ranked 14th most deprived in the country, cost per user in some service areas such as education attainment is relatively low. Increases in education spending below similar councils but levels of improvement are relatively high. High costs in social services reflect an emphasis towards care in the home which is consistent with national and Council priorities; and performance is generally above average. High performance is reflected in high levels of satisfaction in most service areas. The Council is meeting its efficiency target of £2.2 million per annum and the Corporate Assessment report published in March 2007 concluded that 'The Council provides good value for money'.
- 30** The Community Strategy sets out the overall aims and ambitions that are shared by the Council with other members of the Hartlepool Partnership. The Corporate Plan sets out plans for improvement over the coming three years; it is aligned with the Community Strategy and is agreed by cabinet and Council after detailed consideration and review by Scrutiny. Robust plans for improvement are well established as part of the Council's corporate and service planning processes which are strong. Financial planning is informed by Council priorities and departmental service plans include the improvement priorities identified in the Corporate Plan. Ongoing review of the plans at corporate and service levels ensures that they remain robust by responding to change including the need to review performance.
- 31** There is good implementation of improvement plans. Eighty per cent of the 2006/07 Corporate Plan actions were completed and a further 9 per cent were on target to meet deadline dates. Those not completed were rescheduled after discussion with Cabinet or Portfolio holders. The Corporate Assessment recognised that the Council is performing well in this area. In 2007 the Council maintained its 'excellent' score for BFI services. It maintained a score of 4 for each of claims administration, security, resource management and improved its score for user focus from two to three.

- 32 There is strong capacity for the Council to deliver its plans through the development of both in-house and partnership arrangements. Organisational development priorities and plans are set out in the Corporate Plan and will continue to be delivered through the 'Way Forward' change programme. Key strategies and plans - including the Efficiency Strategy, ICT Strategy, People and Member Development Strategies, Workforce Development Plan, Procurement Strategy and diversity schemes - have been developed to provide guidance for further improvement. The application of these arrangements has helped to deliver improvements and there is a realistic programme to further improve value for money and service delivery performance.
- 33 There are no significant weaknesses in arrangements for securing continuous improvement. The Council has identified areas for further organisational development and has established work programmes for them to be addressed, such as taking further steps to address absence and increasing investment to enhance capacity to drive further improvement. It has also identified areas for further action to improve service performance such as addressing problems in relation to NEETS and high rates of teenage pregnancy.

Other regulators

- 34 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- 35 The Ofsted Annual Performance Assessment concluded that:
- *'Hartlepool Borough Council consistently delivers above minimum standards. The council has responded positively to the recommendations raised in the joint area review report and has made good progress since that time. Its services for children and young people are well coordinated and managed.'*
 - *There is a clear focus upon, and a commitment to, improving the lives and life opportunities of children and young people across Hartlepool.*
 - *The council capitalises on the advantages of the small size of the authority and adopts appropriate strategies to meet the challenges this brings.*
 - *Outcomes are improving and are generally better than those achieved in similar areas. Children and young people's views are sought and increasingly used to influence decisions. Their needs are rigorously assessed and services personalised so that each individual can be healthy, be safe, enjoy and achieve, make a positive contribution and achieve economic well-being.*

- *The local authority knows its strengths and has a clear appreciation of what it needs to do to improve further. A number of significant factors demonstrate the council's good capacity to improve: the quality of senior leadership and management, very strong partnership working and the overall trend in improvements which have led to the good progress made since the joint area review.'*

36 The Commission for Social Care Inspection (CSCI) in its annual letter gave the following ratings.

Table 2

Areas for judgement	Grade awarded
Delivering Outcomes	Good
Improved health and emotional well-being	Good
Improved quality of life	Good
Making a positive contribution	Good
Increased choice and control	Good
Freedom from discrimination or harassment	Good
Economic well-being	Excellent
Maintaining personal dignity and respect	Good
Capacity to Improve (combined judgement)	Promising
Leadership	
Commissioning and use of resources	
Star rating	2 stars

37 The Benefits Fraud Inspectorate concluded that:

- *'In 2006 we reported that the council met 10 of the 12 performance measures. The council's most recent self-assessment showed that it achieved a rating of excellent against 10 of the 13 performance measures scored by the Department. In 2006 the council met 64 of the 65 enablers, this year the council again met 64. As a result of improved appeals performance the overall User focus score had increased from meeting minimum requirements in 2006 to Good in 2007. The council told us that it had an established comprehensive performance management framework that ensured performance was regularly reviewed and problems were addressed quickly. Managing performance in this way had enabled the council to achieve an excellent performance overall.'*

Other performance work

Arson

- 38 The Commission published a report which indicated that partnership working across Teesside to tackle arson and deliberate fires is effective and has improved considerably over the last two or three years. The main agencies involved in this work are the fire authority, police and the four local councils and partners are all committed to working together. They share information and coordinate their actions well.
- 39 The key messages from the report are as follows.
- With the fire authority taking the lead, the partners have made a real impact, achieving significant improvements in reducing the level of arson and deliberate fire setting.
 - The commitment of the partners to work together to tackle arson is clear and unambiguous.
 - Strategic planning arrangements are generally robust.
 - Partnership working in practice is effective. There is good sharing of information and good communications. Action and resource deployment is based on detailed intelligence.
 - Performance management is based on high quality performance information.
 - There is room for further improvement, for example, in some elements of shared planning and in the clarity with which different roles and responsibilities are set out.

Health inequalities

- 40 Partnership working is helping to improve the North East's health outcomes but more needs to be done to close the gap between the North East and the rest of England. Life expectancy is lower, rates for sickness and disability are twice the national average, and smoking mortality rates are among the highest in England. There is also a high prevalence of obesity, increasing sexual health infection rates and serious alcohol and substance misuse issues.
- 41 Tackling health inequalities is a high priority for the Government, which has been increasingly encouraging health trusts to work in partnership with local public bodies and the voluntary sector to improve health and reduce inequalities through a number of initiatives, targets and legislation. The factors causing health inequalities are complex and can best be addressed through agencies working together.

- 42** The Audit Commission, Deloitte and PricewaterhouseCoopers have reviewed how organisations across the North East are working together to address health inequalities, culminating in a workshop in October 2007 for 200 representatives from the NHS, local government and the many voluntary sector agencies involved in tackling health inequalities, where we identified seven key challenges.
- Challenge 1: Develop arrangements to evaluate projects and ensure continued funding of those that deliver tangible outcomes, and to embed this learning in project planning and performance management systems.
 - Challenge 2: Gather intelligence on where gaps in services exist and a profile of those accessing services. Target services at those areas and individuals where there is unmet need and develop strategies to target hard to reach groups.
 - Challenge 3: Ensure local area agreements contain a breadth of targets to reduce health inequalities, across all sectors and ensure health and wellbeing strategies are translated into local delivery plans that contain sufficient detail and local targets to monitor progress.
 - Challenge 4: Spread awareness of priorities and services on offer and provide networking opportunities and information sharing systems to improve the links between service planners and service providers. Cascade messages and targets to frontline workers such as teachers, health professionals and social workers.
 - Challenge 5: Use the Regional Health and Wellbeing Strategy to provide direction for the North East and link national, regional and local policies. Develop networking opportunities and support to share good practice to achieve the aim of transforming the North East into the healthiest region in the country within a generation.
 - Challenge 6: Give community and voluntary sector organisations increased certainty over funding with agreed delivery targets and simplify commissioning arrangements to make it easier for them to bid for the provision of services.
 - Challenge 7: systematically seek community views to influence how and where services are provided.
- 43** A report summarising the work to date was distributed widely to inform future development and improvement. We will be building on this work in the coming year, focussing in on specific areas, identifying good practice and helping to identify and overcome barriers to improving health outcomes in the North East.

Data quality

- 44** Our second report on the Council's data quality arrangements concluded that they remain adequate, and actions agreed last year had been implemented. Our spot check of a small sample of performance indicators confirmed that all had been correctly calculated except that the number of private sector homes vacant for over six months was understated. The indicator was amended, and action taken to ensure the error does not reoccur.

The audit of the accounts and value for money

- 45 As your appointed auditor, I have reported separately to the General Purposes Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts [or otherwise] and a conclusion on your vfm arrangements to say that these arrangements are adequate on 28 September; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 46 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 47 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3

Element	Assessment
Financial reporting	3 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 48** The Council's accounts were published to statutory deadlines, having been subject to member scrutiny and are accessible on the website. An annual report is not published, although summary financial information is reported in Hartbeat.
- 49** The Council continues to have significant levels of revenue reserves, increasing to £32 million (£31 million at the end of the previous financial year). Earmarked funds, which are set aside for specific future spending, account for £14 million of the total. The balance of £19 million is available to support 2007/08 and later expenditure. The Council needs to ensure that financial plans clearly and transparently reflect the plans for reserves. We are working with the Council to review its medium term financial strategy.
- 50** The Council works well with partners, but has not yet fully developed risk management and governance arrangements to ensure they meet required standards.
- 51** The Council provides value for money overall. Further improvements could be made by extending good procurement practice to whole services which are above average costs, such as parks and cleansing, and improving project planning for capital projects.

Looking ahead

- 52 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 53 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 54 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 55 This letter has been discussed and agreed with the Assistant Chief Executive. A copy of the letter will be presented at the Cabinet, Scrutiny Co-ordinating Committee and Audit Committee in April and May 2008. Copies need to be provided all Council members.
- 56 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 4 Reports issued

Report	Date of issue
Audit and inspection plan	April 2006
Interim audit memorandum	November 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	November 2007
Partnership working across Teesside - Tackling arson	July 2007
Data quality	November 2007
Annual audit and inspection letter	February 2008

- 57 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 58 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Steve Nicklin
Relationship Manager and District Auditor
 March 2008

AUDIT COMMITTEE

15 May 2008



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT – 2006/2007
ANNUAL GOVERNANCE REPORT.

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the 2006/2007 District Auditor's Annual Governance Report.

2. BACKGROUND

- 2.1 In accordance with the Audit Commission's Statutory Code of Audit Practice for Local Government bodies the District Auditor is required to report the conclusion of their audit work in an Annual Governance Report. The principle purposes of the Annual Governance Report are: -
- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charged with Governance;
 - To share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities;
 - To highlight opportunities for improvement to the Authority's Financial Statement/processes.
- 2.2 The District Auditor issued the Annual Governance Report in September 2007 and this report is now being submitted to your Committee for consideration. An administrative oversight meant that the report was not brought to the January meeting of the Audit Committee, however, the report is still relevant given the potential future role of the Audit Committee in approving the Council accounts and its tasks at today's meeting. The Annual Governance Report was submitted to the General Purposes Committee on 28th September 2007, to enable them to consider the District Auditor's findings before they approved the final 2006/2007 Statement of Accounts before the 30th September statutory deadline. I will update Members verbally on the decisions made by the General Purposes Committee on 28th September, 2007. A copy of my report to the General Purposes Committee on 28th September, 2007, is attached at Appendix A.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 The District Auditor's 2005/2006 Annual Governance Report is attached at Appendix B. A representative of the District Auditor will attend your meeting to present the report and respond to Members questions. The District Auditor's recommendations are detailed in the report for your consideration.

4. RECOMMENDATIONS

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

GENERAL PURPOSES COMMITTEE

28 September 2007



Report of: Chief Financial Officer

Subject: FINAL 2006/2007 STATEMENT OF ACCOUNTS
AND AUDIT COMMISSION ANNUAL
GOVERNANCE REPORT

1. PURPOSE OF REPORT

- 1.1 The purposes of this report are to: -
- i) Enable Members to approve the final 2006/2007 Statement of Accounts; and
 - ii) To present the Audit Commission's Annual Governance Report.

2. BACKGROUND

- 2.1 As indicated in the report issued with the main agenda papers Members were advised that a further report would be issued once the Audit Commission completed their review of the draft 2006/2007 Statement of Accounts. It was indicated that this report would include a copy of the Audit Commission's Annual Governance Report and final 2006/07 Statement of Accounts, which would include any amendments agreed with the auditors. These documents are attached at Appendices A and B respectively.

3. ANNUAL GOVERNANCE REPORT

- 3.1 The principle purposes of the Annual Governance Report are:
- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and those charged with governance;
 - To share information to assist both the Auditor and those charged with Governance to fulfil their respective responsibilities; and
 - To highlight opportunities for improvements to the Authority's financial statements/processes.
- 3.2 A copy of the Annual Governance Report is attached at Appendix A. The report indicates that the Audit Commission have now substantially completed the Audit of the 2006/2007 Statement of Accounts and their recommendations are detailed in the Annual Governance Report. Should any further matters arise, which is unlikely, the auditor will raise them at your meeting on 28th September. The Auditor will also answer any

questions on the Annual Governance Report. The report indicates that the Auditor proposes issuing an unqualified audit opinion on 28th September, which is the opinion we would wish to receive.

4. FINAL 2006/2007 STATEMENT OF ACCOUNTS

4.1 Details of the amendments which have been made to the draft accounts during the audit are detailed in paragraphs 16 to 20 of the Governance report. In summary these issues relate to the following areas and were made to improve the presentation of the statements and improve compliance with the Statement of Recommended Practice. (SORP):

- The cash flow statement supporting notes were amended to reflect a number of misstatements and to provide reconciliation to the income and expenditure account. These changes improve the presentation of information in the Accounts, but do not affect the Authority's overall cash position; and
- Additional notes were included after the income and expenditure account to explain changes to last year's reported position, required because of the new local government accounting code for 2006/07.

4.2 There are no issues within the Annual Governance Report which affect the level of the Authority's reserves which were reported in the draft statement of accounts.

4.3 A copy of the final 2006/07 Statement of Accounts is attached at Appendix B.

5. RECOMMENDATIONS

5.1 It is recommended that Members: -
i) Note the report.
ii) Approve the Final 2006/2007 Statement of Accounts detailed at Appendix B, which incorporates the changes agreed with the auditors detailed in the Annual Governance report.

Annual Governance Report

September 2007



Annual Governance Report

Hartlepool Borough Council

Audit 2006/07

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 Local Government Act 1999 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

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/member 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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www.audit-commission.gov.uk

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the General Purposes Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the General Purposes Committee on 28 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan agreed in April 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6** Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved. In particular, our work on fixed assets has yet to be concluded. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with you on 28 September. We propose issuing an unqualified audit opinion on 28 September 2007 (a draft report is attached at Appendix 4).
- 7** In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8** Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 3).

Audit status

- 9 At the date of issue of this report our detailed audit is substantially complete.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete, although there are still outstanding issues to be resolved. In particular, our work on fixed assets has yet to be concluded.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. The most significant items are detailed below for your attention.
- 17 The cash flow statement and accompanying notes were amended to correct a number of misstatements, which in accounting terms were deemed to be material errors, although these changes did not affect the net cashflow position of the Council:
 - non domestic rates income from ratepayers was understated by £4.7m;
 - non domestic rates income from the pool was £5.3m overstated; and
 - the financing section of the statement contained overall material errors of £48m on the cash outflows and £43m on the cash inflows.

- the SORP specifies that there should be a reconciliation of surplus/deficit on the income and expenditure account to the net cash flow. The draft statement was incorrect because it reconciled to the increase/decrease in general fund balances.
- 18 The government grants deferred account was reduced by £2.1m, with a matching increase in the capital financing account. This related to assets which had been disposed of, and offset the loss on disposal of £2.1m. This reduced the deficit on the income and expenditure account but had no impact on the general fund balance.
 - 19 The pension fund actuary valued assets at 31 December 2006 rather than 31 March 2007. As a result, the pension liability recorded in Hartlepool BC's accounts was understated by £3.286m. There is no impact on the income and expenditure or general fund balance. A note was added to the statements to explain the understatement.
 - 20 Additional notes were included after the income and expenditure account to explain the changes to last year's reported position, required because of the new local government accounting Code for 2006/07

Accounting practices

- 21 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 22 The financial statements provided for audit were of a good standard, largely reflecting the new requirements for 2006/07. The number of minor errors was reduced from those identified last year.
- 23 Comparative figures were restated to reflect changes in the classification of some reserves. These changes were not required by a change in accounting policy, nor were they fundamental accounting errors, so it may have been more appropriate to account for the changes in 2006/07 than to restate last year's balances.

Recommendation

R1 Prior period adjustments should be made only where this is required by accounting standards. Any proposal to include such an adjustment in future should be discussed in advance with the auditor.

- 24 The whole of government accounts consolidation pack has not yet been prepared. The deadline for submission for the audited pack is 1 October 2007.

Recommendation

R2 Prepare whole of government accounts consolidation pack and supporting working papers at the same time as the financial statements.

- 25 Working papers provided to support the financial statements were improved on last year but could be further improved, and reduce audit time, if they included evidence to demonstrate that figures from the main feeder systems were accurately included in the ledger.

Recommendation

R3 Prepare a working paper to clearly show that the full year's figures from each of the main feeder systems are accurately included in the ledger.

Systems of internal control

- 26 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified.
- 27 A new financial ledger was implemented at the start of 2006/07. There were minor initial problems with some automated aspects of the system, which were identified through the Authority's validation reporting arrangements. This issue was raised with the supplier and will be rectified when the Authority implements the current release of the software in 2007/08 the system.
- 28 Journals, used to action amendments in the ledger, are completed electronically. In some instances there is often little narrative included or other supporting information to explain why the amendment was necessary.

Recommendation

R4 Ensure all journals are supported by sufficient narrative to explain the amendment and why it is necessary.

- 29 In order to identify material transactions with related parties, which have to be disclosed in the statements, all members and senior officers are required to complete an annual declaration. At the time of the audit there were three declarations from new members which had not been returned. Two of these have subsequently been received. There were 12 unreturned forms from existing members. None of these have been received to date.

Recommendation

<i>R5 Complete and return the annual declaration of interests by the deadline for preparation of the statements.</i>
--

- 30 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 31 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.
- 32 At the time the SIC was approved, Internal Audit had not completed all of the planned work on financial systems. It was not made clear that some of the assurance was based on previous year's audit work.

33

Recommendation

<i>R6 Ensure all relevant Internal Audit work is completed before the SIC is approved.</i>
--

Use of resources

Work performed

- 34** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion included the following elements:
- data quality work; and
 - the best value performance plan.
- 35** Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

Data quality work

- 36** We are currently finalising our data quality review and will report our findings to the relevant officers.

Best value performance plan

- 37** Our work in respect of the Authority's 2006/07 best value performance plan (BVPP) was completed in December 2006. No recommendations were made to the Audit Commission or the Secretary of State.

Audit fee update

- 38 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

Table 1

	Plan 2006/07	Actual 2006/07
Accounts and Statement on Internal Control	147,200	147,200
Use of Resources	73,300	73,300
Total Audit Fees	220,500	220,500
Grants certification work	17,126	17,126
Other work - whole of government accounts	1,500	1,500

- 39 The analysis above shows that our audit fee has been contained within the totals you have already agreed.

Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	Prior period adjustments should be made only where this is required by accounting standards. Any proposal to include such an adjustment in future should be discussed in advance with the auditor.	2	Chief Accountant	Yes		2007/08 accounts
8	Prepare whole of government accounts consolidation pack and supporting working papers at the same time as the financial statements.	2	Chief Accountant	No	Will consider resource implications of doing this at the same time as preparing accounts, as current arrangements are most effective use of our limited resources within time constraints for preparing draft accounts and meeting statutory deadlines for issuing reports.	2007/08 accounts
8	Prepare a working paper to clearly show that the full year's figures from each of the main financial systems are accurately included in the ledger	3	Chief Accountant	Ye	Clarify with Auditor exact requirements and why existing working papers do not provide adequate audit trail and discuss savings from reduction in audit time.	2007/08 accounts
9	Ensure all journals are supported by sufficient narrative to explain the amendment and why it is necessary	2	Chief Accountant	Yes	Subject to limitations of field for recording comments, which in some instances may mean comment is referenced to supporting working paper	October 2007
9	Complete and return the annual declaration of interests by the deadline for preparation of the statements	2	Assistant Chief Executive	Yes		2007/08 accounts

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
9	Ensure all relevant Internal Audit work is completed before the SIC is approved	H	Head of Audit and Governance	Y	Fundamental System work for 2006/07 was completed to the extent that allowed us to place reliance on the work carried out for the purposes of the SIC although audits that involved Integra were not agreed at that time. We anticipate all fundamental system work will be completed for 2007/08 for the new governance statement purposes as Integra will have bedded in and we will have our agreed timetable in place as discussed for completing the fundamental financial systems	2007/08 accounts

Appendix 2 – The Audit Commission's requirements in respect of independence and objectivity

- 1** We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2** We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	31 March 2006	April 2006	General Purposes Committee
Interim audit memorandum	June 2007		Audit Committee
Annual governance report	September 2007	September 2007	General Purposes Committee
Opinion on financial statements	28 September 2007		General Purposes Committee
Use of resources conclusion	28 September 2007		General Purposes Committee
Final accounts memorandum	October 2007		Audit Committee
BVPP report	December 2006	December 2006	Chief Financial Officer
Data quality report	November 2007		Audit Committee
Performance reports <ul style="list-style-type: none"> • Drug misuse • Arson • Your business at risk 	Various	September 2006 July 2007 August 2006	Audit Committee
Annual audit letter	Draft December 2007 Final by March 2008		All members

Appendix 4 – Proposed auditor's report

Independent auditor's report to the Members of Hartlepool Borough Council

Opinion on the Financial Statements

We have audited the financial statements of Hartlepool Borough Council and its Group for the year ended 31 March, 2007, under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Hartlepool Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published April, 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion 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 2006, the financial position of the Authority and its Group as at 31st March, 2007 and its income and expenditure for the year then ended.

28 September 2007

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December, 2006, we are satisfied that, in all significant respects, Hartlepool Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March, 2007.

Best value performance plan

We issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 4 December 2006. We did not identify any significant matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

28 September 2007

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Appendix 5 – Draft management representation letter

(To be on HBC headed paper)

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

Hartlepool Borough Council - Audit for the year ended 31 March 2007

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Hartlepool Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

We confirm the reasonableness of assumptions relating to fair value measurements and that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

Fixed assets

We confirm that the St John Vianney Early Years Centre annex is owned by Hartlepool Borough Council and that it is included in the financial statements in accordance with relevant accounting standards.

Group entities

We confirm that the representations within this letter also apply to the group accounts and that the Council has identified and consolidated all its material interests in companies within the group accounts.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.
- Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud and error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We have assessed the risk of material misstatement of the statement of accounts due to fraud and consider this risk to be low.

Post balance sheet events

Since the date of approval of the financial statements by Members of the General Purposes Committee, there has been one post balance sheet event.

Actuarial calculations are based on asset values as at 31 December 2006 rather than 31 March 2007. The resulting 1.04 per cent difference in asset values when pro-rated across admitted bodies is £3.287m which is £874,000 above the materiality level for Hartlepool Borough Council which stands at £2.413m. We have not amended for this in the statement of accounts.

Signed on behalf of Hartlepool Borough Council

Signed

Name

Position

Date

Signed

Name

Position: Chief Financial Officer

Date

Appendix 6 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

Code criteria	Description	VFM conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate

Code criteria	Description	VFM conclusion
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

AUDIT COMMITTEE

15 May 2008



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT- STATEMENT OF RESPONSIBILITIES FOR AUDITORS AND AUDITED BODIES.

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 answer any questions arising from the attached report which is presented to the Committee for information.

2. BACKGROUND

- 2.1 The objective of the Audit Commission report is to clarify to those who are responsible for the conduct of public business and for spending public money their accountabilities for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 2.2 In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published governance statement.

3. RECOMMENDATIONS

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

Statement of responsibilities of auditors and of audited bodies

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we seek to ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at www.audit-commission.gov.uk



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General introduction

- 1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice, which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7 of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits in both sectors and so supports each Code.
- 2 The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of an audit, the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members of the body (for example, elected members in local authorities and directors of NHS bodies) and its management (the senior officers of the body).
- 3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the audit role does not include providing financial or legal advice or consultancy to the audited body.
- 4 Auditors may wish to refer to, and/or incorporate, this statement in audit planning documents, annual audit letters, reports and other audit outputs.

Introduction to responsibilities

- 5 Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 6 In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published statements on internal control (NHS bodies) or annual governance statement (local government bodies).
- 7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals have specific responsibilities. NHS bodies have a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chairman and non-executive members are responsible for monitoring the executive management of the body and are responsible to the Secretary of State for the discharge of these responsibilities. In addition, there is a requirement for an audit committee, which contributes independently to the board's overall process for ensuring that an effective internal control and risk management system is maintained. The chief executive is responsible to the board for the day-to-day management of the organisation and, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets.
- 8 Local government bodies have three designated statutory officers, each of whom has a specific role in relation to accountability and control. These are:
 - the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
 - the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration, and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
 - an officer with responsibility for the proper administration of their financial affairs.

- 9 In carrying out their responsibilities, auditors may wish to obtain representations from management, both orally and in writing, on important matters.
- 10 The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

The audit of the financial statements

- 11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:
- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements that present fairly (or, for NHS bodies and local probation boards, give a true and fair view of) the financial position of the body and its expenditure and income and that are in accordance with applicable laws, regulations and accounting policies.
- 12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements for each financial year that present fairly:
- the financial transactions of its pension fund during the year; and
 - the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 13 The audited body is also responsible for preparing and publishing with its financial statements:
- for health bodies and probation boards, a statement on internal control prepared in accordance with specified guidance; and
 - for local government bodies, an annual governance statement, prepared in accordance with proper practice set out in the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers publication *Delivering Good Governance in Local Government: A Framework*, and related guidance.

14 In preparing their financial statements, audited bodies are responsible for:

- preparing realistic plans that include clear targets and achievable timetables;
- assigning responsibilities clearly to staff with the appropriate expertise and experience;
- providing necessary resource to enable delivery of the plan;
- maintaining adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements;
- ensuring that senior management monitors, supervises and reviews work to meet agreed standards and deadlines; and
- ensuring that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor. At local government bodies, the responsible financial officer must sign, date and certify the financial statements before they are approved by the body.

15 If draft financial statements and working papers of appropriate quality are not available at the agreed start date of the audit, the auditor is unable to meet the planned audit timetable and the start date of the audit will be delayed. The audit fee is calculated on the basis that the draft financial statements, and detailed working papers, are provided to an agreed timetable and are of an acceptable standard. If information is not provided to this timetable, or is provided to an unacceptable standard, the auditor will charge additional fees for any extra work that is necessary.

16 Auditors audit the financial statements and give their opinion, including:

- whether they present fairly, or give a true and fair view of, the financial position of the audited body and its expenditure and income for the year in question;
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards;
- for certain bodies, on the regularity of their expenditure and income; and
- for certain bodies, on whether the part of the remuneration report to be audited has been properly prepared.

17 In carrying out their audit of the financial statements, auditors will have regard to the concept of materiality.

- 18 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:
- are free from material misstatement, whether caused by fraud or other irregularity or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- 19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors will examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.
- 20 Subject to the concept of materiality, auditors of specified NHS bodies and local probation boards also provide reasonable assurance on the regularity of expenditure and income. In giving such assurance, auditors do not perform detailed tests of transactions to the extent that would be necessary to disclose all unlawful transactions or events that may have occurred or might occur, and the audit process should not be relied upon to disclose such matters.
- 21 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.
- 22 Auditors review whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They will also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control (NHS bodies) or annual governance statement (local government bodies) covers all risks and controls, nor are auditors required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

23 In carrying out their work on the financial statements, auditors will:

- plan to complete work and meet agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

24 Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

Electronic publication of the financial statements

25 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication accurately presents the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's written consent.

26 The audited body may also wish to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders and must ensure that these are presented accurately. The auditor's report on the financial statements distributed electronically should not be reproduced or referred to electronically without the auditor's prior written agreement.

27 The examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and the auditor cannot be held responsible for changes made to audited information after the initial publication of the financial statements and the auditor's report.

Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

- 28 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:
- establishing strategic and operational objectives;
 - determining policy and making decisions;
 - ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
 - ensuring compliance with established policies, procedures, laws and regulations;
 - identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
 - ensuring compliance with the general duty of best value, where applicable;
 - managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
 - monitoring and reviewing performance, including arrangements to ensure data quality; and
 - ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and for preventing and detecting fraud and corruption.
- 29 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control (NHS bodies) or annual governance statement (local government bodies).

- 30** Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.
- 31** Auditors report annually their conclusion on those arrangements, having regard to the criteria specified by the Audit Commission and will report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether all aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively in practice.
- 32** In planning this work, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.
- 33** When assessing risk auditors consider:
- the relevance and significance of the potential business risks faced by all bodies of a particular type;
 - other risks that apply specifically to individual audited bodies;
 - the audited body's own assessment of the risks it faces; and
 - the arrangements put in place by the body to manage and address its risks.

34 In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

35 Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

36 In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision-making arrangements of the audited body.

37 While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

38 Auditors are specifically required to review audited bodies' arrangements for 'monitoring and reviewing performance, including arrangements to ensure data quality'¹.

¹ *Code of Audit Practice 2005*, section 3: Auditors' responsibilities in relation to the use of resources.

- 39 The responsibility for applying data quality standards, collecting data that are fit for purpose and where appropriate conform to prescribed definitions, and reporting performance information that is reliable and accurate, rests with audited bodies.
- 40 Before performance information is reported externally or submitted to external auditors for review, it should be subject to scrutiny and approval by senior management and those charged with governance.
- 41 In order to fulfil their responsibilities under the Code, auditors will review an audited body's corporate arrangements to secure the quality of its data. This review will be informed by other relevant work, for example any detailed reviews of the data supporting specific performance information.
- 42 The findings of the review of corporate arrangements for data quality will contribute to the auditor's conclusion under the Code of Audit Practice on the audited body's arrangements to secure value for money, in relation to the specific criterion on data quality. Where weaknesses have been identified in an audited body's arrangements for data quality, the auditor will consider the overall impact on the conclusion under the Code of Audit Practice, and where appropriate make recommendations to support improvement.
- 43 Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.
- 44 The reviews arising from national studies developed by the Commission, or in support of the Healthcare Commission's national work programme, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

Specific powers and duties of auditors

- 45 Auditors have specific powers and duties under the Audit Commission Act 1998 in relation to matters of legality and, in local government, electors' rights. Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

- 46 Auditors provide:

- an audit planning document;
- oral and/or written reports or memoranda to officers and, where appropriate, members on the results of, or matters arising from, specific aspects of auditors' work;
- a report to those charged with governance, normally submitted to the audit committee, summarising the work of the auditor;
- an audit report, including the auditor's opinion on the financial statements and a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements; and
- an annual audit letter.

- 47 In addition, the following outputs, the need for which may arise at any point during the audit process, are issued where appropriate:

- a report dealing with any matter that the auditor considers needs to be raised in the public interest under section 8 of the Act;
- any recommendations under section 11(3) of the Act (local government bodies);
- any referral to the Secretary of State under section 19 of the Act (NHS bodies) where the auditor considers that a decision by a body or officer has led to, or would lead to, unlawful expenditure, or that some action by a body or officer has been, or would be, unlawful and likely to cause a loss or deficiency; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its other functions, including assessments of performance at relevant

bodies, or to assist other bodies, such as the Healthcare Commission, the Commission for Social Care Inspection and the National Audit Office, in carrying out their functions.

- 48 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors will be drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.
- 49 Although annual audit letters and reports may be addressed to officers or members of the audited body, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities (other than in the exercise of auditors' specific powers and duties in relation to matters relating to electors' rights in local government) or to third parties that choose to place reliance upon the reports from auditors.

Ad hoc requests for auditors' views

- 50 There may be occasions when audited bodies will seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors will be as helpful as possible, but are precluded from giving a definite view in any case because auditors:
- must not prejudice their independence by being involved in the decision-making processes of the audited body;
 - are not financial or legal advisers to the audited body; and
 - may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

- 51 In response to such requests, auditors can offer only an indication as to whether anything in the information available to them at the time of forming a view could cause them to consider exercising the specific powers conferred upon them by statute. Any response from auditors should not be taken as suggesting that the proposed transaction or course of action will be exempt from challenge in future, whether by auditors or others entitled to raise objection to it. It is the responsibility of the audited body to decide whether to embark on any transaction.

Access to information

- 52 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or voluntary sectors.
- 53 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation. Audited bodies wishing to disclose information obtained from an auditor are required by law to seek the auditor's consent to that disclosure.

Grant claims and returns – certification

- 54 The Commission agrees to make certification arrangements in accordance with the framework set out in the separate *Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns*. The responsibility for ensuring the completion, accuracy and completeness of grant claims and returns lies with the audited body. Grant-paying bodies may require independent examination as a condition of their acceptance of claims and returns and may ask the Commission to make arrangements for auditor certification of claims and returns. The Commission will have regard to what it is appropriate, practically and professionally, to expect the certification process and auditors to do before agreeing to make certification arrangements.

Audit of charitable funds

- 55** This section is relevant to those charities to which the Audit Commission appoints auditors under s43A of the Charities Act 1993^I.
- 56** Trustees of charitable funds subject to audit have a duty to prepare financial statements for each financial year which give a true and fair view of:
- the state of the charity's affairs at the end of the financial year; and
 - the incoming resources and the application of those resources by the charity for that period.
- 57** Trustees must ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice – 'Accounting and Reporting by Charities'.
- 58** It is the duty of the auditor to report to the trustees whether the financial statements give a true and fair view and whether they have been prepared in accordance with the Charities Act 1993 and the Charity (Accounts and Reports) Regulations.
- 59** Auditors are also required to report immediately to the Charity Commissioners any matter which they have reasonable cause to believe is, or is likely to be, of material significance to the Commissioners' functions under s8 (general power to institute inquiries) or s18 (power to act for protection of charities) of the 1993 Act. Such matters may relate not only to the activities or affairs of the charity, but also to any institution or body corporate which is connected with the charity.
- 60** The audit fee is calculated on the basis that detailed working papers, and other specified information, are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

^I S43A of the Charities Act 1993 prescribes that all English NHS charities shall, at the election of the Audit Commission, be subject to an independent examination or audit. The Commission has decided that it will require an audit for all those charities above the threshold of £500,000, as defined in s43. Those below this threshold will be subject to an independent examination, unless the trustees elect for an audit. The auditor or examiner appointed must then follow the procedures required under s43(7)(b) of the Charities Act. Where an independent examination is carried out, the responsibilities of the examiner are more limited.

This report is available on our website at www.audit-commission.gov.uk. Our website contains a searchable version of this report, as well as a text-only version that can easily be copied into other software for wider accessibility.

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AUDIT COMMITTEE

15 May 2008



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT-
HARTLEPOOL ETHICAL STANDARDS.

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 results of the Hartlepool Ethical Standards Report.

2. BACKGROUND

- 2.1 The objective of the Audit Commission review was to assess whether Hartlepool Borough Council's arrangements for maintaining high standards of ethical behaviour are well understood by councillors and senior officers and are complied with.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Attached, as Appendix 1, is the Audit Commission report. The main messages for the Council included in this report are:
- Awareness of the ethical agenda by both councillors and officers of Hartlepool Borough Council is strong. Responses in general were much more positive than national average in most areas;
 - Leadership shown by councillors and senior management, including trust and communications, is generally positive with both the leader and Chief Executive perceived as being proactive and role models in terms of ethical behaviour;
 - Senior Officers were in general more positive across all areas of the survey with only minor awareness issues to be addressed;
 - Councillors and officers are generally positive about accountability, management of standards, team working and partnership working;
 - Councillors and officers are relatively positive about relationships, particularly when it comes to trusting each other;
 - There is clarity among councillors regarding the Members' Code of Conduct, but not about when an interest should be entered in the Members' register;

- Councillors and officers are not positive about the role of the Standards Committee and its impact on the ethical agenda or that it adds value to the Council; and
- Councillors were negative about the levels of training they are receiving in some key national policy areas. More of a concern is the level of councillors and senior managers who expressed they didn't know whether they had received training in these areas.

3.2 A number of recommendations have been made by the Audit Commission all of which have been accepted and actions planned to ensure their implementation.

4. RECOMMENDATIONS

4.1 That the Audit Committee note the report of the Audit Commission.

Audit Detailed Report

April 2008



Hartlepool Ethical Standards

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.
- 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, the Local Government Act 1999 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

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/councillors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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Summary report

Introduction and background

- 1 There is an increased emphasis on councillor standards and conduct in public life. The findings of the Committee on Standards in Public Life, the Local Government Act 2000 and the introduction of the Standards Board for England (SBE) are all factors in the current weighting given to the need for strong ethical governance in local councils. The Chief Executive of the Standards Board for England also reinforced this in his November 2006 letter to local authority chief executives where he stressed the roles of chief executives and leading councillors in influencing organisational culture and supporting the ethical environment.
- 2 High ethical standards are the cornerstone of good governance. They are an integral part of good corporate governance arrangements and can lead to increased confidence in local democracy.
- 3 Setting high ethical standards is an important building block for councils in developing their community leadership role and improving services to the community. Councils are also becoming involved in increasingly complex partnerships and a decline in high standards may adversely affect these arrangements.
- 4 Local authorities and individual councillors now face a number of risks, including:
 - referral to, and investigation by, the SBE for alleged breaches of the Code of Conduct, sometimes leading to the disqualification of councillors;
 - loss of confidence in individual councillors, councils and local democracy; and
 - poor decision-making.
- 5 Ethical governance is an area of great interest to the national and local press, particularly when things go wrong. When things go wrong and councillors are found guilty of a breach of the Code of Conduct there is a risk to the reputation of individuals and of the council. The consequent difficulties of having to implement widespread changes whilst under the spotlight cannot be overestimated.

Audit approach

- 6 The objective of this review was to assess whether Hartlepool Borough Council's (the Council's) arrangements for maintaining high standards of ethical behaviour are well understood by councillors and senior officers and are complied with.
- 7 We specifically looked at whether:
 - Councillors are complying with the Code of Conduct on Member behaviour; and
 - the Standards Committee is playing an appropriate and proactive role.

- 8 The audit consisted of an on-line survey of councillors and officers. The on-line survey is a national questionnaire, which has been completed by over 50 councils; The Commission has more than 4,000 responses to the survey in its database.
- 9 We issued the survey to all councillors and senior officers of the Council and it was completed between October and November 2007. Returns were received from 19 councillors (out of 48) and 16 officers (out of 24) giving an overall return rate of 48.6 per cent. Nationally this is considered a good return, which is statistically valid to draw appropriate conclusions.
- 10 This report covers our findings from the survey. No other audit work, such as interviews with councillors and officers was undertaken.

Main conclusions

- 11 Key points arising from the survey are:
 - awareness of the ethical agenda by both councillors and officers of Hartlepool Borough Council is strong. Responses in general were much more positive than national average in most areas;
 - leadership shown by councillors and senior management, including trust and communications, is generally positive with both the leader and Chief Executive perceived as being proactive and role models in terms of ethical behaviour;
 - Senior Officers were in general more positive across all areas of the survey with only minor awareness issues to be addressed;
 - Councillors and officers are generally positive about accountability, management of standards, team working and partnership working;
 - Councillors and officers are relatively positive about relationships, particularly when it comes to trusting each other
 - there is clarity among councillors regarding the Members' Code of Conduct, but not about when an interest should be entered in the Members' register;
 - Councillors and officers are not positive about the role of the Standards Committee and its impact on the ethical agenda or that it adds value to the Council; and
 - Councillors were negative about the levels of training they are receiving in some key national policy areas. More of a concern is the level of councillors and senior managers who expressed they didn't know whether they had received training in these areas
- 12 The detailed findings are set out below. The percentages quoted relate to the percentage of respondents to the survey, rather than of total councillors and senior officers to whom the survey was distributed. It should also be noted that on a number of occasions a number of councillors chose not to answer the question.

Detailed report

Ethical standards and compliance

Code of Conduct - compliance

- 13 Councillor and officer responses to questions about the Code of Conduct were generally positive and much higher in many cases than the national average.
- 14 All councillors are very clear that a Code of Conduct has been adopted and that they have agreed to abide by it. The Council's communication about its Code of Conduct has therefore been well distributed and understood.
- 15 Councillors and senior officers are less clear on the action they must take if they become aware of conduct, which they believe is a failure to comply with the Code. When compared to the national average, a significantly higher percentage of Hartlepool councillors and officers responding knew they should inform the monitoring officer (94.7 and 93.8 per cent respectively).
- 16 They were less clear about whether they should make a written allegation to the SBE (10.5 per cent said no and 10.5 per cent said they did not know but 36.9 per cent did not answer the question). This represents a gap in the knowledge of some councillors, which may hinder the Council's approach to ensuring high standards of ethical governance. The Council has subsequently re-issued the new code, which does not include the requirement to make a written allegation to the SBE.

Recommendation

R1 Ensure councillors are confident in the actions they should take as individuals if they become aware of conduct by a councillor that may be in breach of the Code.

- 17 Councillor responses to the Standard Committee were generally negative with only 21.1 per cent agreeing strongly that it was making a positive difference and adding value to the Council. There was stronger awareness amongst senior officers of the work and processes of the Committee. In responses from both councillors and officers there was a lack of awareness of whether the Standards Committee had a forward plan of work.

Recommendation

R2 Standards Committee needs to raise its profile and to ensure both councillors and senior officers are fully aware of the role, operation and effectiveness of the Standards Committee. The Committee should consider preparing and issuing an annual report in which it can clearly outline its achievements for the year.

- 18 A high percentage of councillors (47.4 per cent) do not know whether the Council has a whistle blowing policy and as a result a relatively high percentage (21.1 per cent) lack clarity on how clear the policy is. This represents a gap in the knowledge of some councillors, which again may hinder the Council's approach to ensuring high standards of ethical governance.

Recommendation

R3 Ensure all councillors are made aware of the whistle blowing policy and are clear on its purpose, content and process for its use.

- 19 There is a mixed perception on whether the Council's approach to promoting high ethical standards is helping to build the public's confidence in local democracy. Only 53 per cent of members feel this is the case (significantly below the national average) but more positively, 68.8 per cent of senior officers feel this is the case (just above the national average).

Recommendation

R4 The Council needs to establish the reasons for this relatively poor perception of its role in promoting high ethical standards and implement appropriate actions.

Training

- 20 Councillors responded negatively on the level of training they had received on key national issues. In all cases the responses are below the national average - in some cases, over half of the respondents had not received training on key issues such as Human Rights Act 1998 or Race Relations (Amendment) Act 2000. Senior officers however responded much more positively where as high as 94 per cent said they had had relevant training. Of concern however is the relatively high number of respondents, both councillors and senior officers, who said they did not know whether they had been trained or not.

Recommendation

R5 The Council needs to consider ways in which it can actively engage councillors in attending training when it is offered. It may like to consider a different approach by issuing simple, easy to understand briefing notes and signposting councillors to the full document for further research if necessary, or the use of e-learning packages, which are available on these key national issues.

Conflicts of interest

- 21 Nearly all councillors responding to the survey were either 'very clear' or 'fairly clear' about what constitutes a conflict of interest. There is less clarity about which organisation's internal rules prevail if they are appointed to represent the Council on an external body and the rules conflict. Councillors were clear about the existence of the members' register of interest and the need to record their interests.
- 22 Awareness of when an interest should be registered is not as strong. For example, 21.1 per cent of councillors felt they did not need to register if they were in a management position of a private company and 52.6 per cent did not feel they had to register an interest in the members' register that they are a member of a freemasons lodge and a further 15.8 per cent did not know.

Recommendation

R6 The Council should reconsider the way it ensures councillors understand the circumstances in which they must register an interest and the process for doing so to minimise the risks to councillors and the Council.

- 23 Members were quite clear on the action they have to take if they have a prejudicial interest in a matter with 89.5 per cent saying they would leave the room when the matter is being discussed. However 21.1 per cent said they would seek to influence a decision about the matter and 1.5 per cent did not answer the question.

Recommendation

R7 The Council should explore whether councillors are clear on their responsibilities and actions to follow when they have prejudicial interest in a matter, or whether they misunderstood the question and the response does not reflect reality.

Code of Conduct - behaviour and culture

Leadership

- 24 Councillors and officers are more positive about the leadership shown by their respective peers than nationally.

- 25 A relatively low percentage of councillors and officers (5.7 per cent) consider that they are always a focus for positive change and 42.9 per cent consider them as usually being a focus for change. High levels of respect were expressed both; councillors to officers (85.7 per cent always and usually) and officers to councillors (94.3 per cent always and usually). Councillors and senior officers also expressed high levels of respect to customers and users of their services.
- 26 Councillors responded positively that felt they used public funds and council property and facilities responsibly and performed their duties with honesty, integrity, impartiality and objectivity.
- 27 Councillors and officers are positive about the leadership and role model shown by both Mayor and the Chief Executive in terms of ethical behaviour. Responses were substantially more positive than nationally.

Communications and access to information

- 28 Communications of the ethical agenda to the public is good with only 68.6 per cent of members and 74.3 per cent of officers feeling the importance of high ethical standards was being well communicated.
- 29 Communications between councillors and between councillors and officers was very positive and higher than the national average in all areas.
- 30 Although positive about the public's ability to access information there was a proportion of respondents who did not know whether the public can easily access the register of members interest or documents relating to Standards Committee.

<i>Recommendation</i>
<i>R8 The Council needs to address this lack of awareness about public accessibility to appropriate documents.</i>

Relationships

- 31 Overall, relationships between councillors and between councillors and officers are generally strong, often above national averages. However 17.1 per cent of respondents felt members rarely trusted each other.

Whistleblowing

- 32 37.1 per cent of respondents do not know whether the Council's whistleblowing policy is being used effectively and without fear of reprisal. This is a major gap in knowledge and weakens the ethical framework.

<i>Recommendation</i>
<i>R9 The Council should increase awareness of the whistle blowing policy and re-enforce assurances that reporting through this mechanism can be done without fear of reprisal.</i>

Team working, co-operation and partnership working

- 33** Councillors and officers work well together to achieve the Council's common goals.
- 34** Both councillors and officers generally rate the Council's partnership working highly. A higher proportion than nationally agree that the Council always or usually works well with voluntary and community groups and statutory partners to achieve common goals, and generally has positive working relationships with partners and the wider community.

The way forward

- 35** The findings of the survey and the recommendations will be discussed with officers and lead councillors. The Council is asked to consider the report and the recommendations that arise from it. The plan included with this report outlines the actions that the Council is recommended to take to strengthen current arrangements. The Council should complete the action plan by responding to the recommendations, assigning responsibilities for implementation, setting targets and then ensuring that it monitors that the recommendations are followed through.
- 36** The report will then be finalised. We would be pleased to continue to work with the Council as it moves forward with this agenda, perhaps through undertaking a full audit in the Council, facilitating workshops or through presentations to identified or established groups and networks.
- 37** We would like to take this opportunity to thank the many councillors and officers who contributed to this work.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R1 Ensure councillors are confident in the actions they should take as individuals if they become aware of conduct by a Member that may be in breach of the Code	2	Chief Solicitor		Include specific instruction in annual induction courses and update training, supported by written advice to all members.	May/June 2008 and ongoing
6	R2 Standards Committee needs to raise its profile and to ensure both councillors and senior officers are fully aware of the role, operation and effectiveness of the Standards Committee. The committee should consider preparing and issuing an annual report in which it can clearly outline its achievements for the year.	2	Chief Solicitor		Host a Standards Committee 'Open Day' with presentation on Standards Committee role, procedures and ancillary information. Invite comments from members and officers on Standards Committee Role and review role in light of comments. Provide annual report	Summer 2008 Spring 2009
7	R3 Ensure all councillors are made aware of the whistle blowing policy and are clear on its purpose, content and process for its use.	2	Chief Solicitor		Review Whistleblowing Policy Circulate revised policy with commentary to all members.	July 2008 Following review
7	R4 The Council needs to establish the reasons for this relatively poor perception of its role in promoting high ethical standards and implement appropriate actions	3	Chief Solicitor		Include in Standards 'Open Day' as above Engage members of Standards Committee in Tees Valley network with members from other authorities.	Summer 2008.

12 Hartlepool Ethical Standards | Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R5 The Council needs to consider ways in which it can actively engage councillors in attending training when it is offered. It may like to consider a different approach by issuing simple easy to understand briefing notes and signposting councillors to the full document for further research if necessary, or the use of e-learning packages which are available on these key national issues.	2	Chief Personnel Officer		1. Annual development profile reviews to identify development needs, set targets, determine preferred delivery method. 2. Members ICT roll-out programme includes ICT skills development. 3. E-learning packages available through intranet (externally/internally produced) 4. Lists of recommended bulletins available via e-mail/signposted in Members' Library. 5. Regular Members newsletter (AR/CA/LB/JW/AJW) 6. Learning materials simplified. Signposting summaries in leaflet form, etc./signposted in Members' Library.	Annually Ongoing Ongoing July 08 July 08 Ongoing
8	R6 The Council should reconsider the way it ensures councillors understand the circumstances in which they must register an interest and the process for doing so to minimise the risks to councillors and the Council..	3	Chief Solicitor		Standard letter to members annually with description of personal interest, prejudicial interests and process for registration. Deal with changes to interests	May 2008
8	R7 The Council should explore whether councillors are clear on their responsibilities and actions to follow when they have prejudicial interest in a matter, or whether they misunderstood the question and the response does not reflect reality.	3	Chief Solicitor		Participation of members in Standards Board Annual Road Shows.	Autumn 2008
9	R8 The Council needs to address this lack of awareness about public accessibility to appropriate documents	2	Chief Solicitor		Review registration of interest internal procedures, and clarify public rights of inspection, circulate guidance to members.	May/June 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R9 The Council should increase awareness of the whistle blowing policy and re-enforce assurances that reporting through this mechanism can be done without fear of reprisal.	2	Chief Solicitor		Include in future officer training events and circulate to officers, and external contractors etc. Expand entry on Internet and Intranet.	Summer/ Autumn 2008

AUDIT COMMITTEE

15 May, 2008



Report of: Chief Financial Officer

Subject: APPROVAL OF 2007/2008 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

- 1.1 To advise Members of the Audit Committee of the proposal to transfer responsibility for approving the Annual Statement of Accounts to your Committee. The report will also explain the Audit Committee role in discharging this responsibility if this proposal is approved by Council on 22nd May, 2008.

2. BACKGROUND

- 2.1 In previous years authority to approve the Council's Annual Statement of Accounts has been delegated to the General Purpose Committee. Following the approval of the 2006/2007 Statement of Accounts the General Purpose Committee suggested that this responsibility should be discharged by the Audit Committee. This suggestion reflects your Committee's existing governance responsibilities in relation to a range of issues which support the Annual Statement of Accounts, including:

- approval of the Annual Governance Statement (formerly known as the Statement of Internal Control);
- consideration of the reports submitted by the Council's Head of Audit and Governance on the adequacy of internal control arrangements and audit reviews undertaken during the year; and
- consideration of reports from the Council's External Auditors.

- 2.2 The proposal to transfer this responsibility to your Committee has been considered by the Constitution Committee and referred to Council on 17th April, 2008 for consideration. Council deferred consideration of this proposal to the meeting on 22nd May, 2008. As the 2007/2008 Statement of Accounts will need to be approved by 30th June, 2008, this report is being submitted to explain to Members what their role will be if Council approve the proposal to transfer responsibility of this function to your Committee.

3. SPECIFIC RESPONSIBILITIES

- 3.1 As Councils are responsible for spending a significant amount of public funding and determining Council Tax levels there are specific legal obligations on local authorities governing how they must conduct their financial affairs.
- 3.2 These regulations include specific requirements in relation to the Annual Statement of Accounts, specifically: -
- The Accounts and Audit Regulation 2003, which is supported by the following regulations:
 - The Audit Commission Act 1998;
 - The Local Government and Housing Act 1989; and
 - The Local Government Act 1972.
- 3.3 The above regulations specify the arrangements local authorities must follow to ensure they adopt high standards for managing public funds. The key requirements are detailed in the following paragraphs and highlighted the responsibilities of the Chief Financial Officer and the Audit Committee in relation to the preparation and approval of the Annual Statement of Accounts.
- 3.4 The Local Government Act 1972 requires all local authorities to appoint a “Responsible Financial Officer”, also known as the Section 151 Officer. The 1972 Act also defines the role of the Section 151 Officer as “the person who is responsible for the administration of the financial affairs of a local authority and the person who is responsible for keeping the accounts of the local authority”.
- 3.5 The Accounts and Audit Regulations 2003 (the 2003 Regulations) set out specific responsibilities of the “Responsible Financial Officer”, which in Hartlepool is the Chief Financial Officer and the responsibilities of Members and the External Auditors, which are summarised below:

Responsibilities of Chief Financial Officer

- **Accounting Records and Control Systems (paragraph 5 of the 1972 Act)**

The Chief Financial Officer is responsible, on behalf of the Council, for determining its:

- Accounting records, including the form of accounts and supporting accounting records.
- Accounting control systems, which include ensuring financial transactions are recorded accurately and promptly, measures

are in place to detect inaccuracies and fraud and the establishment of management arrangements to ensure the segregation of duties for financial transactions.

- **Signing of Statement of Accounts (paragraph 10 of the 1972 Act)**

The Chief Financial Officer must certify that the Statement of Accounts “presents fairly the financial position of the Council at the end of the financial year”. To provide this certification the Chief Financial Officer is responsible for ensuring the Statement of Accounts have been prepared in accordance with all relevant regulations and in particular in accordance with the CIPFA Code of Practice on Local Authority Accounting. The Chief Financial Officer must provide this certification before the Statement of Accounts are considered by Members.

Responsibility of Members – Approval of Statement of Accounts

Members are responsible for approving the Statement of Accounts which the Chief Financial Officer has certified. This approval has to be given as soon as practical after the end of the financial year and no later than 30th June, immediately following the end of the financial year. In most authorities this responsibility is delegated to a specific committee to ensure the 30th June deadline is achieved.

The Accounting and Audit Regulations 2003 do not specify what issue Members need to consider before they approve the Statement of Accounts, other than to ensure the Chief Financial Officer has certified the Statement of Accounts.

As part of the approval process last year the Chief Solicitor provided advice to the General Purposes Committee to clarify their specific role in approving the Statement of Accounts, which is equally valid for your Committee. The Chief Solicitor advised Members that “their task was to determine that the accounts maintained by the Chief Financial Officer were a proper reflection of the Council’s financial position at the account date and were presented in a manner according with proper practice. The Committee should address itself to the accuracy and completeness of the account as a record of financial transactions and resources. However, they were not entitled to ask how these transactions and resources were managed. There were questions for the executive members and committees responsible for determining such matters”.

The Chief Solicitor also advised that “Members were perfectly entitled to ask any questions the issue was what questions, they should ask to discharge their function in relation to approving the Statement of Accounts. Questions could also be raised at relevant Scrutiny Forums and Council meetings.

Members are provided with the following information to enable them to discharge this responsibility:

- a report will be submitted by the Chief Financial Officer to highlight the main issues included in the Statement of Accounts. This report will also provide Members with details of any changes to the Council's expected financial position at 31st March, 2008. This report will specifically highlight any changes to the position which was reported to Council on 14th February, 2008;
- regular reports have been submitted to your committee by the Head of Audit and to governance during 2007/2008 detailing progress on audit work and the results of this work. These reports have confirmed that appropriate control arrangements are in place, or recommended areas which need improving;
- the Annual Governance Statement has been submitted to your Committee. This statement provides the assurance that appropriate systems and procedures were in place during 2007/2008 to manage the Council.

In practice, to discharge this responsibility Members need to place reliance upon the technical advice and the formal certification of the Statement of Accounts by the Chief Financial Officer when they approve the draft Statement of Accounts. The External Auditors opinion on this document then provides Members with the final assurance before they approve the final Statement of Accounts.

External Auditors Responsibilities

Once the Statement of Accounts have been certified by the Chief Financial Officer and approved by Members they will be subject to a detailed review by the Council's External Auditors.

This review will provide a robust challenge of the Statement of Accounts prepared by the Chief Financial Officer and will provide Members with the final reassurance that the Statement of Accounts comply with relevant legal and accounting requirements.

At the end of this review the External Auditors may make recommendations to amend the Statement of Accounts and the Chief Financial Officer will consider these issues. Once the Chief Financial Officer and External Auditors have agreed any changes a revised version of the Statement of Accounts will be submitted to your Committee. The External Auditors will also submit a formal report on the Statement of Accounts. Depending on the outcome of the External Auditor's review the Audit Committee will be asked to note that there have been no changes to the Statement of Accounts submitted in June, or asked to approve amendments agreed with the External Auditor.

4. PRACTICAL CONSIDERATIONS

- 4.1 The Council is a complex organisation and this is reflected in the Council's financial arrangements. This means the production of the Annual Statement of Accounts is an extremely complex and time consuming task. For example, in 2007/2008 the Council had 392 capital projects totalling £33.6m, which all need to be accounted for in the 2007/2008 Statement of Accounts and over £250m of revenue expenditure.
- 4.2 The 2007/2008 Statement of Accounts will also need to reflect some significant changes in the accounting arrangements which local authorities are required to follow.
- 4.3 As a small unitary authority we cannot dedicate staff full time to the production of the Statement of Accounts, as staff still have to undertake day to day activities during this period. These tasks include Treasury Management activities, submission of grant claims and day to day support of financial systems and budget holders. In addition, finance staff will also be involved in the accounting and budgeting issues arising from the implementation of a new pay and grading system.
- 4.4 In view of the above constraints the achievement of 30th June deadline for approving the 2007/2008 Statement of Accounts will be extremely challenging. On a practical basis the real deadline is 18th June, 2008, as this is the date papers need to be completed by for submission to your proposed meeting on 27th June, 2008.

5. CONCLUSION

- 5.1 The Council is required to produce an Annual Statement of Accounts in accordance with various statutory provisions and accounting regulations. The primary responsibility for ensuring the Statement of Accounts complies with these requirements rests with the Chief Financial Officer. This responsibility includes certifying that the Statement of Accounts "presents fairly the financial position of the Council at the end of the financial year". Once this certification has been given Members are required to approve the draft Statement of Accounts.
- 5.2 The Council's External Auditor then provides a formal audit opinion before Members approve the Final Statement of Accounts. This opinion provides Members with the final assurance that the accounts are an accurate record of the Council's financial position.

6. RECOMMENDATIONS

- 6.1 It is recommended that Members:
- i) Note the report.

- ii) Note that, subject to decision of Council on 22nd May, 2008, the 2007/2008 Statement of Accounts will be submitted to your Committee on 27th June, 2007, for approval.

AUDIT COMMITTEE

15 May 2008



Report of: Head of Audit and Governance

Subject: AUDIT COMMITTEE ANNUAL REVIEW

1. PURPOSE OF REPORT

- 1.1 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.

2. BACKGROUND

- 2.1 The remit of the Audit Committee as agreed at Council on the 4.11.04 is to:

- Promote the independent internal audit function and raise awareness of internal control, reviewing controls and financial operations and developing an anti-fraud culture.
- Focussing and monitoring the Council's audit resources by reviewing the plans of the external auditor and the internal audit team to ensure that audit work is coordinated.
- Monitoring audit performance by including reporting schedules and action on recommendations.

- 2.2 Audit Committees are seen as vital components in the arrangements Councils have in place to ensure that good governance practices and procedures are embedded within Council wide arrangements. This is reflected in the Use of Resources element of the CPA inspection process that states:

"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."

3. AUDIT COMMITTEE ACTIVITY

- 3.1 In order to fulfil the requirement mentioned in paragraph 2.2, the Audit Committee has undertaken the following activities within the municipal year:
- 3.2 *Reviewed the Internal Audit Outcome Report 2006/07* – This provides 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).
- 3.3 *Reviewed and approved the 2006/07 Statement on Internal Control* – This allowed members to review the councils approach to meeting the implications of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 3.4 *Internal Audit Plan 2007/08 Update* – Four of these reports were reviewed during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed members to review the outcomes of all completed internal audit reports and comment upon any areas of concern.
- 3.5 *Annual Governance Statement Update 07/08* – This updated Members on the proposed process to complete the Annual Governance Statement (AGS) for 2007/08 and the Audit Committees role in its production.
- 3.6 *Review and Approval of Council Accounts* – The Audit Committee reviewed a request from General Purposes Committee that it take over this role and recommended to Constitution Working Group that this change be implemented.
- 3.7 *Reviewed Audit Commission Audit and Inspection Plan* – This allowed the Audit Committee to review the proposed work of the Audit Commission for 2007/08.
- 3.8 *Reviewed Audit Commission Reports - Data Quality and National Fraud Initiative* – This allowed members to review the work of the Audit Commission in the two areas of operation covered.
- 3.9 *Consider the 2008/09 Internal Audit Plan* – This report informed Members of the direction of Internal Audit activity and sought approval

of the annual operational Internal Audit Plan for 2008/09. It also provided accountability for internal audit services allowing 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).

- 3.10 *Reviewed Audit Commission Use of Resources Report* – The committee reviewed the Audit Commission Use of Resources assessment to evaluate how well councils manage and use their financial resources.
- 3.11 The sum total of this information, training, analysis and reviews allows the Audit Committee to fulfil its remit and also satisfies the Councils obligation under Regulation 6 of the Accounts and Audit Regulations 2003 as amended 2006, that the relevant body conduct an annual review of its system of internal audit.

4. RECOMMENDATIONS

- 4.1 That the work undertaken by the Audit Committee in 2007/08 is reported to and endorsed by the Council.

AUDIT COMMITTEE

15 May 2008



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT OUTCOME REPORT
2007/08

1. PURPOSE OF REPORT

To inform members of the outcomes of audit work covering the period April 2007 to March 2008.

2. BACKGROUND

- 2.1 This report provides accountability for Internal Audit delivery and performance and allows Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function. All audit work carried out during the year has been in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, as reflected in the Internal Audit Manual. Auditors are instructed to declare if they have any links to the subject matter of any audits undertaken or relationships with auditees that could compromise the impartiality or objectivity of the work undertaken.
- 2.2 Information for Members on the standards of financial administration and management arrangements operating within the Authority is detailed in this report, together with a progress report on the extent of implementation of audit recommendations. The consideration and effective implementation of audit recommendations is fundamental in ensuring effective financial stewardship and robust financial systems, controls and procedures.
- 2.3 This report also details the performance of Internal Audit in 2007/08 on a range of key performance indicators.
- 2.4 Hartlepool Borough Council also provides the audit services to the Cleveland Fire Authority. In addition to the audits detailed in Appendix A, Internal Audit completed 14 major systems and probity reviews for the CFA during 2007/08.

3. AUDIT INPUTS 2007/08

- 3.1 There were 1582 audit days allocated at 1.04.07 to planned and responsive activities during 2007/08.
- 3.2 Staffing resources were lower than anticipated in the plan because of maternity leave. A contingency is in place to address such shortfalls by use of overtime and/or agency staff but prudent management of the in-house audit resources and contingency days avoided the requirement for external assistance and the audit plan was delivered in line with the key performance indicators.

Careful adjustment and revision to the audit plan ensured that all high-risk functions were reviewed and a balanced program of work covering all Council departments was achieved for 2007/08.

4 OUTCOMES

- 4.1. Appendix A schedules all the planned audits undertaken in 2007/08. Due to the timing of the closure of the Councils capital accounts reliance is placed on work undertaken on 2006/07 capital accounts, which was completed early in 2007/08. At the time this report was completed work was being finalised on both the Creditors and NNDR systems, however sufficient reliance could be placed on testing completed for the purposes of the 2007/08 audit opinion. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. Follow up work has been carried out, which has revealed that management has taken action, and improvements to controls, processes and procedures have been made.
- 4.3. From the work undertaken during the year 2007/08, the Head of Audit and Governance has reached the opinion that key systems are operating soundly and that there is no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Hartlepool Borough Council's financial affairs.
- 4.4 No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance. These risks are reflected in the audit plan and are the subject of separate reports issued during the course of 2007/08.

5. FOLLOW UP

- 5.1 Audit reports are issued to auditees following a discussion of any audit findings. Each report includes an Action Plan where appropriate, recording:

- Any recommended revisions to systems, procedures and operating arrangements;
- The response of the auditees;
- A timescale for introducing the recommended improvements.

5.2 In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, a system of follow up of audit recommendations is in operation to monitor what action has been taken by management in response to audit work. During 2007/08, all audits completed, that had reached the date when a follow up was due, have been the subject of follow up activity.

This position is positive and indicates a commitment by management to further improve controls and financial systems throughout the Authority. Further follow up work is planned in 2008/09 for those recommendations not yet actioned.

6 MONITORING INTERNAL AUDIT PERFORMANCE

6.1 Internal Audit is committed to the delivery of a quality service, which accords with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and to being responsive to the needs of service departments. In common with other central service providers, a number of core performance indicators for Internal Audit Services have been determined for 2007/08. Performance against these targets is detailed below:

Internal Audit Performance Indicators

Indicator	Target Set for 2007/08	Actual Performance 2007/08
Completion of High Risk Audits provides assurance that financial procedures are operating effectively and has direct impact on CPA result.	90%	92%
In addition to the managing auditor reviews, quality reviews of working paper files and evidence by the Head of Audit and Governance to ensure compliance with the standards laid down in Codes of Practice and adopted in the Internal Audit Manual.	10%	10%
Percentage of Audit Reports issued within 10 working days of audit completion.	87.5%	100%
Percentage of Audit Recommendations followed up within 6 months of completion of the audit.	100%	100%
Annual Report to Members by 30 th June following year-end.	30.06.07	15.05.07

7. RECOMMENDATION

- 7.1 That Members note the contents of the report.

APPENDIX A

Summary of Internal Audit Planned Work Undertaken for 2006/07

Fundamental Systems

Payroll System Monthly Paid
Payroll System Weekly Paid
Budgetary Control
Capital Accounting
Creditor System
Council Tax System
Debtors
Main Accounting System
National Non Domestic Rates System
Housing & Council Tax Benefits System
Procurement
Loans & Investments
Cash/Bank System

Governance Issues

Data Protection Act
Fraud Awareness
Freedom of Information Act
Proceeds of Crime Act

Other Systems

Attendance Management
Fleet Management
National Fraud Initiative
Officer Expenses
Redundancies
VAT

Partnerships

Hartlepool Partnership

Annual Audits

BVPI's
Stores

Two Yearly Audits

Building Maintenance
Car Parks Income
Carlton Centre
Children Centres
Fostering and Adoption
Free School Meals
Highways
Improvement/Renovation Grants
Industrial Estates
Insurances
Members Code of Conduct
Milk Grant
SEN Support
Section 17 Payments
Tourism
Trading Standards

Three Yearly Audits

Access to Learning
Assisted Car Purchase
Barnard Grove Primary
Building and Development Control Income
Business Support Grants
Catcote School
Central land Charges
Eldon Grove Primary
Environmental Enforcement
Grange Primary
Greatham C of E Primary
Havelock Day Centre
Licensing
Meals on Wheels
Music Service
Placements
Playing Fields and Lettings
Resource Centres
Sacred Heart Primary
Springwell School
St Aidans Primary
St Begas Primary
Stranton Primary
Throston Primary
Ward Jackson Primary
West Park Primary
West View Primary

AUDIT COMMITTEE

15 May 2008



Report of: Chief Financial Officer

Subject: ANNUAL GOVERNANCE STATEMENT
2007/08

1. PURPOSE OF REPORT

- 1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 as amended 2006 requirement; that the Council publish an Annual Governance Statement (AGS) with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 1.2 The report considers the following areas:
- Why the Council needs an AGS,
 - Who is responsible,
 - How the AGS was produced.

2. Why

- 2.1 To clearly demonstrate to stakeholders, that the Council has adequate arrangements in place to ensure that it effectively manages and controls its financial and operational responsibilities in accordance with acknowledged best practice. Paragraphs 2.2 to 2.4 detail positive benefits to the Council of achieving this end.

2.2 Statutory Requirement

The Accounts and Audit Regulations require that: “the Council ensures that its financial management is adequate and effective and that there is a sound system of internal control which effectively facilitates its functions and which includes arrangements for the management of risk.

The Council shall conduct a review at least once a year of the effectiveness of its internal controls and shall include a statement on internal control with any statement of accounts it is obliged to publish”.

2.3 Good Governance

Production and publication of an AGS are the final stages of an ongoing review of internal control and are not activities which can be planned and viewed in isolation. Compilation of an AGS involved the Council in:

- Reviewing the adequacy of its governance arrangements,
- Knowing where it needs to improve those arrangements, and
- Communicating to users and stakeholders how better governance leads to better quality public services.

2.4 Comprehensive Performance Assessment

Assurance derived from the monitoring of processes, including risk management, provides evidence, which allows assessors to form conclusions on the efficiency and effectiveness of the Council's operations. The AGS provides assurance that the Council has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for managing risk.

3 Who

3.1 Corporate Responsibility

The Council's system of internal control must reflect its overall control environment, not just financial, which encompasses its organisational structure. Internal control is a corporate responsibility and the scope of internal control accordingly spans the whole range of the Council's activities and includes controls designed to ensure:

- The Council's policies are put into practice and its values are met,
- Laws and regulations are complied with,
- Required processes are adhered to,
- Financial statements and other information are accurate and reliable,
- Human, financial and other resources are managed efficiently and effectively, and
- High quality services are delivered efficiently and effectively.

3.2 Contributors to the AGS

- Cabinet
- Portfolio Holders
- Audit Committee
- CMT
- Corporate Risk Management Group
- CFO
- Monitoring Officer
- External Auditors and other Review Bodies

- Internal Audit and
- Management.

4 How

- 4.1 Having established a system of internal control, it is then necessary to consider which of these controls are key in mitigating against significant risk. By obtaining assurance on the effective operation of these key controls the Council is able to conclude on the effectiveness of the systems and identify where improvement is needed.

The review of internal control and AGS assurance gathering included:

- Establishing obligations and objectives,
 - Identifying principal risks,
 - Identifying and evaluating key controls to manage risks,
 - Obtaining assurances on the effectiveness of controls,
 - Evaluating assurances,
 - Action planning to correct issues and continuously improve.
- 4.2 In practice the Council already had most of the necessary internal controls in place, what was required was to incorporate them into a framework for producing an AGS that met the requirements of the Regulations. In order to do this the Council has:
- Identified roles and responsibilities,
 - Provided training,
 - Gone through a process of establishing objectives, identifying risks and recording controls,
 - Gathered and retained evidence for inspection,
 - Drafted the AGS.

5. Recommendations

That Members review and approve the attached 2007/08 Annual Governance Statement.

HARTLEPOOL BOROUGH COUNCIL **ANNUAL GOVERNANCE STATEMENT**

1 Scope of Responsibility

- 1.1 Hartlepool Borough Council is responsible for ensuring that:
- Its business is conducted in accordance with the law and proper standards,
 - Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.4 The Council has a draft code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2 The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its 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.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process

designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts.

- 2.3 In order to facilitate the completion of the Statement, an officer working group has been formed and a programme of work developed. To ensure that the Statement has been given sufficient corporate priority and profile, the working group included both the Chief Financial Officer and the Assistant Chief Executive. As part of the process presentations have been made to departmental management teams and regular updates given to both the Chief Executives Management Team and Corporate Management Team (CMT).

3 Significant Internal Control Issues Update from 2006/07 Statement

- 3.1 Progress has been made over the course of 2007/08 to address weakness in the system of internal control identified as part of the 2006/07 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
Disaster Recovery/Business Continuity	<ul style="list-style-type: none"> - Review Building Risk plan and finalise for distribution. Completed People Risk pro-forma to be considered. - Review People Risk plan and finalise for distribution. Completed Suppliers Risk pro-forma to be considered. - Review Suppliers Risk Plan and finalise for distribution. Completed ICT Risk pro-forma to be considered. - Review ICT Risk Plan and finalise for distribution. Review Programme and Set new Milestones
Partnership Protocols	CMT agree definition of a partnership. Exercise undertaken to identify significant partnerships. Work undertaken to assess governance arrangements in place.
Adoption of a Code of Corporate Governance	Draft Code of Corporate Governance distributed for consultation.

4 The Internal Control Environment

- 4.1 The key elements of the Council's internal control environment are as follows:
Hartlepool Borough Council has adopted a constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Portfolio and Committee structure. The constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to Key Officers such as the Monitoring Officer and Section 151 Officer.
- 4.2 Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Human Resources (HR) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by HR for all staff, departments have responsibility to provide induction training specific to their departmental needs. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. Legal personnel participate in training events.
- 4.3 Portfolio and Committee terms of reference are included in the constitution. A procedure is in place to ensure that all Portfolio and Committee agendas, minutes and supporting material are available to all staff on the Council's intranet, and to the public on the Council's Internet site.
- 4.4 The constitution contains financial and contract procedure rules, and code of conduct for Members, which have been formally approved. Financial procedure rules have been updated and agreed by Council and contract procedure rules have also been updated to take into account new procurement procedures. The Authority has adopted the CIPFA Code on Treasury Management and complies with the Prudential Code. The constitution is available to all employees on the intranet and hard copy and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers.
- 4.5 The full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.
- 4.6 HR has drawn up policies to ensure suitably qualified employees are employed in key areas, and supporting terms and conditions of employment for all employees cover all aspects of good employment. Induction courses for key new officers and all new members incorporate suitable training on corporate governance issues according to responsibilities and there is a general staff awareness programme in place.

- 4.7 A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.
- 4.8 The Authority has adopted the Community Strategy aims as its own corporate objectives. The development of the Community Strategy by the Local Strategic Partnership followed an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. The Local Area Agreement (LAA) (signed on 23/03/06) further develops these arrangements and is the action plan for achieving the community strategy aims. LAA outcomes relating to the Council have been integrated into the council's corporate plan, service plans and performance management arrangements to enhance management and political accountability.
- 4.9 CMT has defined what it considers to be a partnership and an assurance framework has been developed to ensure that adequate governance arrangements are in place that are proportional to the responsibilities and risks of each partnership. The Authority has an ongoing programme of monitoring and reviewing arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides annual audit coverage of partnership arrangements. The Audit Committee has highlighted partnerships as a key area of interest and the Authority's control framework will be developed further and the committee regularly updated on progress. As the areas of Corporate Governance and Partnerships evolve, further changes to internal controls are envisaged to meet future requirements under the revised Code of Corporate Governance and the Government's white paper on the role and function of Local Government. The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.
- 4.10 All departments produce departmental and service plans using a corporate framework to ensure that they reflect the corporate objectives. Departments also complete extensive consultation with service users, forums, partners and the Viewpoint panel. Consultation with communities has been strengthened as part of diversity and equalities work. The feedback from these exercises is used to link service and departmental objectives to both the planning process for service delivery and to the corporate objectives. In order to further embed the process of risk management, control identification and the production of the AGS into the culture and management processes at the council, risks to meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together service planning, risk management and control identification which has enabled a much more focussed and joined up approach to the use of management information and the production of the AGS. Progress against the Corporate Plan and departmental plans is

reported to CMT, Cabinet and the Portfolio Holders on a quarterly basis.

- 4.11 A corporate performance management framework approved by CMT and the Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Quality assurance / PI collection framework is in place with Internal Audit conducting an annual review of PIs assessed as high risk. The Performance Management database includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues. A new performance management database and risk database system (Covalent) has been procured which will enable clearer links between corporate and service planning objectives, actions, risks and PI measures.
- 4.12 Key performance indicators are identified in the corporate and departmental plans. Regular reports are presented to members on the delivery of performance targets and these include national and local comparisons. The Audit Commission rated Hartlepool as “Improving Strongly” in its most recent Direction of Travel Statement.
- 4.13 Key policies such as the Corporate Complaints Procedure, Proceeds of Crime (Money Laundering), Whistle blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. Reports are made to portfolio holders every six months summarising, for example, the complaints dealt with and the outcome. The Authority is a member of the IPF Better Governance Forum, the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews.
- 4.14 The Council agreed a Risk Management Strategy in December 2004 and this has been improved on a regular basis since, the latest updated version being agreed by Cabinet in August 2007. The Strategy is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the strategy to all relevant staff in their departments.
- 4.15 An annual review of strategy has been completed and approved by Corporate Risk Management Group (CRMG). The Risk Management annual work programme was approved by CRMG in March 07 and incorporated within service plan (Chief Execs). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was carried out in August 07. Following on from previous training given to cabinet and elected members and to take into account the new members of the cabinet a training session was completed by GBI on 23/07/07 plus 3 member training sessions completed on 23/07/07 and 24/07/07.
- 4.16 There is corporate support at senior management level for development of the Risk Management database with risk assessment

procedures published and training given to officers in June 2005 and refreshed in line with the new Covalent system requirements in March/April 2008.

- 4.17 Planned control measures in SRR/DRR are in Service Plans, linked as part of business planning for Departments as described in paragraph 4.10. The Performance Portfolio Holder is Hartlepool Borough Council's risk 'champion' and was involved in delivery of training to other Members. Each department also has a risk co-ordinator. Risks and control measures relating to corporate and departmental plans are considered as part of the preparation of the AGS.
- 4.18 A database has been established to hold the departmental and strategic risk registers. The database automatically notifies responsible officers of risks that need to be reviewed and progress is monitored on a quarterly basis by the CRMG, who then report to CMT and Cabinet. A new performance management database and risk database system (Covalent) has been procured to further strengthen this process. Departments may use a central funding pot for risk management to assist in the financing of risk mitigation.
- 4.19 The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every 6 months.
- 4.20 Departmental business continuity plans have been developed and specific property and flu pandemic plans are in place. ICT resilience has been improved by remote access to Email and calendars and upgrading the UPS system.
- 4.21 Flu pandemic planning has identified critical services particularly in respect of vulnerable people, with alternative service provision arrangements identified as part of that process.
- 4.22 The Business Continuity Group meets on a quarterly basis. A revised strategy was reported to CMT on the 23rd October 2006. The principles for the development of the Business Continuity Plan have been agreed. Each department has a lead officer responsible for business continuity. All senior managers have been briefed about business continuity. The initial strategy as set out in 2006 has now been achieved. In the coming year a testing and review programme has been set out.
- 4.23 All departments completed an annual review of diversity impact needs requirement assessments and identified steps to further improve access to services and these have been incorporated into service plans. This is part of a corporately agreed approach to mainstream diversity issues within the council and implement the Equality Standard. Briefings for managers in all departments have been completed and

the corporate Diversity Steering Group and departmental diversity groups meet regularly to progress diversity matters. The Council invited a consultant from DIALOG (part of the I&DeA) to assess its progress through the Equality Standard for Local Government. The findings were reported to the Performance Management Portfolio Holder on 26 March 2007 and an action plan is now being implemented.

- 4.24 Internal Audit reports on a regular basis to the Audit Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audits performance is measured against standards agreed by management and Members. Internal Audit reporting arrangements have been formalised and strengthened as part of the review of financial procedure rules.
- 4.25 Other review bodies external to the Authority also make regular reports on efficiency, effectiveness and compliance with regulations. These reviews include major inspections by the Commission for Social Care, Department for Further Education and Skills, Ofsted and the Planning Inspectorate of the relevant section of the Authority. The Audit Commission has also undertaken a Comprehensive Performance Assessment and the Council has been assessed as "four star" and "improvingly strongly", the highest possible ranking. The results of these reviews are reflected in the Council's own development and improvement plans. Some services within the Authority have been accredited by Investors in People and Chartermark.

5 Review of Effectiveness

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2 The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:
- Corporate Management Team agreed process for the review of the internal control environment. The risk inherent in meeting departmental objectives and the controls to mitigate those risks are now recorded as part of the corporate service planning process at a departmental level. This has brought together risk management, control identification and the process for compiling the evidence needed to produce the AGS. This enables managers to provide documented evidence regarding the controls within their service units as part of the service planning process. The controls in place

are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.

- Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control and reviewing annually Internal Audit. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
 - Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
 - Internal Audit reports to the Section 151 Officer and Audit Committee.
 - The Head of Audit and Governance provides an independent opinion on the adequacy and effectiveness of the system of internal control, quarterly update reports and an annual internal audit performance report to the audit committee.
 - Internal audit plans are formulated from an approved risk assessment package.
- External Audit – in their annual audit letter, comment on their overall assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from the Corporate Assessment and inspections that have been undertaken.
- Other review and assurance mechanisms: for example, Department for Further Education and Skills, Commission for Social Care, Investors in People, Chartermark.
- In the Comprehensive Performance Assessment by the Audit Commission, the overall report placed the Council in the "four star" category.

5.3 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6 Significant Internal Control Issues

6.1 The following significant internal control issue has been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Adoption of a Code of Corporate Governance	Full Council to adopt draft code.	2008/09	P Devlin

6.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

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Mayor & Chief Executive on behalf of Hartlepool Borough Council.