

AUDIT COMMITTEE AGENDA



Tuesday, 16 March 2010

at 2.00 pm

in Committee Room C, Civic Centre, Hartlepool

MEMBERS: AUDIT COMMITTEE:

Councillors C. Akers-Belcher, Barker, Hall, McKenna, Preece, Turner 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 8 December 2009

4. ITEMS FOR DISCUSSION/DECISION

- 4.1 Treasury Management Strategy 2010/11 – *Chief Financial Officer*
- 4.2 Audit Commission Report- Annual Audit Letter – *Chief Financial Officer*
- 4.3 Audit Commission Report- Certification Of Claims And Returns Annual Report – *Chief Financial Officer*
- 4.4 Internal Audit Plan 2009/10 Update – *Head of Audit and Governance*
- 4.5 Data Quality – *Head of Performance and Partnerships*

5. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

8 December 2009

The meeting commenced at 2.00 p.m. in the Civic Centre, Hartlepool

Present:

Councillor Preece (In the Chair)

Councillors C Akers Belcher, Barker, Hall, Turner

In accordance with Council Procedure Rule 4.2, Councillor Richardson was in attendance as substitute for Councillor Wistow

Officers: Mike Ward, Chief Financial Officer
 Noel Adamson, Head of Audit and Governance
 Peter Turner, Principal Strategy Development Officer
 Sarah Bird, Democratic Services Officer

Audit Commission Representatives:
 Lynne Snowball and Cathy Eddowes

13. Apologies for Absence

Councillor Wistow

14. Declarations of interest by members

None

15. Confirmation of the minutes of the meeting held on 29 September 2009

Agreed

16. Treasury Management Strategy Update – Chief Financial Officer

Purpose of Report

To update Members on matters relating to Treasury Management and proposals for revising the existing Treasury Management Strategy.

Issues for Consideration

The report had been taken to the Finance and Performance Portfolio Holder on 4 December 2009 and was presented to the Committee for information in anticipation of its future role in reviewing Treasury Management activities following the publication of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management.

The review covered the following areas:-

- Treasury Management Developments
- Interest Rates and Economic Outlook
- Borrowing Strategy
- Investment Strategy and Counter Party Risk
- Prudential Code Monitoring and revisions to Prudential Limits

The Chief Financial Officer outlined to Members that the outlook for the UK economy was still very unclear. Butlers had provided a forecast for short and long term borrowing rates. The Council's Borrowing and Investment position as at 18 November 2009 was outlined in the report. Members were informed that any borrowing required would be with temporary loans until long term borrowing rates became more attractive. However the balance of risks would be kept under review and the Chief Financial Officer would consider the most appropriate form of borrowing after taking into account the interest rates at the time. The level of investments as at 18 November 2009 was £32.2 million. Members were reminded that in accordance with best practice, the Council did not rely solely on credit agency ratings, but supplemented this with additional considerations such as government support. The report detailed the counterparty list of organisations meeting the more stringent criteria however a lower investment return was a downside of this more prudent approach. The report also outlined prudential indicators and changes to the prudential limits were set out.

A Member commented that in past decades, inflation had been significantly higher than currently and asked whether other countries' borrowing was higher than Britain. The Chief Financial Officer said that European countries have a higher level of borrowing as a percentage of the Gross Domestic Product (GDP) but Britain's is increasing more rapidly than that of other countries which may have the effect of doubling the Government's cost of borrowing.

In response to a Member's question, the Chief Financial Officer commented on the Government decision to remove money from the economy and the Bank of England printing a similar amount to put into circulation, which in the current year may have masked the difficulty of financing the current level of Government debt.

COUNCILLOR TURNER DECLARED A PERSONAL INTEREST IN THIS ITEM.

A Member asked whether there was a chance that there could be a significant increase in the cost of borrowing from the Government and the implications of this in relation to Lender's Option Borrower's Option (LOBO) loans. The Chief Financial Officer said that the LOBOs had various call periods of between 1 and 5 years and although it did not seem likely at present that the options would be called it was a significant risk over the next decade as interest rates increased. The Authority was mitigating the risk by setting up an interest equalisation risk reserve.

The Audit Commission representative expressed general reservations in relation to legal powers to borrow which only exist for capital purposes and Councils did not have the powers to borrow to invest. The Chief Financial Officer drew Members' attention to the prudential indicators in the report which showed the Council was substantially within its borrowing limit. The District Auditor undertook to review this area following a Member's comment and report back should that be necessary.

A Member commented that because of lower interest rates and the collapse of financial institutions, many people were now compelled to keep cash at home rather than placing it in banks or building societies. Concern was expressed at the possibility of this holding back any economic recovery.

Decision

The Committee noted the report.

17. International Financial Reporting Standards (IFRS) – Priorities for the Council – *Chief Financial Officer*

Purpose of Report

To advise members of the changes required to the Council's statutory accounts under IFRS.

Issues for Consideration

The aim of IFRS was to harmonise accounting standards across both private and public sector accounts and the Authority was statutorily required to be IFRS compliant by 2010/2011. In order to do this the Authority would need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures from 2010/2011. In addition, the 2009/2010 comparative figures would need to be restated to comply with IFRS requirements. Officers were currently carrying out an initial impact assessment on the Income and Expenditure Account and Balance Sheet to identify what effect the new standards would have.

The report outlined the main areas which would need to be addressed to enable IFRS compliant accounting statements to be produced. An action

plan was appended to the report outlining a timetable for completion of these actions.

One issue that may have a material impact would be the carrying forward of leave at the end of the employee's leave year. A further issue which had been highlighted was leases and work needed to be done on this to account for all of these correctly including vehicles and the Authority's ICT contract with Northgate. Clarification had also been provided regarding the Valuation of Fixed Assets and this would require a significant input from the Council's Estates Section where work was underway to address these issues. Component Accounting would require that buildings e.g. a school would have each component valued separately. Again this would require significant work by the Estates Department.

A Member queried whether lieu time would have a material impact in the same way as carry forward leave and was informed that this would also be assessed.

A Member asked whether fixed asset accounting valuations would pick up the actual value in the annual report and it was confirmed that this would be done.

A Member commented on the large volume of work the IFRS would mean for Authority staff but said that he hoped it would not mean a further drain on resources should extra staff need to be drafted in. He also suggested that the new standard of reporting may make it more difficult for lay people to understand the accounts. He asked whether pension fund liabilities would be reversed out of the accounts and was informed that indications were that if the implementation of IFRS did start having material impacts on the bottom line then there was a greater likelihood of statutory over-ride.

Decision

The Audit Committee noted:-

The Action Plan to enable the Council to proceed with the IFRS transition project

The priorities identified to enable the Council to ensure that they produce IFRS compliant financial statements.

18. Audit Commission Report – Use of Resources – Chief Financial Officer

Purpose of Report

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 present the content of the Audit Commission's Use of Resources Report.

Issues for Consideration

The report summarised the Audit Commission's key findings from their assessment of how Hartlepool Borough Council was managing and using its resources to deliver value for money and better sustainable outcomes for local people. From 2008/09 the new use of resources assessment formed part of the Comprehensive Area Assessment (CAA) and comprised three themes focussing on sound and strategic financial management, strategic commissioning and good governance as well as the management of natural resources, assets and people. As in previous years, the standards against which the council was judged in each theme has risen.

New areas had been assessed including the use of natural resources, commissioning and asset management. The Audit Commission representative stated that overall the Council met standards in all areas and there were effective arrangements in place although some areas for improvements had been identified.

A Member referred to the continual development of the Council and the previous Gershon efficiency review and the development of the Contact Centre. He asked whether any substance was given to whether the projected savings had been achieved in the estimated time scales or whether there was a point reached when it was realised that projected savings would never be achieved. The representative from the Audit Commission said that costs were looked at in relation to other councils. The Member pointed out that there had been massive investment in the Contact Centre and whilst there appeared to be a number of non cashable efficiencies there were not many cashable efficiencies. The Audit Commission representative said that she had liaised with the Chief Executive and Assistant Chief Executive regarding self assessment which was aimed at supporting the Council and helping it to improve. The Member expressed disappointment at some of the scores in the assessment whilst acknowledging that it was a harder test than in previous years.

A Member commented that perhaps the Authority was a victim of its previous success as those authorities which have had good ratings and addressed efficiency savings would find it more difficult to continually implement efficiencies.

Decision

The Audit Committee noted the report of the Audit Commission.

19. Internal Audit Plan 2010/11 – *Head of Audit and Governance*

Purpose of Report

To inform Members of the direction of internal audit activity and to seek

approval of the annual operational Internal Audit Plan for 2010/2011 which was appended to the report.

Issues for Consideration

The Council is responsible for maintaining an adequate and effective system of internal audit of its accounting records and account control systems in accordance with proper internal audit practices. The authority for ensuring this responsibility is discharged has been delegated to the Chief Financial Officer.

Given available audit resources, all aspects of the Council's systems and arrangement could not be audited in one year. In recognition of this a Strategic Audit Plan had been prepared using a risk model based on the model accredited by CIPFA.

A Member asked whether Hart Primary School was a Church School and whether this would make a difference in any assessment. He was informed that the approach regarding Audit was the same whether a school was diocesan or foundation controlled.

Decision

Members approved the 2010/2011 Internal Audit Plan.

20. Internal Audit Plan 2009/10 Update – Head of Audit and Governance

Purpose of Report

To inform Members of the progress made to date completing the internal audit plan for 2009/10.

Issues for Consideration

The report updated Members with details of the progress made thus far in completion of the Audit Plan 2009/10. Appendix A of the report detailed the pieces of work which had been completed and Appendix B detailed the audits currently ongoing. This was progressing well.

Decision

Members noted the contents of the report.

The Chair thanked representatives of the Audit Commission for their attendance at the meeting.

The meeting concluded at 3.10 pm.

CHAIRMAN

AUDIT COMMITTEE

16 March 2010



Report of: Chief Financial Officer

Subject: TREASURY MANAGEMENT STRATEGY
2010/11

1. PURPOSE OF REPORT

- 1.1 To enable Members to review the approved Treasury Management Strategy 2010/2011 as requested by the Council on the 29th January, 2010.

2. CONSIDERATION OF ISSUES

- 3.1 The Treasury Management Strategy for 2010/11 was approved by the Council on the 29th January, 2010 as part of the budget setting process. This report is attached and I will outline the key issues at your meeting and answer any questions. The approved Treasury Management Strategy includes the Investment and Borrowing strategies in compliance with the revised the CIPFA Prudential Code, CIPFA Treasury Management Code of Practice and draft Department of Communities and Local Government guidance.
- 3.2 For 2010/11 the new regulatory framework requires that a nominated body scrutinises the proposed Treasury Management Strategy. However, as the revised guidance was only received in December, it was not possible this year to implement this requirement before the strategy was presented to the full Council for approval. This position was reported to Council when the proposed strategy was approved and the Council determined that in future years this Committee should review the proposed strategy before it is submitted to the Council.
- 3.3 The Council also approved the proposed strategy for 2010/11 and determined to refer the 2010/11 strategy to this Committee for consideration. If this Committee determine there are any issues they wish to report back to the Council, these can be considered at the meeting of the Council on the 15th April, 2010.

- 3.4 As Members will be aware Treasury Management is a specialist area and to enable this Committee to discharge the new responsibilities to scrutinise the proposed strategy, specific training will need to be provided. Consideration of this report will commence this process. Arrangements will also be made for the Council's advisors, Butlers to provide training for Members.

9. RECOMMENDATION

- 9.1 For the Committee to note the report.

TREASURY MANAGEMENT STRATEGY 2010/11

1. OBJECTIVES

- 1.1 This report outlines the Council's Treasury Management Strategy for 2010/2011, which includes Prudential Indicators for 2010/2011 – 2012/2013 and sets out the expected Treasury operations for this period. It fulfils four key legislative requirements:
- The reporting of Prudential Indicators based on expected capital activities.
 - The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year.
 - The Treasury Management Strategy Statement which sets out the planned borrowing and investment strategies and the limitations on treasury activity by the use of Treasury Prudential Indicators.
 - The Investment Strategy which sets out the Council's criteria for investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department of Communities and Local Government (CLG) Investment Guidance.
- 1.2 The above policies and parameters provide an approved framework within which officers undertake the day to day capital and Treasury activities.

2. BACKGROUND

- 2.1 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were issued in late November 2009 and the CLG is currently consulting on changes to the Investment Guidance. The revised guidance and CLG proposals have been incorporated within this report. If necessary the Investment Strategy will be revised if any elements of the final CLG Investment Guidance result in significant changes.
- 2.2 The main changes arising from the new guidance are process related and now make it compulsory to adopt practices that the Council already had in place. One notable change from existing practice is the requirement to nominate a body (best practice recommends this is normally the Audit Committee) to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to Council. It is recommended that this responsibility be given to the Audit Committee. This year, because the revised guidance was not received until December it was not been possible for the Audit Committee to review the strategy prior this report being presented to the Council. The Strategy will be referred to the next meeting of the Audit Committee on 16th March and if any changes are recommended these will be referred to the next meeting of the Council on 15th April, 2010.

2.3 The revised Code increases the responsibility of Members' in this area. This will require training for Members to enable better scrutiny of the Treasury policies. Arrangements will be made early in the new year for training to be provided.

2.4 This report covers the following areas:

- Prudential Indicators and Treasury Limits for 2010/2011 to 2012/2013;
- Outlook for Interest Rates;
- Borrowing Strategy;
- Investment Strategy

3. PRUDENTIAL INDICATORS AND TREASURY LIMITS FOR 2010/2011 TO 2012/2013

3.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce Prudential Indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2012/2013.

3.2 Details of the proposed prudential limits are set out in the following sections. The prudential indicators relating to the Borrowing and Investment strategy are detailed sections in sections 5 and 6 to aid understanding of these issues.

3.3 CIPFA Treasury Management Code of Practice

3.4 The first Prudential Indicator is confirmation that the Council has adopted the CIPFA Treasury Management Code of Practice.

3.5 Capital Expenditure

3.6 The Council's capital expenditure plans are summarised below and this is the second of the prudential indicators. A certain level of capital expenditure is supported by the Government through the revenue grant system. For 2010/11 the Government have provided a supported borrowing allocation of £2,775,000. Any decisions to spend above this level will be classified as 'unsupported' capital expenditure and the Council needs to have regard to following when approving such proposals:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the Council Tax);
- Practicality (e.g. the achievability of the forward plan).

- 3.7 The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. These commitments are reflected in the MTFS for 2010/11.
- 3.8 Capital expenditure can be funded for immediately by applying capital resources such as capital grants or revenue resources, but if these resources are insufficient any planned residual capital expenditure will add to the Council's borrowing need.
- 3.9 The Medium Term Financial Strategy reflects the following:

Capital Expenditure	2009/10 Original £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Capital Expenditure	22,194	41,909	34,167	45,686	35,225
Financed by:					
Capital grants and contributions	15,912	27,901	20,559	40,499	29,644
Capital Receipts	0	262	0	0	0
Revenue	0	730	0	0	0
Net financing need for the year	6,282	14,008	13,608	5,187	5,581

The impact of the above movements on the revenue budget are considered below.

3.10 Affordability Prudential Indicators

- 3.11 These indicators are intended to illuminate the affordability of planned capital expenditure financed by borrowing.

Incremental Impact of Capital Expenditure on Council Tax

This indicator identifies the revenue costs associated with new schemes introduced to the three year Capital Programme recommended in the budget strategy report compared to the Council's existing approved commitments and current plans.

	Forward Projection 2010/11 £'000	Forward Projection 2011/12 £'000	Forward Projection 2012/13 £'000
CouncilTax - Band D	£4.62	£8.53	£4.62

The increase in 2011/12 reflects the planned expenditure of £3m on the Mill House Leisure Centre.

Ratio of Financing Costs to Net Revenue Stream

This shows the net cost of capital borrowing as a percentage of the net budget, which is spent on servicing debt. The upwards trend reflects the increasing costs associated with each year's capital expenditure and the expected reduction in investment income.

%	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Ratio	7.32%	7.49%	7.70%

4. OUTLOOK FOR INTEREST RATES

4.1 The table below provides the latest interest rate forecasts provided by Butlers.

Medium-Term Rate Estimates (averages)

* Borrowing Rates

Annual Average %	Bank Rate	Money Rates		PWL B Rates*			Money Rates		PWL B Rates*		
		3 month	1 year	5 year	20 year	50 year	3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5	5.3	4.2	4.8	4.5	5	5.3	4.2	4.8	4.5
2009/10	0.5	0.8	1.4	3.2	4.4	4.6	0.8	1.4	3.2	4.4	4.6
2010/11	1	1.5	2.3	4	5	5.2	1.5	2.3	4	5	5.2
2011/12	2	2.5	3.3	4.3	5.3	5.3	2.5	3.3	4.3	5.3	5.3
2012/13	4.5	4.8	5.3	5.3	5.5	5.3	4.8	5.3	5.3	5.5	5.3

4.2 Short-term rates are expected to remain low for a considerable time. The recovery in the economy has commenced but is insipid. There is a danger that the reversal of monetary easing with rate cuts and Quantative Easing (QE) could trigger a dip back to negative growth and a W-shaped economic recovery path. Otherwise known as a 'dead cat bounce'

4.3 Credit extension to the corporate and personal sectors has improved modestly but banks remain nervous about the viability of counterparties. This is likely to remain a drag upon economic growth prospects, as will the lacklustre growth of broad money supply.

4.4 The main drag upon the economy is expected to be weak consumers' expenditure growth. The combination of the desire to reduce the level of personal debt and job uncertainty is likely to weigh heavily upon spending. This will be amplified by increases in VAT and National Insurance. Without a rebound in this key element of UK economy, any recovery is set to be weak and protracted.

4.5 The MPC may continue to promote easy credit conditions via quantitative monetary measures. QE has been extended to a total of £200bn and there is still an outside chance that it could be expanded further in February. Whether this has much impact in the near term remains uncertain given the personal sector's reluctance to take on more debt and add to its already unhealthy balance sheet.

4.6 With inflation set to remain subdued in the next few years (though a sharp blip is forecast for the next few months), the pressure upon the Monetary Policy Committee (MPC) to increase rates will remain moderate. However, some increase will be seen as necessary in 2010 to counter the effects of external cost pressures (as commodity price increases filter through) and to avoid damage that sterling could endure if the UK is seen to defy an international moves to commence policy exit strategies.

- 4.7 The outlook for long-term fixed interest rates is less favourable. While the UK's fiscal burden should ease in the future as painful action is taken, this will be a lengthy process and deficits over the next two to three financial years will require a very heavy programme of gilt issuance. The market will no longer be able to rely upon Quantitative Easing to alleviate this enormous burden. The absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper. This incentive will take the form of higher interest rates. The longer fixed interest rates will suffer from the lack of support from the major savings institutions – pension funds and insurance companies who will continue to favour other investment instruments as a source of value and performance.
- 4.8 Shorter term fixed interest rates will be pressured higher by the impact of rising money market rates. While bank purchases in this part of the market will continue to feature as these institutions meet regulatory obligations, this process will be insufficiently strong to resist the upward trend in yields. Accordingly interest rates are expected to increase to facilitate this.

5. BORROWING STRATEGY

- 5.1 The uncertainty over future interest rates presents risks for Treasury activity. As a result the Council will take a cautious approach to its borrowing strategy.
- 5.2 **The Council's Borrowing Need (the Capital Financing Requirement)**
- 5.3 The Council's Capital Financing Requirement (CFR) is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

	2009/10 Original £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
CFR b/f	83,763	82,599	92,829	101,960	102,174
Capital Expenditure Financed by Borrowing	6,282	14,008	13,608	5,187	5,581
Less MRP/VRP and other financing movements	3,765	3,779	4,476	4,973	5,304
CFR c/f	86,280	92,829	101,960	102,174	102,451

- 5.4 The Council is required to pay off an element of the CFR each year through a revenue charge called the Minimum Revenue Provision (MRP), although it is also allowed to undertake additional voluntary payments (VRP).
- 5.5 CLG Regulations require the Council to approve an **MRP Statement** in advance of each year. The Council is recommended to approve the following MRP Statement

- For capital expenditure incurred before 1st April, 2008 the Council's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is calculated as 4% of the CFR for Supported Prudential Borrowing and Unsupported Corporate Borrowing. For Departmental Prudential Borrowing the Council adopts a prudent approach by making Voluntary Revenue Payments (VRP) based on asset life.
- From 1st April, 2008 the Council calculates MRP based on asset life for all assets.

5.6 Debt and Investment Projections 2010/11 – 2012/2013

- 5.7 The table below sets out the Council's projected borrowing requirement and level of debt.

	2009/10 Revised £'000	2010/11 Estimated £'000	2011/12 Estimated £'000	2012/13 Estimated £'000
External Debt				
Debt at 1 April	75,080	46,823	73,066	76,056
Expected change in debt	(28,057)	26,243	2,990	5,187
Debt at 31 March	47,023	73,066	76,056	81,243
Capital Finance Requirement	92,829	101,960	102,174	102,451
Under Borrowing	35,289	28,879	26,770	26,770

- 5.8 The table shows the Council's borrowing requirement increases each year. In the short term the Council will maximise the use of its balance sheet resources to finance 'Under Borrowing'. This reduces counterparty risk and shelters against the expected fall in investments returns. The ability to do this is limited by the level of these resources which are temporary in nature. The table in paragraph 6.4 shows how the Councils balance sheet resources.
- 5.9 The key risk of deferring long term borrowing is that when the Council does need to borrow it is not at too high a rate. Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise but from a historically exceptionally low level. The Council needs to ensure that it achieves benefits from those historically low short term rates whilst retaining the flexibility to lock into longer term rates before they rise significantly. In these circumstances not only is the level of interest rate a factor but the speed at which it is changing.
- 5.10 There is also a risk that the Councils LOBO's (Lenders Option Borrowers Option) are recalled which will need to be refinanced. This will be from internal resources in first instance and then temporary loans until the Council is confident that the timing is right to obtain long term borrowing. The Chief Financial Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

- 5.11 The cost to the Council of a 1% change in interest rates in relation to financing the CFR is £928,000. However in practice the Council is cushioned from the full impact of higher interest rates because it has already locked into £47m at a low average rate of 4% and the ability to internally finance some of the debt requirement.

5.12 Limits to Borrowing Activity

- 5.13 Within the Prudential Indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits
- 5.14 For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/2011 and the following two financial years . This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Gross Borrowing	47,023	73,066	76,056	81,243
Investments	33,000	3,000	0	0
Net Borrowing	14,023	70,066	76,056	81,243
Capital Finance Requirement (CFR)	92,829	101,960	102,174	102,451

- 5.13 The table below shows two key limits for the monitoring of debt. The Operational Limit is the likely limit the Council will require and is aligned closely with the actual CFR on the assumption that cashflow is broadly neutral.

Borrowing Limits	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Operational Limit	93,000	102,000	102,000	102,000
Authorised limit	105,000	115,000	115,000	115,000

- 5.14 The Authorised Limit for External Debt is a further key prudential indicator to control the overall level of borrowing. This represents a limit beyond which external debt is prohibited. This limit is set to take account of the range of cash flows that might occur for the Council in addition to the CFR. It also reflects the flexibility required to enable advance refinancing of existing loans.
- 5.15 The Chief Financial Officer reports that the Council complied with these Prudential Indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.
- 5.16 The Council has some flexibility to borrow funds this year for use in future years. The Chief Financial Officer may do this under delegated power where,

for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Chief Financial Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Any borrowing in advance of need will be reported to the Council in the next treasury management report.

6. INVESTMENT STRATEGY

6.1 The primary objectives of the Council's investment strategy in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time;
- ensuring adequate liquidity;
- investment return.

6.2 Following the economic background above, the current investment climate has one over-riding risk consideration which is that of **counterparty security risk**. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

6.3 Investment Projections 2010/2011 – 2012/2013

6.4 The table below sets out estimates for the expected level of resources for investment or financing capital expenditure.

Year End Resources	2008/09 Outturn £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Balances and Reserves	34,709	21,889	15,879	13,770	13,770
Provisions	3,176	2,400	2,000	2,000	2,000
Unapplied Grants	5,770	5,000	5,000	5,000	5,000
Unapplied Capital Receipts	1,533	1,000	1,000	1,000	1,000
Total Core Funds	45,188	30,289	23,879	21,770	21,770
Working Capital*	-1,036	5,000	5,000	5,000	5,000
Resources Available for Investment	44,152	35,289	28,879	26,770	26,770
(Under/Over borrowing)	(34,992)	(35,289)	(28,879)	(26,770)	(26,770)
Net Investments	9,160	0	0	0	0
Temporary borrowing	(26,073)	23,000	3,000		
Investments	35,233	23,000	31,879	26,770	26,770

* This as an estimate based on the year end position for debtors and creditors.

6.5 The table shows the level of investments falling as resources are used to finance capital expenditure. The balance for 2009/10 represents existing investments which will mature in 2010/11. Although the Council will be reducing its level of investments it will ensure that it maintains a level of

investments in relation to the Fire Authority's cash held in the Pooled Investment Fund.

6.6 Benchmarking

- 6.7 A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Security and liquidity benchmarks are new requirements to the Member reporting and benchmarks in these areas are significantly less developed. The application of these is also more subjective in nature.
- 6.8 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is to assist monitoring and illuminate any changes to the strategy. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.
- 6.9 The benchmark for monitoring security is based on the historical risk of default associated with the credit rating of an organisation. The higher rated counterparties have a lower rate of historic default.
- 6.10 The Table below sets out the historic default percentages for each type of credit rated institution and the period of deposit.

Rating/Years	Maturity Period in Years				
	1	2	3	4	5
AAA	0.000%	0.000%	0.000%	0.000%	0.000%
AA	0.000%	0.000%	0.000%	0.030%	0.060%
A	0.030%	0.150%	0.300%	0.440%	0.650%
BBB	0.240%	0.780%	1.480%	2.240%	3.110%
BB	1.150%	3.300%	5.340%	7.230%	9.340%
B	1.310%	3.420%	5.540%	8.020%	9.870%
CCC	21.910%	28.010%	33.020%	36.760%	42.670%
Council	0.000%	0.000%	0.000%	0.000%	0.000%

- 6.11 The Council will aim to ensure that the historic default probability of its investment portfolio will not exceed 0.2%.
- 6.12 An additional proposed benchmark is the average risk of default. This is based on the historic risk of default multiplied by the value of each investment. It does not constitute the actual expectation of loss. Rather it is intended to give a guide as to the relative security of investments. For the forthcoming year this is expected to not exceed £100,000
- 6.13 To ensure adequate Liquidity the Council seeks to maintain a bank overdraft of £1.5m. In addition the Pooled Investment Fund will include the use of call accounts to enable cash to be obtained with immediate notice. The proposed benchmark for monitoring liquidity is 'Weighted Average Life'. This reflects the average number of days to maturity for investments and therefore gives an indication of the liquidity profile of investments held. For the forthcoming

year because of the lack of value obtainable for deposits exceeding 12 month and the need to ensure maximum security this benchmark is expected to be 0.5 years, with a maximum of 3 years.

6.14 Investment Counterparty Selection Criteria

6.15 The Council's criteria for providing a pool of high quality investment counterparties is as follows:

- **Banks** – the Council will use UK banks which have at least the following Fitch (or Moody's and Standard and Poors equivalent) ratings (where rated):
 - Short Term – F1
 - Long Term – A-
 - Individual / Financial Strength – C (Fitch / Moody's only)
 - Support – 3 (Fitch only)
- **Building Societies** – the Council will invest with where they have asset base of more than £1bn and form part of the HM Treasury Guarantee scheme, or where Societies meet the ratings for banks outlined above. These are currently excluded from the operational counterparty list as a result of reduced credit ratings in the sector generally but are included in the Council's criteria on the basis that they may be reinstated if ratings improve.
- **Other Local Authorities.**
- **Debt Management Office** – this is a UK Government Agency which manages debt on behalf of the Government.

6.16 The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March, 2009 and the CIPFA Treasury Management Code of Practice.

6.17 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

- 6.18 Note that the above criteria only includes UK institutions and therefore has never included Icelandic banks, owing to the risk that if these banks ran into financial difficulties the Icelandic Government may not have been able to underwrite depositors funds.
- 6.19 The criteria is different to that used to define Specified and Non-Specified investments which is the classification used by CLG regulations. This is because it is intended to create a pool of high quality counterparties for the Council to use rather than defining what its investments are. Further details of the Specified/Non Specified criteria are contained at **Appendix 1**.
- 6.20 The Council 'pools' its investments with Cleveland Fire Authority to help spread counterparty risk. As a result of this collaboration both organisations already share the same Treasury Management Strategies and criteria determining approved investment counter-parties. The limits need to be the same for each member of the Fund although it should be noted that the exposure of each party is limited to their proportionate share of the overall fund. It is currently estimated 3/4th of investments will relate to the HBC and 1/4th to CFA, although these proportions will change over time depending on the amounts invested by the CFA and HBC.
- 6.21 The table below shows the Limits proposed for the 'Pooled Investment Fund' and illustrates the 'implied' limit for the Council, based on the current proportionate share of the overall investments.

	Fitch	Moody's	Standard & Poors	Limit for Investment Fund	HBC 'Implied Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£10m	£7.5m	3 years
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£7m	£1.75m	364 days
Lower Limit Category	Unrated bank subsidiaries and building societies with assets over £1bn			£2m	£1.5m	6 months
Other Limits	Other Local Authorities			No limit	No Limit	3 years
	Nationalised Banks			£ 10m	£7.5m	3 years
	Debt Management Office			£20m	£15m	3 years
	UK Banks covered by UK Government Guarantee			£10m	£7.5m	3 years

- 6.22 The above limits set the overall framework for managing the investment fund. In practice the Chief Financial Officer uses his delegated powers to set operational limits which further tighten the lending criteria as necessary in response to developments caused by the Global 'credit crunch'. These actions reflect the Chief Financial Officer's assessment of risk which is particularly important as credit ratings are not a guarantee of an organisation's financial strength and can only provide a starting point for assessing risk. This flexibility is needed to take advantage of opportunities arising where maximum security can be obtained to reduce the risk of financial loss, while still benefitting from competitive rates of return.

6.23 In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

6.24 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the longer term investment limits.

6.25 Economic Investment Considerations

6.26 Expectations on shorter-term interest rates, on which investment decisions are based, show the likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid-2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

6.27 There is an operational difficulty arising from the current banking crisis. There is currently little value investing longer term whilst credit quality is uncertain/reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter term investments would provide better security.

6.28 **The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve the base criteria above, under the exceptional current market conditions the Chief Financial Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.**

6.29 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMAF – a Government body which accepts local Council deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

6.30 Sensitivity to Interest Rate Movements

6.31 The Council will be required to disclose in its Statement of Accounts the impact of risks on the Council's Treasury Management activity. The impact of interest rate risk is specifically detailed in paragraph 5.11.

6.32 Treasury Management Limits on Activity

6.33 There are four further Treasury activity limits, which were previously Prudential Indicators. The purpose of these are to contain the activity of the

treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance.

6.34 The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates

6.35 The Proposed limits are as follows:

Interest rate Exposures	2010/11 £000 Upper	2011/12 £000 Upper
Limits on fixed interest rates:		
• Debt	102,000	102,000
• Investments	(30,000)	(25,000)
Limits on fixed interest rates based on net debt	72,000	77,000
Limits on variable interest rates		
• Debt	102,000	102,000
• Investments	(60,000)	(60,000)
Limits on variable interest rates based on net debt	42,000	42,000

6.36 Limits for the 'Maturity Structure of Borrowing' are intended to reduce exposure to large fixed rate sums falling due for refinancing. The view of the Chief Financial Officer is that limits on fixed and variable rates for **borrowing** are unhelpful and could lead to unnecessary higher costs of borrowing. Previous experience has shown that it is possible to move from a position of predominantly fixed rate borrowing to variable rate borrowing and then back to fixed rate borrowing over a period of two years. Currently the market is so volatile that the Council should ensure maximum flexibility to minimise costs to the revenue budget in the medium term. The tables above and below therefore allow for borrowing up to the Capital Financing Requirement at either variable or fixed rates. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the temporary use of variable rate borrowing in the interim.

Maturity Structure of fixed interest rate borrowing 2010/11		
	2010/11 £000 Lower Limit	2011/12 £000 Upper Limit
Under 12 months	0	93,000
12 months to 2 years	0	102,000
2 years to 5 years	0	102,000
5 years to 10 years	0	102,000
10 years to 20 years	0	102,000
20 years to 30 years	0	102,000
30 years to 40 years	0	102,000
40 years to 50 years	0	102,000
50 years to 60 years	0	102,000
60 years to 70 years	0	102,000

- 6.37 Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Limit for Maximum Principal Sums Invested > 364 days			
	1 year £000	2 years £000	3 years £000
Maximum	30,000	20,000	15,000

6.38 Performance Indicators

- 6.39 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the Treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The Council will produce the following Performance Indicators for information and explanation of previous Treasury activity:

- Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – returns above the 7 day LIBID rate

6.40 Treasury Management Advisers

- 6.41 The Council uses Butlers as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;

- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

6.42 Whilst the advisers provide support to the internal Treasury function, under current market rules and the CIPFA Code of Practice the final decision on Treasury matters remains with the Council. This service is subject to regular review.

6.43 Member and Officer Training

6.44 The increased role of Members and the need to ensure officers dealing with Treasury Management are well trained and kept up to date requires a suitable training process for Members and officers. Officers already attend regular training courses provided by Butlers. Arrangements will be made for some training for Members in the early part of the year. This is likely to take the form of a number of a workshop session involving Butlers.

7. PROPOSALS

7.1 It is proposed that Council approves the following:

- i) The responsibility for the effective scrutiny of Treasury activities to be allocated to the Audit Committee.
- ii) The Prudential Indicators and Limits relating to Capital Expenditure for 2010/2011 to 2012/2013 as per in Section 3.
- iii) The Minimum Revenue Provision (MRP) Statement as per paragraph 5.5.
- iv) The Borrowing Strategy for 2010/2011 to 2012/2013 and related Treasury Prudential Indicators as set out in Section 5.
- v) The Investment Strategy Counterparty Criteria contained in Section 6.
- vi) The Investment Strategy for 2010/2011 to 2012/2013 and related Treasury Prudential Indicators as detailed in Section 6.

Credit And Counterparty Risk Management

The Office of the Deputy Prime Minister (now CLG) issued Investment Guidance on 12th March, 2004 and this forms the structure of the Council's policy below. The LG is currently consulting over revisions to the Guidance and where applicable the Consultation recommendations have been included within this policy.

The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and applies its principles to all investment activity. In accordance with the Code, the Chief Financial Officer has produced its treasury management practices covering investment counterparty policy which requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for decision making on investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The strategy proposed for approval by the Council is set out below.

Strategy Guidelines – The main strategy guidelines are contained in the body of the Treasury Strategy Statement. Because the Council's investment funds will be pooled with Hartlepool Borough Council, it will be the limits set by 'the Council' which will apply. These are set out below. The Council's share of these limits will equate to approximately 1/4th based on its share of the pool.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within twelve months if it wishes. These are low

risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Other Councils.
3. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
4. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society. This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

	Fitch	Moody's	Standard & Poors	Limit for Investment Fund	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£10m	364 days
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£7m	364 days
Other Institution Limits	Other Local Authorities			No Limit	364 days
	Nationalised Banks			£10m	364 days
	Debt Management Office			£20m	364 days
	UK Banks covered by UK Government			£10m	364 days

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any investments with:

- **Building societies not meeting the basic security requirements under the specified investments.** The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Investment Fund may use building societies with assets over £1bn. These will be limited to £2.5m over 3 months.

4.1

- Any **bank or building society** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£10m	3 years
Other Local Authorities				No limit	3 years
Nationalised Banks				£7m	3 years
Building Societies				£2m	
Debt Management Office				£20m	3 years
UK Banks covered by UK Government				£7m	3 years

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis, and as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer and if required new counterparties which meet the criteria will be added to the list.

AUDIT COMMITTEE

16 March 2010



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT- ANNUAL
AUDIT 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 content the Audit Commissions Annual Audit Letter.

2. BACKGROUND

- 2.1 This report summarises the findings from the 2008/09 audit. It includes messages arising from the audit of financial statements and the results of the work undertaken to assess arrangements to secure value for money in the use of resources.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Details of key messages from the work carried out are included in the main body of the report attached as **Appendix 1**.

4. RECOMMENDATIONS

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

Annual Audit Letter

Hartlepool Borough Council

Audit 2008/09

December 2009



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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.
-

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 We issued an unqualified opinion on the financial statements on 30 September 2009.

Financial Statements

- 2 The quality of the financial statements has significantly improved from last year, prepared in line with the statutory deadline of 30 June and supported by comprehensive working papers.
- 3 The key issues identified at audit related to inappropriate changes to balances brought forward from last year's audited accounts, which are not permitted in Accounting Standards, and errors in the pension fund figures provided by the actuary. This issue affected all authorities within the Teesside Pension Fund.

Use of resources

- 4 The Council performs adequately at managing finances, addressing a challenging budget position, identifying future efficiencies and improving financial reporting. The Council can identify improved outputs as a result of policy decisions but does not always clearly identify outcomes.
- 5 The Council performs well at governing the business. There is an informed approach to commissioning and procuring services and supplies which is resulting in tailored services for local needs. The Council monitors performance against priorities and targets and manages under performance effectively. There are good governance and risk management arrangements in place and a sound system of internal control.
- 6 The Council performs well at managing resources with a good understanding of its current impact on natural resources and action plans in place to make improvements. There are plans in place to develop asset management arrangements to link to strategic priorities and service needs.

Recommendation

- R1** The Council should produce and implement action plans arising from the use of resources assessments and value for money work to support continuing improvement.

Future challenges

- 7 The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on cash management has been immediate, but there are potentially wider and more fundamental impacts on the ability of all public sector bodies to fund service delivery and capital programmes, including pressure on income streams. There are likely to be further challenges for policy priorities where patterns of demand for services are changing.
- 8 The Council has responded to the challenging economic climate, reviewing the medium term financial plan and assessing what action can be taken to support local people and businesses. Actions taken include partnership working with the credit unions to provide an e-banking facility and early payments to local suppliers.

Health inequalities

- 9 Progress is being made in tackling the significant health inequalities in the North East through leadership from regional agencies, partnership working between public sector bodies and the voluntary sector at the local level, and by increasing or prioritising funding. More action is needed to progress further and faster.

Recommendation

- R2** The Council should work with partners, using the recommendations in our health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.

Comprehensive Area Assessment

- 10 Comprehensive Area Assessment (CAA) is a new mechanism for assessing locally delivered public services. CAA brings together judgments from the Audit Commission, Care Quality Commission, HM Inspectorates of Constabulary, Prisons and Probation, and Ofsted into one coordinated view of public services in an area. The primary focus of CAA is on the place and not organisations, on outcomes achieved for the community, rather than the process, and on prospects for the future.
- 11 The Authority's use of resources assessment will inform the area assessment element of CAA and help to illustrate how well public services in the area are addressing their local priorities. The joint assessment for the area will be published on the OnePlace website. The first reporting of the findings of CAA will be published on 9 December 2009.

Audit fees

- 12 The fee for undertaking our audit in 2008/09 was £253,605 (plus VAT), which was in line with the proposed fee. More details on fees, including comparatives for 2007/08, are shown in Appendix 1.

Key messages

Actions

- 13 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 14 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

15 We issued an audit report including an unqualified opinion on the financial statements on 30 September 2009. Amendments were made to the accounts in four areas:

- the Council made changes to figures brought forward from last year's audited accounts which were not permitted in Accounting Standards. These changes were reversed to correctly reflect last year's audited figures, affecting the brought forward figures for the pension fund reserve and liability (£2.3m) and the Income and Expenditure Account (£83k). A number of other balances and notes had also been adjusted to correct non-material errors identified in brought forward balances from last year's audited accounts. The relevant financial reporting standard only permits changes to previous year figures if the affects are material.
- the fixed assets analysis to move £111,000 of assets under construction where work had been completed, reclassifying them as community assets;
- a recent court ruling relating to equal pay is likely to affect future payments under equal pay legislation. This happened after the accounts were prepared and the effect of the ruling is not yet clear. A post balance sheet event was disclosed in the financial statements; and
- the draft accounts generally complied with the Statement of Recommended Practice (SoRP) but some of the notes to the accounts required by the SoRP were not included and others did not contain enough detail. Additional disclosures were made to correct these.

16 The following errors were not corrected:

- the pension fund Actuary wrote to the Council on 21 September 2009 informing them of an error in the interest rate used by the actuary to calculate pension fund interest costs. The impact of the error would have been to increase charges to the Income and Expenditure Account by £3.5m which would then be reversed out through the Statement of Total Recognised Gains and Losses to avoid impact on Council Tax;
- the Actuary uses estimated investment values to allow earlier reporting of pension fund information to the Council and other admitted bodies. The pension fund auditor identified a difference between the estimated and actual investment values at the year end. The pension fund auditor estimated that the impact of the error would result in an estimated decrease of £484,000 to the pension fund deficit of £54.703m;

Financial statements and annual governance statement

- the Council's asset register does not separately identify the value of land and buildings, including a combined value instead. Building values are subject to depreciation in year but land values are not. The Council is likely to be charging too much depreciation and may be understating asset values, but cannot quantify the impact of this on the basis of current valuation information. Depreciation is reversed out through the Statement in Movement of General Fund to avoid impact on Council Tax. Work was done to establish that the impact would not be material;
- the Council use the CIPFA system to produce the cash flow statement. Testing of cash flow statement entries identified an unexplained difference of £206,000 when compared to the entries in the other financial statements;
- trust fund balances of £176,000 which do not belong to the Council were included in the financial statements; and
- potential liabilities relating to land tribunal cases totalling £123,000 have been shown as a contingent liability, but meet the financial reporting standard for recognition as a provision, given that they can be quantified, and as such should have been charged to income and expenditure.

Material weaknesses in internal control

- 17 We did not identify any material weaknesses in internal control to bring to your attention.
- 18 We completed our three yearly detailed review of internal audit against the CIPFA standards for internal audit and have not identified any issues to bring to your attention.

Accounting Practice and financial reporting

- 19 Our review of the explanatory foreword and annual report identified some inconsistencies between financial information disclosed and the financial statements, which were corrected.

International Financial Reporting Standards

- 20 The Council's financial statements will be prepared under International Financial Reporting Standards (IFRS) for the first time in 2010/11.
- 21 IFRS imposes significant additional reporting and disclosure requirements and the Council will need to collect and collate additional or new data to meet these requirements. The key areas of change are likely to be private finance initiative, leases, employee benefits, and property, plant and equipment.
- 22 The Council is aware of the new requirements and has plans in place to collect the additional information needed.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 23** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 24** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 25** The Council's use of resources theme scores are shown in Table 2 below.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	3
Managing resources	3

Managing finances

- 26** A challenging budget position has been addressed effectively, with the Council investing additional resources for service priorities. The Council has a good track record of engaging with local communities and other stakeholders. Sound medium term financial planning has created a service planning environment allowing the Council to sustain its focus on achieving priorities and improving services. Looking to the future, the Council faces a challenging financial position as, in common with many other councils, costs are rising faster than resources. To address the shortfall in resources the Council is implementing a business transformation programme which is

Value for money and use of resources

aimed at delivering £5.96m of efficiencies. Further reductions may be required and a strategy for achieving the remaining reductions is being developed.

- 27 The Council understands its costs and how local context and policy decisions impact on both costs and performance at the operational level, but this is less evident at the strategic level. There is room for improvement in the medium term financial strategy in demonstrating the relationship between cost and performance. The Business Transformation Programme is the primary basis for delivery of efficiencies. The Council can identify improved outputs as a result of policy decisions but does not always clearly identify outcomes. Benchmarking is used as a tool for challenge but there is still scope to further develop this in delivering improved value for money.
- 28 Monthly financial management reports are issued to departments on the first working day after the month end. The corporate and financial management report shows progress on a quarterly basis using a 'traffic light' system. The quality of the financial statements and supporting working papers and detailed budget monitoring reports has improved in 2008/09. Information is circulated to householders in the regular 'Hartbeat' summary.
- 29 The Council has well established treasury management arrangement, including appropriate controls over investments and borrowing. The Council has also reviewed the recommendations in the Audit Commission report 'Risk and Return' and is taking appropriate action.

Governing the business

- 30 The Council has an informed approach to commissioning and procuring services and supplies and is tailoring services to meet local needs. There are some good examples of procurement delivering value for money in its broadest sense in specific procurement exercises, but a corporate approach is still developing and is yet to demonstrate the extent to which overall objectives are being achieved and successfully delivering positive outcomes.
- 31 The Council has improved performance across a range of measures. There is evidence of good outcomes from the use of information to support decision-making and manage performance. The arrangements for performance information systems are robust. The Council monitors performance against its priorities and targets and manages under-performance effectively. Planned efficiencies are achieved.
- 32 The Council has good governance arrangements in place. Progress has continued against the Audit Commission's Ethical Governance report, which highlighted strong awareness of the ethical agenda and good leadership. The Council maintains a clear focus on its vision and priorities. There are good relationships between the Chief Executive, the Mayor and members, which contributes to the open culture and the achievement of their strategic priorities. The Council ensures each of its significant partnerships has an appropriate form of governance that is formally documented.
- 33 The Council has good risk management arrangements, including working with partners to drive improvement and deliver outcomes. No significant internal control issues or cases of fraud and corruption have been identified during the year. The Council is also proactive in working with key partners to reduce fraud.

- 34 There is a sound system of internal control, including an effective Internal Audit function. A business continuity plan is in place, which has been tested. The Council has arrangements in place to control member expenses payments and these are tested on a cyclical basis by Internal Audit.

Managing resources

- 35 The Council has a good understanding of its current impact on natural resources and action plans are in place to make improvements. Progress on sustainability matters is being made through a range of initiatives and although not all have clear and comprehensive targets, most can demonstrate impact.
- 36 The Council has good plans in place to develop its asset management and to link it to its strategic priorities and service needs, particularly in relation to partnership working. The foundations are in place with potential to demonstrate improving outcomes in 2009/10 onwards.

VFM Conclusion

- 37 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 38 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Health inequalities

- 39 Our review, completed jointly by the Audit Commission and Deloitte has involved public sector bodies across the North East, as well as the voluntary sector, looking at how organisations are working together to tackle health inequalities.
- 40 Addressing such a major issue is not the preserve of any one organisation but must be addressed through co-operation and a shared commitment to action. We found that good progress is being made in tackling health inequalities through leadership from regional agencies, partnership working between public sector bodies and the voluntary sector at the local level, and by increasing or prioritising funding.
- 41 Life expectancy is increasing and, in most areas, the mortality rate reducing at a faster rate in the North East than nationally, narrowing the gap between the North East and the rest of the country.
- 42 However, whilst life expectancy is improving, men and women in the North East are still likely to die younger than the national average. Men and women living in the most deprived areas can expect to die on average more than ten years and seven years earlier respectively than their counterparts in the least deprived areas.

Value for money and use of resources

- 43 There are also significant issues in the North East around unhealthy lifestyles. For example the percentage of North East women smoking in pregnancy and hospital admission rates related to alcohol are the worst nationally; childhood obesity rates and teenage pregnancy rates are higher than the national average.
- 44 Organisations in the North East need to build on the progress that has been made to date and ensure that they move further and faster in addressing health inequalities. Our North East wide report and local review on alcohol/ teenage pregnancy highlights a number of key areas that partnerships need to focus on to improve action to address health inequalities.
- Strategic priorities and funding should be aligned. There are significant economic and financial costs associated with health inequalities that can be reduced through successful funding.
 - Successful targeting of services to those who most need them, based on good data. We found that this data is often not available.
 - Accountability and performance management arrangements were often weak or not in place, so that those delivering services may not be adequately held to account and value for money and improved outcomes cannot be demonstrated.
 - Joint working was variable, with some good examples, but also other instances where a lack of partnership working reduces effectiveness. Joint data collection needs to improve, with a lack of shared information systems causing problems.
 - Agencies need to look for ways to better support and use the resources available in the community and voluntary sector.
 - There was mixed practice in taking community views into account in developing high level strategies and service development plans.
- 45 The detailed report is being distributed to public sector bodies across the North East and includes a series of recommendations and questions for all organisations and partnerships to consider in reviewing and evaluating their plans and actions to address health inequalities.
- 46 We reported our detailed findings to Audit Committee on 8 December and agreed an action plan to address the areas of improvement we identified.

Closing remarks

- 47 I have discussed and agreed this letter with officers. I will present this letter to the Audit Committee and will provide copies to all Council members.
- 48 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 2

Report	Date issued
Audit plan	April 2008
Report to those charged with governance	September 2009
Opinion on the financial statements	September 2009
Value for money conclusion	September 2009
NE health inequalities	October 2009
Use of resources	November 2009
Annual audit letter	November 2009

- 49 The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Lynne Snowball
District Auditor
November 2009

Appendix 1 – Audit fees

Table 3 Audit fees

	Actual 2008-09	Proposed 2008-09	Actual 2007-08
Financial statements and annual governance statement	170,756	170,756	166,199
Value for money	82,837	82,837	81,476
Total audit fees	253,605	253,605	247,675
Non-audit work	0	0	0
Total	253,605	253,605	247,675

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
3	R1 The Council should produce and implement action plans arising from the use of resources assessments and value for money work to support continuing improvement.	2	Assistant Chief Executive and Chief Financial Officer	Yes		April 2010
4	R2 The Council should work with partners, using the recommendations in our health inequalities reports to improve targeting and performance management, making effective use of the voluntary sector and community views.	3	Acting Director of Health Improvement HBC/North Tees PCT	Yes		April 2010

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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AUDIT COMMITTEE

16 March 2010



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REPORT-
CERTIFICATION OF CLAIMS AND RETURNS
ANNUAL REPORT

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 content of the Audit Commissions Certification of Claims and Returns Annual Report.

2. BACKGROUND

- 2.1 This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from the Audit Commission assessment of arrangements for preparing claims and returns and information on claims that have been amended or qualified.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Details of key messages from the work carried out are included in the main body of the report attached as Appendix 1.

4. RECOMMENDATIONS

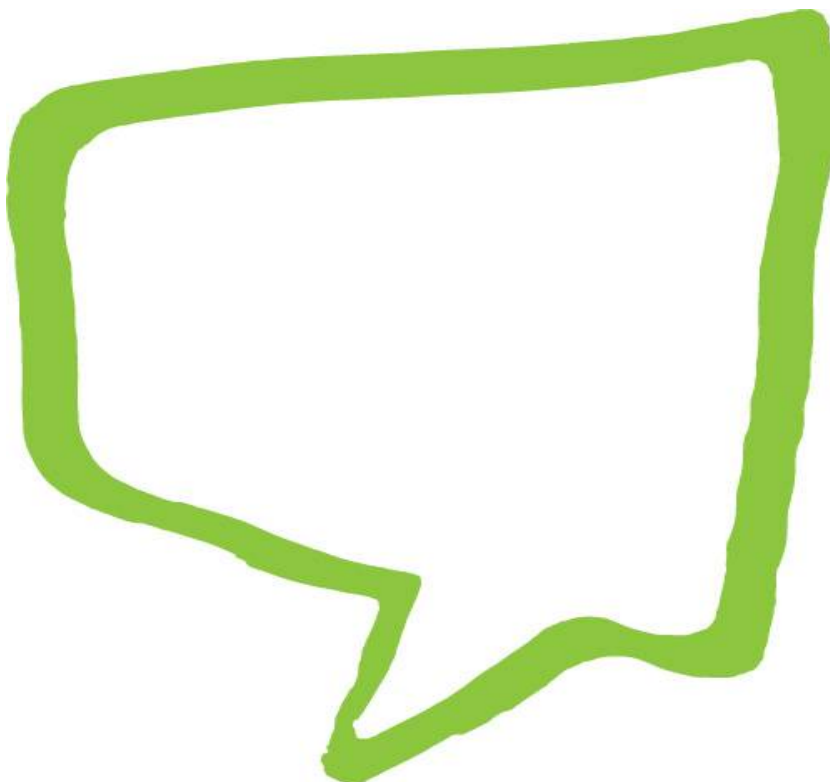
- 4.1 That the Audit Committee:
- i. note the report of the Audit Commission

Certification of Claims and Returns - Annual Report

Hartlepool Borough Council

Audit 2008/09

March 2010



Contents

Key messages	3
Background	5
Findings	7
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Appendix 2 – Action plan	10

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.
-

Key messages

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants.

This report summarises the findings from the certification of 2008/09 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims

- 1** Hartlepool Borough Council receives more than £207 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

In 2008/09, my audit team certified seven claims with a total value of £80 million. Of these, we carried out a limited review of one claim and a full review of six claims. (Paragraph 9 explains the difference.) We amended three claims requiring full certification for errors. For two claims, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

- 2** The fees I charged for grant certification work in 2008/09 were £28,460.

Significant findings

- 3** Our work had the impact of reducing the amount payable to the Council in the 2008/09 financial year by £80,943. Details of this amount are included in paragraph 15 below.

Certification fees

- 4** The fees I charged for grant certification work in 2008/09 were £28,460. However, £2,555 of this related to a claim for the 2007/08 financial year which we received late for audit, and so was charged to the Council in 2008/09. This compares to a charge of £20,194 in 2007/08. The increase is due mainly to us undertaking more detailed testing in 2008/09 in response to our assessment that we were unable to rely on the control environment (please see paragraph 12 for more detail of this).

Actions

- 5 Appendix 2 summarises my recommendations. The relevant officers of the Council have already agreed these recommendations.

Background

- 6 The Council claims £207 million for specific activities from grant paying departments. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:
 - an adequate control environment over each claim and return; and
 - ensuring that the Council can evidence that it has met the conditions attached to each claim.
- 7 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Hartlepool Borough Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.
- 8 The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.
- 9 The key features of the current arrangements are as follows.
 - For claims and returns below £100,000 the Commission does not make certification arrangements.
 - For claims and returns between £100,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
 - For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
 - For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

- 10 The work that we undertake to certify the Housing Benefits claim for the Department of Work and Pensions is slightly different. Because of the high value and high risk nature of the claim, the auditor has to test the entries on a Council's claim form. In doing this we:
- confirm that the subsidy claim has been completed using the recognised software for claim completion;
 - undertake an analytical review for a year by year comparison and comparisons to other Councils; and
 - carry out detailed testing of individual claims for benefit to ensure the Council is calculating benefit entitlement correctly and reporting accurate performance information to the Department of Work and Pensions.

Findings

Control environment

- 11 For claims certified for the 2008/09 financial year we were unable to rely on the control environment in place at the Council. This was due to issues found with testing of grant claims in 2007/08.
- 12 We are pleased to note that the significant issues identified in 2007/08 did not re-occur, and for the 2009/10 year we will be seeking to rely on the control environment. We will assess the general control environment in place for the completion of claims and returns, and also assess the arrangements for each individual claim/return.
- 13 Where we are able to rely on the control environment, we undertake less detailed testing, so the cost to the Council of certification is reduced.
- 14 Officers should ensure that a comprehensive review of claims for certification is undertaken prior to the claim being signed by the responsible financial officer. This should include ensuring that the terms and conditions of the grant/return have been complied with.

General points

- 15 For all claims and returns that require certification, the original, signed copy should be provided to the auditor by the deadline for the scheme. Any amendments made to the claim prior to submission to the auditor should be crossed out and initialled by the certifying officer. Under no circumstances should tippex be used on a claim form.
- 16 Where in-house charges are made to a scheme, full documentation should be provided to support those charges. Certification tests require that we test that all in-house charges are made on the same basis as to non-grant funded activities, and without back-up to charges this is difficult to evidence.

Specific claims

- 17 We certified a total of seven claims or returns for the 2008/09 financial year. Two claims were certified without amendment or report to the sponsoring department.
- 18 Of the remaining five claims, three were amended to ensure that the income and expenditure reflected in the claim was in line with the requirements of the specific scheme requirements. The total of the amounts payable to the Council were reduced by £87,897 with a compensating increase of £6,954, a net decrease of £80,943. £81,140 of the amount removed from claims is eligible for payment in the 2009/10 financial year.

Housing and Council Tax Benefit Subsidy Claim

- 19 Due to the specific nature of the work required for certification of the Housing and Council Tax Benefit Subsidy Claim, we did not amend the claim for errors found where we were unable to quantify the impact from the testing carried out. This is because the prescribed sample size for our work does not cover sufficient of the population for us to be able to determine the impact on the claim with any statistical reliability. Instead, we report the findings of our testing to the Department for Work and Pensions and they will make a decision about any monetary amendments arising from the result of our work.
- 20 Where we identify an error in our initial sample, we undertake targeted testing of the types of cases where the error was found. Our initial testing identified four errors where we required additional testing to be undertaken. This was completed by Council staff and then reviewed by ourselves to reduce the cost to the Council.
- 21 In all four cases where errors were found, additional testing confirmed that the errors were isolated in nature. No further errors were identified.

National Non-Domestic Rates Return

- 22 We issued a qualification letter to the sponsoring department for this claim. This was due to a specific issue identified with the write-off of NNDR debt for the Woolworths store formerly situated in the Middleton Grange Shopping Centre.
- 23 Council procedures require that write-offs of debt over £1,000 are approved by the portfolio holder. Due to the timing of the administration of Woolworths and the deadline for completion of the claim, the amount relating to this write-off had not been approved by portfolio holder before the claim was completed. As this amount had technically not been properly approved for write-off at the time of completion of the claim or our audit work, we reported the facts to the department. We do not expect this to have a negative effect on the claim or on our future assessment of risk associated with this claim.
- 24 No other issues were identified with this claim by our testing.

New Deal For Communities annual return

- 25 Our testing identified a total of £81,000 that was removed from the claim as it should relate to the 2009/10 financial year.
- 26 A qualification letter was issued to the sponsoring department. This covered two separate issues.
- 27 The government office had agreed that funds received from other sources could be retained by the Council for use in the NDC schemes. The design of the claim form did not allow for the amounts to be shown properly, and so an explanatory letter was sent to the sponsoring department.
- 28 The scheme requirements for NDC require that an asset inventory is maintained which records all assets purchased with NDC funding. Whilst the Council does maintain an asset inventory, it does not include all of the details specified by the grant conditions. This is a recurrent issue that has been reported to the department in previous years, but no action has been taken by the department.

Appendix 1 – Summary of 2008/09 certified claims

Claims and returns above £500,000

Claim	Value £	Adequate control environment	Amended	Qualification letter
Housing and council tax benefit	45,751,351	N/A	Yes +£6,954	Yes
ERDF Central Area Attractors	653,298	No	Yes -£6,757	No
Teachers' Pensions Return	6,288,420	No	No	No
Sure Start annual claim	4,429,149	No	Yes -£140	No
National Non-Domestic Rates annual claim	18,876,036	No	No	Yes
New Deal for Communities annual claim	4,033,001	No	Yes -£81,000	Yes

Claims between £100,000 and £500,000

Claim	Value £	Amended
Disabled Facilities Grant annual claim	283,000	No

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Claims and Returns Report 2008/09 - Recommendations					
6	Officers should ensure that a comprehensive review of claims for certification is undertaken prior to the claim being signed by the responsible financial officer. This should include ensuring that the terms and conditions of the grant/return have been complied with.	3	Chief Financial Officer	Yes		April 2010

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AUDIT COMMITTEE

16 March 2010



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2009/10 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2009/10.

2. BACKGROUND

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

3. AUDITS COMPLETED AND IN PROGRESS

- 3.1 **Appendix A** of the report details the pieces of work that have been completed.
- 3.2 As well as completing the afore mentioned audits, Internal Audit staff have been involved with the following working groups:
- ISO 17799 Group.
 - Procurement Working Group.
 - Corporate Risk Management Group.
 - Use of Resources assessment.
- 3.3 The section has now received data matches from the Audit Commission in relation to the National Fraud Initiative (NFI) for 2008/09. The section, along with the Benefit Fraud Team, is currently investigating any anomalies identified.

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

4 AUDIT PLAN PROGRESS

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

5 RECOMMENDATION

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

Appendix A

Audit	Objectives	Recommendations	Agreed
Information/Data Management	Information risk is considered, managed and monitored by appropriate levels of senior management, information assets are held securely, customers are aware of the organisations information handling policies and have access to avenues to address concerns they may have over information handling, the organisation promotes a culture where information is properly used, protected and valued by ensuring that; new starters are made aware of information policy, there is the opportunity for staff to undertake training in information security to keep up to date with requirements for their posts, there is regular testing of policies and procedures to ensure awareness and understanding of policies amongst staff, buildings and premises owned/used by the organisation to collect and process information are secure, compliance with policies and procedures ensures that information no longer required to be held is securely disposed of, access to information and systems from locations other than the secure sites owned/used by the organisation is granted with at least the same level of security (or higher) than can be found at the secure sites, information systems are secure, bulk transfers of information are made via secure methods. Bulk transfers are not permitted generally and specifically not by email, contractors/suppliers/partners of the organisation are required by contract or other similar method to agree to treat information with the same level of security as the organisation does.	<ul style="list-style-type: none"> - On conclusion of the restructure of management posts it should be ensured that an appropriate member(s) of staff has/have been designated the Senior Information Risk Owner(s) (SIRO). The SIRO(s) should be a member of, or represented (by delegation to other nominated officers) on the most appropriate working party group for discussion and decision making regarding information risk. - In light of the amount of sensitive data held by the authority in some departments, consideration should be given to including either a risk in each departmental risk register and/or in the strategic risk register regarding information security. This should be discussed at DMT's (or equivalent corporately) and reported in the minutes as to the decision made. Risks to be included in the risk registers as a result of this discussion should be brought to the Corporate Risk Management Group for inclusion in the relevant risk register. - Although the Data Handling Guidelines for Local Authorities are not yet mandatory, it is recommended that consideration be given to reviewing the Data Handling Guidelines for Local Authorities with a view to developing an action plan for ensuring HBC's compliance over time. In the event that these guidelines become mandatory, this would ensure that HBC was well on the way to achieving compliance. - A timetable for undertaking the reviews of the Information Security Policy and supporting policies should be developed. - The Business Transformation process list should be developed further to include (and be regularly updated with new systems and their owners) all of the systems in use at HBC. Each system should have an identified system owner and there should be a record of what type of data the system holds. If this can be provided more easily by NIS rather than an officer of HBC, this should be explored, agreed and implemented. - When the Customer Charter is due to be reviewed consideration should be given to including the items required to 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		<p>make the document compliant with the Data Handling Guidelines for Local Authorities. Alternatively, the sample Information Charter available with the Data Handling Guidelines could be implemented as a separate document.</p> <p>- Consideration should be given to performing another survey to verify the level of awareness amongst all staff of the information security policies.</p> <p>- Arrangements should be made to develop and implement corporate procedures for entry system administrators, which should include the involvement of HR providing a list of leavers on a regular (suggested monthly) basis. This guidance should also include arrangements to ensure that the cards/fobs are returned. Managers should be made aware of the requirements to obtain cards/fobs when staff leave.</p> <p>- A list of approved contractors who may be used by staff to dispose of confidential waste should be available on the intranet.</p> <p>- Whilst waiting for the remote working policy to be rolled out it may be beneficial to update the information available on the intranet to be in line with current software references.</p> <p>As part of the working from home guidelines/policy an approach should be considered which will promote consistency of the roll out of working from home to staff in all departments.</p> <p>- During the updates to policies the Portable Equipment Policy should be updated to include reference to USB Sticks and their usage.</p> <p>- Staff should be reminded that the legal department should be consulted when contracts/agreements are entered into to ensure that the full range of clauses required are included in the contract/agreement.</p> <p>- The following items were requested but not provided to the auditor by the deadlines stipulated;</p> <ul style="list-style-type: none"> • standard security levels e.g. secure channel and encryption information regarding remote working sites, <p>As a result no assurance can be given in these areas. These items should be forwarded to the auditor as soon as possible to enable assurance to be provided in these areas.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Street Cleansing	Effective arrangements are in place to ensure that the service is	- Activities designed to maximise the services income generating ability	Y

	<p>aware of and responds appropriately to changes in legislation. The street cleansing service is delivered in the most efficient and effective manner. Maximum use is made of resources. Staff within the services have the necessary skills. The service actively seeks to maximise its income generating potential. Service delivery is developed in consultation with the public and other relevant stakeholders. Objectives are clearly defined and communicated. Performance is effectively monitored and managed.</p>	<p>should be undertaken. It may consider seeking advertising income, utilising machines, bins etc. Following consideration of the resource capacity available, the section should consider marketing its services available in order to obtain additional external works, perhaps from neighbouring boroughs and attract additional income which can be reinvested into the service.</p> <p>- Documentation relating to the sample of private works selected should be provided to the auditor in order that they can be reviewed at the follow up audit.</p> <p>- Evidence that the procurement of machinery was based upon an analysis of need and procured in accordance with Contract Procedure Rules will be undertaken as part of the follow up audit. Staff should be reminded of the importance of providing information requested by internal audit in order that assurance that risks are being managed effectively can be provided.</p> <p>- Agency workers should be employed only from Council approved suppliers. A review of working practices should be undertaken to ensure that approved claims agree with invoiced amounts.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
Dog Warden Service	<p>The Enforcement Team are aware of and abide by current legislation. There are comprehensive procedure notes in place, available to all staff. All staff are aware of their roles and responsibilities as laid out in the procedure notes. Enforcement Officers are qualified and regularly trained and this is evidenced. All stray dog jobs and the actions taken are recorded correctly. Input is verified as correct so assurance can be given to management of the quality of the data in the database. There are set charges which have been approved by the relevant portfolio holder and these are clearly advertised for customers. Market comparisons are made on a regular basis to ensure our charges are competitive. To ensure that a robust contract is in place between HBC and the kennels and this is regularly monitored. Overall arrangements</p>	<p>- Income for dog release is coded to the correct cost centre.</p> <p>- That the Dog Warden Service is put out to tender immediately with a view to awarding the contract as soon as possible. Contract and Financial Procedure Rules should be followed as applicable and appropriate.</p> <p>- The Environmental Action Manager should enquire if there are any reports that could be produced to assist in the completion of the kennel invoices.</p>	<p>Y</p> <p>Y</p> <p>Y</p>

	for ordering, receiving and paying for goods and services are adequate.		
Car Parking Income	Ensure all monies from machines are collected on a regular basis and in accordance with a collection schedule. Ensure that the collection of funds from machines is carried out by at least two security staff and actual cash is reconciled to receipted funds. Ensure that actual cash is reconciled to receipted cash for each machine and investigation has occurred for any large difference. Ensure funds received are being adequately posted to the Authority's bank and ledger accounts.	<ul style="list-style-type: none"> - A regular report, ideally on a quarterly basis, is provided by Human Resources indicating all leavers and an officer within the Parking Services Unit is given responsibility to make the necessary changes. This should be actioned, initialled and dated by the relevant officer. - An official parking permit allocation policy/procedure is made available to all staff (i.e. via the Intranet). The policy should include all relevant criteria and how the allocation process works including how to appeal against a decision. - Monthly budget reports are reviewed and any variances are investigated and reasons noted. Budget setting processes carried out include a review of income trends for recent financial years and reflect this when allocating expected income budget figures. Regular monitoring of budget reports highlight any issues or problems that may be occurring and enables the responsible officers to address any issues and/or advise senior management of any issues that may be foreseen. - Reconciliations should be performed using the information taken from Integra rather than the emails. - Monitoring of the collections made takes place to ensure that collections are occurring on the scheduled days and addressed where necessary. - A review of machine collections is undertaken to ensure monies are collected to reflect the income taken. Any sudden increases/decreases in revenue should be investigated and/or followed up where necessary. - All information which contains individual's personal information (i.e. name, address etc) is retained in a lockable storage unit. - Audit tickets are either submitted to the Parking Services office by the engineer following a master reset or Security Plus are advised of the procedure for collecting and submitting audit ticket information. - Discussions take place with the collection company to raise the issues identified and processes agreed to ensure that the information/data 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		provided is correct. Daily reconciliations of machine collection data provided are performed by the Parking Services Team.	
Complaints Procedure	The council have comprehensive procedures in place for the complaints service. Council have effective arrangements in place for complaints. Procedures ensure there is adequate monitoring and evaluations are regularly undertaken to ensure compliance with the Complaints Procedures and policies. Effective arrangements in place to appeal against a response to an official complaint. Arrangements are in place to ensure relevant reports are given to appropriate committees. PI Information is collected, stored and submitted promptly.	<ul style="list-style-type: none"> - Complaints should be sent centrally to Complaints Officer and logged and distributed to relevant staff to investigate. - If complaints cannot be responded to within 15 working days, a letter explaining the reasons should be sent to the complainant along with an expected timescale for response. - A copy of supporting documentation should be kept on file or scanned and saved on the PC. This is to ensure that complaints can be traced through each department. 	Y Y Y
Grounds Maintenance	Effective arrangements are in place to ensure that all expected income is received. Adequate insurance payments are made. Effective arrangements are in place to ensure income potential is maximised. Contracts in place are authorised and terms and conditions are adhered to. The service provided is in line with government guidelines. All income received is reconciled and banked regularly. Training is provided for all staff. Agency work is as per the authority's Approved Contract List. Tasks undertaken are of an acceptable standard and as per any work schedules agreed. Work plans are scheduled to make the best use of resources available. The grounds maintenance service is delivered in the most efficient and effective manner. Maximum use is made of all service resources. Additional works undertaken are costed correctly. Correct procuring procedures are followed. Performance is effectively monitored and managed.	<ul style="list-style-type: none"> - Clearance of the work is recorded either via email or noted on the job number documentation for reference purposes. - Reviews are carried out by another officer to ensure that income received is as per the quotation and that all costs incurred have been covered. - A separation of duties is implemented. This could take the form of management reviews being carried out to ensure invoicing is as per the quotation and income received is as expected. Written procedures are created, to enable the work to be carried out in the absence of the Environment Supervisor giving business continuity for all key control areas within his remit. - Actions taken following the random inspection are noted and dated on the inspection paperwork. - The selection process for the plant supplier for 2010/11 is via the Authority's tender process. - Worksheets are all signed off following inspection of the work carried out by the appropriate team leader. - Only workers from the relevant contracted agency are used by the authority. - Regular monitoring of income including debit/credit card payments is undertaken. Regular reviews of the holding account are performed. A manager signs the income analysis sheet after checking the total receipts are correct. 	Y Y Y Y Y Y Y

Community Safety	A Local Community Safety Partnership comprising all statutory bodies has been established to promote a strategic and coordinated approach to reduce crime and disorder. Robust reporting channels are in place to provide sufficient and relevant information in a timely manner to enable the partnerships activities to be monitored effectively. Annual strategic assessments are undertaken to inform the partnerships Crime, Disorder and Misuse Strategy. There is effective consultation with the public to ensure that the views of the community are used to inform strategic objectives. Effective arrangements are in place to communicate partnership work to the community. Effective arrangements are in place to manage performance to ensure partnership objectives are achieved. Operational activities are driven by partnership priorities. Service delivery is undertaken in the most efficient and effective manner.	<ul style="list-style-type: none"> - Quarterly monitoring returns should be completed. - The partnership should personalise and formally adapt the regional information sharing protocol template. The protocol should then be reviewed annually to ensure that it remains appropriate. - Data should be retained in a manner that enables the accuracy of analysis to be validated. - Standard annual action plans should be developed and used by all task groups. Such plans should include: <ul style="list-style-type: none"> • Actions / milestones which are consistent with HCSP Strategic Plan Objectives / priorities; • timescales for completion of actions; • Assignment of responsibilities; • definition of monitoring arrangements; • monitoring arrangements; • Resources required (including financial resources where appropriate). - Data quality milestone defined by Hartlepool Borough Council's Data Quality Policy and monitored by Corporate Strategy should be implemented on Covellant for all National Indicators. - Partners should be reminded of the importance of attending meetings. - The Anti-Social Behaviour Unit should undertake benchmarking exercises in order to compare the effective use of resources and identify potential areas of improvement with similar organisations. - Training records should be maintained for all members of staff. 	Y Y Y Y Y Y Y Y
Manor College	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - A register of business interests (including 'nil' returns should be maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually. - The Governing Body should classify its information assets (both electronic and paper based information) and agree a publication scheme (see model publication schemes) and access policy in accordance with the Freedom of Information Act. - Cheque signatories who leave the employment of the school should be removed from the bank mandate immediately. - Staff should be subject to appropriate 	Y Y Y Y

		<p>checks as well as periodic reviews being undertaken every three years of all posts to ensure up to date CRB clearances are in place.</p> <p>- CRB clearance should be obtained for all members of the Governing Body. Periodic reviews should be undertaken every three years of all governors to obtain up to date CRB clearance.</p> <p>- Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines.</p> <p>- The school should carry out a benchmarking exercise for this financial year using the DCSF Teachernet benchmarking website to evaluate performance against similar schools.</p> <p>- A formal review of the school staffing structure should be undertaken periodically (at least 2 yearly) with any changes to the structure approved by Governors.</p> <p>- A self evaluation of staff financial management competencies should be carried out by the Headteacher and Business Manager, using DCSF competency grids. Such staff should be given the opportunity to attend financial management training course, particularly to address any gaps in their competencies and records maintained of any training provided.</p> <p>- Copy of budget reports which are submitted to Governing Body meetings should be retained with all meeting documentation.</p> <p>- The Governing Body should undertake a review of the school's control environment and prepare/sign a Statement on Internal control which reflects the guidance issued by DCSF. Any material weakness in the control environment of the school should be reflected in the wording of the SIC.</p> <p>- Contract Procedure Rules should be followed when acquiring goods/services in excess of £5,000. Records of contract evaluation and decision to award should be signed by officers involved in the process, retained and the decision reported to the Governing Body. The Governing Body should evaluate tender/quotation documentation for works in excess of</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<p>those stated in Contract Procedure Rules.</p> <p>The school should seek the advice of the payments unit for payment of construction invoices where the labour and transport elements exceed £1,000 to ensure that it does not breach the Inland Revenue's Construction Industry Scheme.</p> <p>Relevant CIS and Public Liability Insurance documentation is made available for the auditor at the audit follow up.</p> <p>- Risk management should be embedded into the schools processes. This can be achieved by:</p> <p>Establishing a risk management group should to co-ordinate the school's risk management activities;</p> <p>providing appropriate training in risk management to the group;</p> <p>Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the schools priorities.</p> <p>The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control.</p> <p>- Private Fund records should be reconciled with each bank statement received.</p> <p>- Personal cheques are not cashed using the school's private fund.</p> <p>- Annual accounts should be presented to the Governing Body as soon as possible following the close of the relevant financial period.</p> <p>- As S2.1 of FMSiS requires up to date evaluations to be in place an annual review of governor competencies is undertaken as they can change as governors gain experience, change roles in their private work, undertake training etc.</p> <p>- Timesheets for family members should be signed for by the Headteacher to alleviate any possible conflict of interests.</p> <p>- The auditor is provided Income records relating to hall hire, swimming pool and Greatham Bus etc to complete testing and that amounts collected agree with the use of facilities and no debts have arose.</p> <p>- Having sent out the letter, the school should monitor and follow up non-</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<p>returns to ensure that parent agreement for pupil use of school internet resources has been received. This will be reviewed at the follow up audit.</p> <ul style="list-style-type: none"> - Testing of back ups taken is performed on a regular basis. - That all recruitment information relating to previous staff vacancies is made available for the audit follow up. This includes all posts relating to teaching and non teaching staff and all candidates both successful and unsuccessful. - The school addresses any high priority findings following their Health & Safety inspection. - Staff mileage should be claimed via the corporate payroll mileage claim system. The school should also obtain evidence that staff have business use insurance cover. - The Governing body should ratify the LEA's Financial Regulations which should be reviewed on a regular basis (at least two yearly) as required by S4.1 of FMSiS. - Purchase Orders should be raised prior to receipt of goods and services with a few limited exception. - In order to demonstrate Best Value in the provision of its services, the School should identify areas to review the economic, efficient and effective use of resources, document these areas in a best value statement and submit this statement to the LEA on an annual basis. - An inventory check should be undertaken on an annual basis. The person undertaking the inventory check should be independent of the day to maintenance of the inventory and should sign and date the inventory with the school's asset registers amended to reflect any disposals that have been made. - The school should develop detailed local procedures for the finance function and ensure that they are approved by the Governing Body. The school can use the pro-forma provided by internal audit for this purpose. - All staff with access to IT systems should complete a data protection form of undertaking. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
St Hilda's Secondary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - Records should be maintained by the school of all software loaded onto desktop machines/laptops etc. Regular software audits should be 	Y

		<p>undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines.</p> <p>- The school should prepare the current year's Statement of Internal Control using the current internal audit report and any other assessment of the risk/ control position of the school that may have been undertaken. The Statement should be dated 31 March 2010 and signed by all relevant parties.</p> <p>- Back ups should be tested to ensure data and software can be restored in the event of failure/disaster. Records should be maintained of such testing. Internal audit will seek the advice of Schools ICT section on how such arrangements can be established within the school.</p> <p>- School recruitment is reviewed by the auditor as part of the follow up audit</p> <p>- Training records for staff with a financial role will be reviewed as part of the follow up review.</p> <p>- AS the annual income of the private fund exceeds £5,000 the school should consider registering the fund as a charity with the Charity Commissioner.</p> <p>- Periodic reviews should be undertaken every three years of all posts to obtain up to date CRB clearance.</p> <p>- Contract Procedure Rules should be followed when acquiring goods/services in excess of £5,000. The school should retain evidence that they have achieved best value and followed Contract Procedure Rules, if the equipment is specialist they may consider asking the Governing Body to waive Contract Procedure Rules in these instances.</p> <p>- That the school considers any appropriate steps needed to protect its interests.</p> <p>- The school addresses any high priority findings following their Health & Safety inspection.</p> <p>- Having sent out the newsletter, the school should monitor and follow up non-returns to ensure that parent agreement for pupil use of school internet resources has been received. This will be reviewed at the follow up audit.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<ul style="list-style-type: none"> - Annual reconciliation between inventory records and equipment should be undertaken by a person independent of the day to day maintenance of the inventory who should sign and date the inventory. - Staff mileage should be claimed via the corporate payroll mileage claim system. The school should also obtain evidence that staff have business use insurance cover. - Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending. - The Governing Body should formally adopt a scale of charges which should be reviewed on an annual basis. Sales invoices raised by the school should reflect the scale of charges breakdown. - The school profile containing all relevant information about the school should be in place. - A review of the school development plan will be undertaken at the time of the follow up audit. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Dyke House Secondary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - A register of business interests (including 'nil' returns) should be maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually. - Risk management should be embedded into the schools processes. This can be achieved by: <ul style="list-style-type: none"> □ Establishing a risk management group should to co-ordinate the school's risk management activities; □ providing appropriate training in risk management to the group; □ Undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the schools priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control. - The medium term budget will be reviewed as part of the follow up review. - Regular reviews (annual) should be undertaken of the school catering function in consultation with Durham County Council advisory service, with 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		<p>results reported to Governors. Such reports should consider:</p> <ul style="list-style-type: none"> <input type="checkbox"/> nutritional content; <input type="checkbox"/> standards of hygiene; <input type="checkbox"/> financial performance etc. <p>- Contract Procedure Rules should be followed when acquiring goods / services in excess of £5,000.00</p> <p>- Inventory records not reviewed and will be reviewed as part of the follow up audit.</p> <p>- Private fund records were not available and will be reviewed as part of the follow up audit.</p> <p>- The Governing Body should undertake a review of the schools risk / control environment and prepare a Statement on Internal Control based upon the guidance issued by DCSF for the financial year 1st April 2008 to 31st March 2009. Any material weaknesses identified in the school's risk / control environment should be included in the statement. Such a review should be undertaken on an annual basis and a copy of the Statement of Internal Control and supporting documentation should be provided to Internal audit. The school can use this year's internal audit review as a basis for preparing the 2009/10 statement.</p> <p>- As well as identifying individual training needs, Members of the Governing Body (and in particular those with a financial role) should evaluate their strengths in order that the school may utilise these competencies. Competency grids provided by the DCSF can be used for this purpose.</p> <p>- The School profile published on the direct.gov website should be up to date in order that parents can access all relevant information about the school.</p> <p>- Categories included in benchmarking analysis should be extended to cover other relevant areas, in particular those relating to staffing costs.</p> <p>- The Governing Body should ratify the LEA's Financial Regulations which should be reviewed on a regular basis (at least two yearly).</p> <p>- The school should develop detailed local procedures for the finance function and ensure that they are approved by the Governing Body. The school may utilise the pro-forma provided by internal audit and adapt it to meet the particular circumstances of the school.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
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		<ul style="list-style-type: none"> - A self evaluation of staff financial management competencies should be carried out by the Headteacher and School Secretary. For staff with financial management responsibilities ensure that their performance management targets include relevant financial management targets. Such staff should be given the opportunity to attend financial management training courses particularly to address any gaps in their competences. - Arrangements for completing and verifying the accuracy of timesheets were not reviewed and will be reviewed as part of the follow up review. 	Y Y
English Martyrs Secondary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - The current years Statement of Internal Control should now be prepared upon receipt of this Internal Audit Report and any other assessment of the risk / control position of the school that may have been undertaken. - The auditor will carry out a reconciliation of salary costs as part of the follow up audit. - All items of equipment costing in excess of £500 or of a portable and attractive nature should be recorded in the inventory record. An annual stock check should be undertaken on an annual basis by a person who is independent of the day to day maintenance of the inventory, who should then sign and date the record to provide evidence of such checks. Staff who take portable assets from the premises should be required to signed them out and in on their return. - Risk management should be embedded into the schools processes. This can be achieved by: <ul style="list-style-type: none"> <input type="checkbox"/> establishing a risk management group should to co-ordinate the school's risk management activities; <input type="checkbox"/> providing appropriate training in risk management to the group; <input type="checkbox"/> undertaking risk assessments of all school activities to identify, evaluate and treat risks to the achievement of the schools priorities. The school may utilise the risk management software provided by internal audit in order to carry out annual reviews of the school's risk position and inform the preparation of the school's Statement of Internal Control. - Back ups should be tested to ensure data and software can be restored in 	Y Y Y Y

		<p>the event of failure/disaster. Records should be maintained of such testing. Internal audit will seek the advice of Schools ICT section on how such arrangements can be established within the school.</p> <ul style="list-style-type: none"> - The school should consider reducing the number of accounts to one current account and one high interest account. - The private fund should only be used for the purposes defined in its agreed constitution. If the purpose of the fund needs to be amended, the Governing Body should consider amending the constitution as appropriate. - Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the schools financial system to prevent overspending. - A review of the school development plan and associated monitoring activities will be undertaken as part of the follow up review. - Income records should be of sufficient detail to enable income collected, bankings, and transactions inputs onto SIMS to be recorded. Two members of staff should be involved in the collection and counting of vending machine income. The income record should be signed by the two members of staff to verify that the amount collected agrees to the amount banked. - Recruitment and selection procedures will be reviewed as part of the follow up audit. - The school should develop detailed local procedures for the finance function and ensure that they are approved by the Governing Body. It may adapt the pro-forma provided by internal audit for this purpose. - All staff with access to IT systems and children's records should complete a data protection form of undertaking. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Procurement	The procurement strategy / policy /procedures are communicated and training has been provided. Procedures ensure there is adequate monitoring and evaluations are regularly undertaken to ensure compliance with the procurement procedures and policies. Arrangements are in place to produce and update an approved list of suppliers. PI Information is collected, stored and submitted promptly.	<ul style="list-style-type: none"> - Date of revised policies should be added to document. - Performance Indicators should be put in place through out procurement. Performance Indicators can analysis the process made towards contracts in place and long-term goals for the council. - Centralised contracts should be reviewed as part of the follow up audit. - Procurement training should be rolled out to all departments. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

VAT	VAT policies and procedures comply with legislation. Adequate written procedures exist for the administration of VAT. Roles and responsibilities have been identified and allocated to the appropriate persons and training has been provided. VAT for non business activities has been correctly accounted for in accordance with HMCE guidance and requirements. Adequate procedures are in place for calculating de minimis for the Authority's exempt or partially exempt activities. All input/output VAT is identified. Control accounts are operated to ensure the completeness and accuracy of records. VAT returns are prepared and submitted promptly. Are reconciled to the VAT control on a regular basis and signed by an appropriate officer. Errors regarding the collection of income amounting to £2,000 or more are notified to HM Revenues & Customs are correct. Annual reconciliations are undertaken between Control Accounts and the ledger to ensure that VAT is correctly recorded in the final accounts. A valid VAT certificate is in place. Documents are retained for the required period of time.	- Procedure notes relating to the completion of VAT Returns are updated and made available to all relevant staff.	Y
Officers Expenses	Comprehensive and up to date procedures exist for the processing and approval of claims. All procedures are accessible and understood by all staff who have input or authorisation duties. Documentation is retained as required for tax and vat purposes. All amounts due for reimbursement have been formally approved by Members. Financial limits on expense types are built into the system. All claims and allowances are paid where there is a clear entitlement. Claims are paid promptly and correctly. Access to system parameters is secure and available only to those staff who are required to amend standing data. Departmentally there is adequate separation of duties between those who input forms	- The scheme is updated to reflect the process of submitting claims and what documentation needs to be seen and retained. - The system owner issues guidance for occasions where claims are being paid outside of laid down procedures. The guidance should include time limits, reviewing payments and sufficient authorisation requirements. - Receipts must be provided for all claims were reasonable. System parameters should prompt officers to verify sight of receipts. - A more formal mechanism for informing Integra Support of rate changes is devised and implemented. For example, a member of staff in Integra Support could receive an email to advise that new rates are available. The notification of rates changes should be retained and could be annotated with update and checking evidence. All updates should be	Y Y Y Y

	and those who authorise claims.	logged and signed and dated by the inputter and the checker. All update information to be retained for future reference.	
Benefits	Administration of the service ensures that arrangements in place are performed in accordance with legislation in the most efficient and effective manner. Effective separation of duties ensures that all information received to support benefit claims are promptly verified, processed and held in a secure manner. Claims are promptly and accurately processed in line with legislation and internal procedures. Disputes are managed effectively. Overpayments of benefit are identified promptly and correctly recorded. Effective arrangements are in place to recover overpayments. Write offs are valid and appropriately authorised. Arrangements for administering Discretionary Housing Payments are transparent and fair. Effective monitoring of cash limit ensures that assistance is available to all persons who need it. Payments are accurate, timely and secure. All potential frauds are promptly identified and investigated independently of the assessment section. Procedures in place ensure that fraud investigations are in accordance with legislation and HBC Anti Fraud and Corruption Policy. The Subsidy Claim is subject to external validation and submitted within prescribed deadlines. The performance of the service is effectively managed and reported.	<ul style="list-style-type: none"> - Amendments to claims should be processed within 13 days of notification. All amendments should be supported by evidence on Iclipse to enable validation. - Performance data should be input onto Covellant for the services Performance Indicators. Data Quality milestones defined by Corporate Strategy should be implemented for all National Indicators. - Regular reviews of users should be undertaken to ensure that access responsibilities continue to be appropriate. Users no longer employed by the Council should have their access removed immediately. - Formal structured arrangements should be established to monitor staff performance. This should include documented reviews of quality of output and time spent on investigative activities. - Reconciliation of overpayments written off on iWorld should be undertaken with those authorised for write off. - A review of special privilege access rights should be undertaken and such rights given only to those staff that require them in order to perform their roles. Such access rights should be kept to a minimum and be based upon an assessment of need and not position of authority. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Appendix B

Audit	Objectives
Individual School Budgets	That there are arrangements in place which ensure that changes to legislation are received and promptly actioned. That the processes in place allow for the indicative budget allocations to be determined and notified to the Governing Bodies prior to 31 st March. That there are processes in place for adjustments to school budgets to be made where required. Pupil Numbers are recorded accurately using the correct date. The arrangements in place for calculating the actual amounts for the ISBs provide assurance that the calculations are accurate. Procedures ensure that appropriate and effective consultations are carried out as determined by legislation i.e. use of the Schools Forum. Following year indicative calculations are calculated and notified to the Governing Body. Central expenditure is accurately calculated in line with the formula set with any changes that require School Forum authorisation being clearly documented. Actual funding received should equal in total that which has been allocated. Balances brought forward/ School reserves should also be accounted for and also any drawbacks.
Fraud Awareness	To evaluate the awareness of fraud across the Authority considering the following areas: Newline, Management Matters, Payslips, Article in Hartbeat, Council Tax Leaflet and Trading Standards. Identify any gaps. Complete the 'Managing the Risk of Fraud' checklists covering: Adopting the Right Strategy, Accurately Identifying the Risks, Creating and Maintaining a Strong Structure, Taking Action to Tackle the Problem, Defining Success. Examine Corporate Risk Register re: Risk of Fraud.
Risk Management	Ensure risk management procedures are in line with expected best practice.
Middleton Grange Shopping Centre	The roles and responsibilities of the two parties are clearly defined and communicated to each other. The budget is effectively managed. All income due to the Council is received promptly and accurately in accordance with the terms and conditions of the contract. Data is securely held.
Housing Market Renewal	Strategies and policies in relation to Housing Market Renewal are consistent with HBC Corporate Aims and Objectives and these are reviewed at regular intervals to ensure that they remain consistent. An assessment of financing required to achieve aims and objectives is carried out. Budgets are monitored on a regular basis to ensure that the funding is being spent within the time limits set and on the areas allowed by the funding agreement. Specific outcomes are developed which are consistent with the strategy and are used to measure achievement of key objectives. Terms and conditions of funding received are evaluated and systems put in place to ensure that they are actioned. Procedure/guidance notes are in place which would enable someone not involved in the process to establish what the key stages are. Risks, outcomes, PIs and post project review are in place for each individual project. Staff are protected from allegations of fraudulent activity by ensuring that robust procedures are in place which ensure compliance with Contract Procedures Rules and Financial Procedure Rules when procuring goods / services, appointing developers and determining areas for development. Payments are correctly made. The development meets the needs of the strategy.
Employee Protection Register	An approved Policy is in place which sets out the Council's position towards violence and aggression towards employees and determines the arrangements for maintaining and utilising a Corporate Employee Protection register. A Corporate Employee Protection Register is in place to provide a single source of reference for those employees who need information to reduce the risk of violence and aggression towards them. Effective arrangements are in place to maintain the register to ensure that all data held is valid, and held in accordance with Data Protection legislation. Effective arrangements are in place to ensure that all staff at risk of violence and aggression are aware of information held. Data held is maintained in a manner to minimise risks to employees. A formal information sharing protocol is in place to ensure that the Council meets its H&S responsibilities for partner agencies and their staff.

Fuel Management	Fuel ordered should be authorised by an appropriate member of staff. Checks are made to the order/delivery and payment quantity to ensure correct. The systems in place for issuing fuel are adequate and secure. Fuel consumption is monitored. Storage of fuel keys and fuel is secure. Procedures are in place to ensure the correct charges are made for fuel usage.
Landlines/ Mobiles	Robust contract is in place between HBC and Northgate and that this is regularly monitored. Telephones are used in accordance with policies in place. Purchases are in line with contracts/ financial procedure rules.
Capital Programme	Ensure that there is a strategic approach to allocating capital resources which links to the Authority's overall aims and objectives. Determine and evaluate the methods in place for prioritising schemes/projects. Examine the arrangements in place for obtaining financing for the capital programme to ensure that all agreements entered into are appropriately authorised. Evaluate the processes in place for allocating and monitoring funding made available for specific projects/schemes. Ensure that there are robust processes in place for monitoring spend against the capital programme and reporting on any issues arising.
Capital Accounting	Examine and evaluate the adequacy of controls in place to ensure the accuracy, validity and completeness of the asset register and accounting records.
SIMS School System	There are effective procedures in place for the SIM's system. Children's Services, Accountancy and Schools are all fully aware of their responsibilities surrounding the SIM's System. There are comprehensive arrangements in place for effective budget setting in SIM's & INTEGRA. Effective arrangements in place surrounding import files and coding within SIM's. Regular reconciliations are carried out between SIM's and Integra. Effective arrangements in place for posting of Income. Effective personnel arrangement in place at schools. Effective security arrangements are in place.
Pupil Support/ Admissions	The council is complying with statutory regulations. The council have a competent 'Admissions Forum' set in the guidelines of the DCFS's 'Code of Admissions'. Adequate procedures and policies are in place for the School Admission Service in line with DCSF Guidance. Appeals are dealt with according to the DCSF 'Appeals Code'. Ensure relevant information, data, documentation and IT facilities are held securely. Procedures ensure staff responsible for PIs are aware of the timescale and deadlines for producing, reporting and publishing PIs.
Cash / Bank	Secure arrangements exist for collection and recording of cash. Cash collection and direct bank credits are correctly brought to account. All collections are promptly banked. All collections are promptly and accurately posted to debtors' or income accounts. A management trail exists.
Direct Payments	To ensure all payments made are done so in a controlled way ensuring compliance with good practice and legislation.
Budgetary Control	The roles and responsibilities for key officers and budget holders are clearly defined and those staff have received adequate budget training. Budgets are set in accordance with pre-determined approved policy objectives. The budget setting process is supported by a risk management framework. Documentary evidence supports the make up of the budget. Budgets are prepared promptly in line with the annual budget process and timetable. All relevant records are correctly up dated with the budget set and approved. Working papers adequately support the budget loaded into the ledger. Budgets set are reported annually to the managing body prior to implementation. Budget amendments of a significant nature are reported to and approved by the managing body. Budgets are properly controlled through effective monitoring arrangements in accordance with Financial Procedure Rules. There is an established financial risk management process to determine the level of reserves.

National Non Domestic Rates	Adequate controls have been established to protect information and data from unauthorised access. Procedures ensure that information and data are protected from loss or damage. The valuations process is actioned in accordance with legislation and regulations. Notifications to and schedules from the Valuation Office are actioned promptly and correctly. Property records indicate the rateable value (RV) of the property. The liability process is actioned in accordance with legislation and regulations. Liabilities are correctly calculated and the correct liable party is informed of the amount due. All reliefs are correctly calculated and awarded with adequate supporting documentation retained. Adequate and appropriate reviews take place to ensure that the correct liability has been awarded. Billing is completed as per legislation and regulations. Billing parameters are maintained correctly and securely. Billing suspensions are controlled. Reconciliations of billing are performed and discrepancies investigated. Procedures ensure that transactions are carried out in accordance with legislation and financial regulations. Controls ensure that all payment and refund transactions are recorded in the accounts. Regular reconciliations are undertaken. Systems have been established to monitor performance. Items posted to suspense are regularly reviewed and cleared promptly. Procedures ensure there is adequate separation of duties. A recovery strategy has been established, is adhered to and this is monitored. Controls ensure all actions comply with legislation and write-offs are bona fide.
High Tunstall Secondary	Ensure school financial and governance arrangements are in line with best practice.
Tall Ships	To provide constructive advice to ensure effective and efficient processes are in place relating to income, parking permits and staffing issues relating to the Tall Ships Event weekend.
Creditors	The Council's Constitution and Financial Procedure Rules documents responsibilities for the creditors function. Detailed procedure notes are in place that covers all aspects of the function. Creditor accounts established are valid and appropriately authorised. All orders for goods and services are in accordance with HBC financial regulations, have supporting documentation, are accurate, complete, within budget and appropriately authorised. Goods received are legitimate, promptly recorded, identified as belonging to HBC, and safeguarded from loss/harm. Invoice certification procedures ensure that payments are only made for goods and services received. Effective controls ensure that all payments are made in a timely manner, are authorised, complete, accurate and not previously processed. Cheques/stationery are securely controlled as blanks and when completed. A management trail exists.
Members Allowances	Payments are in accordance with the appropriate regulations, are only to be paid in respect of approved duties and there is evidence to support any claims. All relevant records are updated to record the claim. All claim forms are completed properly. Any allowances are paid in accordance with the rates issued by the Department of Transport, Environment and the regions. All claims are completed and submitted promptly. Allowances which are paid via invoice are checked to ensure that the duties claimed for are on the approved list and that the member attended. Data is held securely and in line with the authority's policies and the Data Protection Act.
Council Tax	All taxable properties are identified, assessed and recorded and these records are accurately maintained. All persons liable for council tax and all discounts, exemptions, benefits and other allowances have been identified and correctly recorded. Amounts due in respect of each taxable property have been correctly calculated and promptly demanded from the person(s) liable. Secure and efficient arrangements exist for all collections, which are promptly posted to the correct taxpayers' accounts. All refunds are authorised and valid. The billing authority complies with all statutory requirements for tax setting and the keeping of accounts.

Debtors	Examine and evaluate the systems and procedures in place to administer Sundry Debtors Income to ensure that errors and omissions are minimised. The responsibility for raising sundry debtor accounts is clearly defined. The debtors system is operated with due regard to economy and effectiveness. Administrative procedures ensure that debtor's accounts are dispatched promptly and are followed up when no payment has been received. All write-offs of amounts due from debtors are properly authorised. Debtors payments received are processed promptly and are correctly posted to the debtors accounts. Correct recording of outstanding sums due in the annual accounts. Financial procedures and corporate policies in relation to raising debtor's invoices are being adhered to.
Nursing and Residential Accommodation Charges	To ensure that financial assessments are carried out for all qualifying service users in a consistent manner. Contributions due from service users are calculated correctly and received. Payments are correct and in accordance with statutory requirements. Deferred payment schemes are awarded to eligible people, are sufficient to cover the cost of care, agreed in writing and payments recovered.
Salaries and Wages	To ensure that data is only processed where authorised post exists. Salary & related expenditure are incurred only in respect of authorised staff and in accordance with employees' contracts of service. Prior to employees leaving all relevant sections and units are notified. All statutory and non statutory deductions are promptly actioned and authorised. Amendments to employees' personal information is only amended by the person when authorised to do so. Adequate security controls have been established to protect information and data from unauthorised access. Regular independent checks and reconciliations are undertaken to ensure that the payroll system is correct and bona fide. All employees receive in full amounts to which they are entitled for each pay period. Payments are correctly calculated and properly authorised. All expected output is produced, appears reasonable and is distributed on time with confidentiality being maintained. The application has appropriate security features activated to discourage and prevent unauthorised people accessing the system. All system users are aware of their responsibilities in relation to application security and access rights are appropriately administered. Transactions are appropriate, valid, authorised and timely. Data Processing routines ensure that the data is complete, accurate, processed only once, timely and secure. Changes to parameter data are effectively controlled. Output is accurate and secure. Arrangements have been put in place to provide system backups and system continuity. An effective audit trail is in place which allows for transactions to be fully traceable.
Childrens Trust	To ensure that there are arrangements in place for legislation to be complied with and best practise guidance to be considered in relation to the requirements of the Childrens Trust.
CRB	To review the arrangements in place across the Council for setting appropriate policy which requires applicants to be subject to appropriate level of clearance dependent upon the nature of the post; ensuring that such policy is in accordance with legislation and any best practice available; reviewing procedures to ensure compliance with Council Policy. Reviewing the procedures for maintaining up to date registration details, the accurate completion of applications, appropriate checks on identity, the secure handling, processing and storage of disclosures and dealing with returned disclosures in a manner that complies with legislative and regulatory requirements.
Childrens Fund	To ensure that there are arrangements in place for legislation to be complied with and best practise guidance to be considered in relation to the requirements of the Childrens Fund.
Computer Audit	Ensure adequate controls over the use and security of emails and the internet are in place.
Supporting People	Provide assurance that risk is being managed at an acceptable level by reviewing the arrangements in place for delivering the Supporting People Programme.
Sustainability	Ensure the Council takes into account sustainability issues when carry out its functions.

Governor Support	<p>The Audit objectives were to ensure that:</p> <p>The LA is complying with its legislative obligations in relation to the governance arrangements in schools. There are effective clerking arrangements in place for administering the Governing Body meetings and that these ensure that legislative requirements are adhered to. Governors are correctly appointed. Governors are provided with appropriate training and opportunities to develop the skills required for the role both when initially appointed and on an ongoing basis. There are clear arrangements in place for providing schools with governor support services. Key areas within the service have relevant performance indicators in place to ensure that the service is being effectively delivered.</p>
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AUDIT COMMITTEE

16 March 2010



Report of: Head of Performance and Partnerships

Subject: DATA QUALITY

1. PURPOSE OF REPORT

- 1.1 To provide Members with a copy of the updated Data Quality Policy and inform them of the progress made to date to improve Data Quality arrangements.

2. BACKGROUND

- 2.1 The Audit Committee has been taking an active overview of data quality for the past 15 months. This is because data quality is an important issue for members because effective decision making relies on good quality data and information.
- 2.2 In addition key elements of the Comprehensive Area Assessment (CAA) rely on information provided as part of the National Indicator set and performance indicators identified as Improvement Targets, Local Priority Targets and Statutory education and early years targets in the Local Area Agreement (LAA). Data Quality is an essential part of the Council's Organisational Use of Resources Assessment that will be completed in 2010 by the Audit Commission. There is a requirement to 'produce relevant data and work with partners to secure data quality'. In performance management data quality now assumes a greater significance. This is because the introduction of successive performance measurement systems has increasingly underlined the need for reliable, consistent and comparable information, based on good quality data.
- 2.3 Reports to Audit Committee have included:
- 18 December 2008 – considered as part of the Audit Commission's Progress Report which reported that sample testing of five 2007/8 performance indicators found errors in three out of five indicators tested, highlighting room for improvement in data quality. In response the Council undertook various steps, including training from December 2008 for key officers involved in the compilation of performance indicators.

- 19 March 2009 - report was presented to provide Members with a copy of the Data Quality Policy and inform them of the progress made to date to improve Data Quality. During 2008/09 the Audit Commission completed a sample test on a new set of PIs and found that no amendments were required. This is a marked improvement on the previous year showing increased awareness of the important issue of data quality across all responsible officers and the council as a whole.
- 2.2 Most recently the Audit Committee considered data quality at their meeting on 8 December 2009 as part of the Audit Commission's Use of Resources progress report (Item 4.3). The Audit Commission's report made no recommendations relating to data quality.
- 2.3 To maintain Audit Committee awareness the Finance and Performance Portfolio agreed that members of the Audit Committee should receive the Data Quality Policy (see Appendix A of this report). A formal Data Quality Policy was first approved on 23 April 2007 and this is reviewed annually with appendix A including the 2009/10 update. The revised policy takes account of changes being made as a result of the Council's Business Transformation programme, ensuring that data quality responsibilities remain clear. Performance and Partnership team in Corporate Strategy within the Chief Executive's Department and the Finance and Performance Portfolio Holder have lead responsibility for data quality but it affects all departments and members as it is a key requirement for effective decision making.

3. DATA QUALITY DEVELOPMENTS FOR 2010/11

- 3.1 The Audit Commission are currently undertaking their use of resources work and are expected to complete sample testing on a number of performance indicators for 2009/10. The outcomes from this work will be considered later in the year. Progress continues to be made through:
- Continuing to utilise the Council's Performance management system (Covalent) as a tool to monitor Data Quality
 - Completing Phase 2 of the data quality process including ensuring that all PI's contained within the departmental plans have all necessary data quality information loaded into Covalent by March 2010 and Corporate Strategy to continue to do random samples of PIs within Covalent to ensure this is taking place,
 - Internal Audit testing of a sample of performance indicators
- 3.2 The revised Policy will be circulated to all officers with responsibilities and, where appropriate, briefings are being arranged. The Policy continues to refer to the responsibilities for the Finance and Performance Portfolio Holder as the lead councillor for performance management which includes data quality.

4. RECOMMENDATIONS

4.1 That the Audit Committee:

- i. Notes the updated Data Quality Policy for dissemination to responsible officers; and
- ii. Notes the progress being made to further embed Data Quality practice across the Council.

Appendix A

Hartlepool Borough Council

DATA QUALITY POLICY AND SUPPORTING INFORMATION

January

2010

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1. Introduction

The Council recognises the importance of using reliable data for performance management and service planning purposes (i.e. data which is relevant, accurate, timely and complete) and having appropriate procedures in place to ensure the reliability of performance information being used. Data quality is important because:

- Local public bodies such as the council and their partners require reliable and comprehensive data and information to enable them to manage their services effectively, to make strategic decisions about priorities and to be effectively held to account;
- The public as service users, tax payers and voters, need to have good quality data and information on which to base informed choices, whether it be where to send their children to school, which hospital to use or who to vote for.

Examples of why the policy is required include:

- The policy supports the overall aim of the council by making sure that accurate and trustworthy data are used in the decision making and planning processes.
- As the responsible local authority in Hartlepool's Local Area Agreement (LAA) accurate, trustworthy and timely data is essential to keeping performance on track.
- In part the Council's reputation is based on its Comprehensive Area Assessment (CAA) result determined by the Audit Commission (AC) and this depends greatly upon performance indicator data to decide the overall performance category of each authority.
- From 2005/6 the Audit Commission approach to the audit of performance information changed and they now form a judgement on the adequacy of the Council's arrangements to monitor the quality of its performance information, and to report the results to members rather than assess individual PIs. This judgement will form one of the criteria on which the annual use of resources/value for money conclusion will be based.

This policy supports the council's vision by making sure that accurate and trustworthy data is used in the decision-making, resource allocation and planning process. It will also provide clear guidance to relevant staff for putting in place appropriate controls and other mechanisms aimed at checking and validating data that is produced for performance management purposes.

2. Links to other policy areas

The policy is linked to and supports a number of other policies and processes. These are:

- Performance Management Framework – sets out the arrangements for service planning and management. The Assistant Chief Executive leads on the implementation of the framework through the Performance and Risk Management Group (PRMG).
- Information Security policies - the Council has a suite of Information Security policies to ensure that data resources are held securely and in accordance with all relevant legal requirements and has procedures in place to prevent misuse of personal data which apply to all information systems. The Information Security Group leads the implementation of these policies.
- Business Continuity Plans - All departments have prepared Business Continuity Plans.
- Risk Management Strategy – ensures risks to the achievement of council objectives are identified and controlled. The Performance and Risk Management Group leads the implementation of the strategy and oversees the completion of the Annual Governance Statement.
- Corporate Consultation Strategy – ensures the public and other interested parties can influence council policy and decisions. The Corporate Consultation Group leads on the implementation of the strategy and operates as an operational group of Customer Services Group.

3. Aims and objectives of the Data Quality Policy

The policy aims are:

- The Council is committed to achieving the six basic characteristics of good data quality as defined by the Audit Commission's standards for better data quality (see appendix 1 for more detail):
 - Accuracy
 - Validity
 - Reliability
 - Timeliness
 - Relevance
 - Completeness
- Meet external audit standards and requirements

While assurance about the quality of data can be obtained by testing the data itself, testing all data to obtain assurance is impractical and costly. Furthermore, the results of testing smaller samples can provide only a snapshot of the quality of a small amount of data at a specified point in time. Therefore the council will focus on improving arrangements to manage the collection and reporting data, rather than relying solely on data checks. This will satisfy its need for assurance about the quality of data and information about the services provided and will also help satisfy the council's stakeholders and regulators.

However it should be noted that it is not possible to apply a universal process covering the collection and collation of performance data as each measure is subject to its own method of counting. However, common framework and principles of accurate data collection and collation is applied in order to increase the level of confidence in the quality of performance data used.

Collecting performance information efficiently and effectively requires a balance to be struck between the need to maintain the data quality required the level of resources required to collect and use the data. The policy also looks at using the COUNT principle (Collect Once Use Numerous Times).

Within this context the Data Quality Policy objectives are:

- To ensure that where data is exchanged with other organisations appropriate protocols are in place;
- To ensure that the quality of data is regularly monitored and checked;
- To ensure that appropriate mechanisms are in place to keep relevant staff aware of the Council's data quality requirements and provide suitable training (see Appendix 5).
- To ensure that the COUNT principle is embedded across the council and into partners where ever possible

4. Policy Standards

The policy requires that:

- The Data Quality Policy and associated supporting information will be reviewed at least once a year and any changes required will be implemented
- A data quality action plan will be prepared and updated on an annual basis (see Appendix 3)
- A list of the officers and members with responsibility for the implementation of the Data Quality Policy will be kept up to date

- Key people/groups within the scope of the policy will be briefed and provided with relevant information
- A risk assessment of PIs will be conducted at least annually
- Internal testing of data quality arrangements will be completed at least annually
- Internal testing, based on risk, of partnership arrangements is undertaken as part , based including information and data sharing protocols
- National PI data submitted will be complete, on time and accurate
- The external audit will be facilitated and timely response made to recommendations
- The lead elected member for data quality will be kept informed of data quality issues as appropriate
- The Data Quality audit report will be reported to the Audit Committee

5. Scope of the policy

All council employees potentially play a role in ensuring data quality but it is recognised that certain individuals and groups are key to this process. These include:

- Corporate Management Team, Corporate Management Team Support Group and Departmental Management Teams (CMT/CMTSG/DMTs)
- Heads of service/service managers
- PI Co-ordinators (PICs)
- PI responsible officers (PIROs)

The responsibilities of these groups are set out in Appendix 2.

Members also play a role. The portfolio holder for Finance and Performance is the lead councillor for performance management which includes data quality and the remit includes data quality (see report to Performance Management Portfolio holder 21 December 2006). Other executive and scrutiny members are primarily consumers of performance information.

The Audit Committee considers the Use of Resources and Data Quality reports from the Audit Commission on an annual basis.

The policy is relevant to quantitative data used to monitor and report (both internally and externally) on the performance of council services including those delivered through partnerships and by contractors. This would include information gathered through surveys.

6. Appendices - Supporting information and guidance as at January 2010

APPENDIX 1 Key characteristics of data quality

Accuracy	Data should be sufficiently accurate for its intended purpose, representing clearly and in sufficient detail the interaction provided at the point of activity. Data should be captured only once, although it may have multiple uses (COUNT principle). Accuracy is most likely to be secured if data is captured as close to the point of activity as possible. Reported information that is based on accurate data provides a fair picture of performance and should enable informed decision making at all levels The need for accuracy must be balanced with the importance of the uses for the data, and the cost and effort of collection. For example, it may be appropriate to accept some degree of inaccuracy where timeliness is important. Where compromises have to be made on accuracy, the resulting limitations of the data should be clear to its users
Validity	Data should be recorded and used in compliance with relevant requirements, including the correct application of any rules or definitions. This will ensure consistency between periods and with similar organisations
Reliability	Data should reflect stable and consistent data collection processes across collection points and over time, whether using manual or computer-based systems, or a combination. Managers and stakeholders should be confident that progress towards performance targets reflects real changes rather than variations in data collection approaches or methods
Timeliness	Data should be captured as quickly as possible after the event or activity and must be available for the intended use within a reasonable time period. Data must be available quickly and frequently enough to support information needs and to influence the appropriate level of service or management decisions.
Relevance	Data captured should be relevant to the purpose for which it is used. This entails periodic review of requirements to reflect changing needs. It may be necessary to capture data at the point at which is relevant only for other purposes, rather than for the current intervention. Quality assurance and feedback processes are needed to ensure the quality of such data
Completeness	Data requirements should be clearly specified based on the information needs of the organisation and data collection processes matched to these requirements. Monitoring missing, incomplete or invalid records can provide an indication of data quality and can also point to problems in the recording of certain data items.

APPENDIX 2 Current responsibilities and procedures

Governance – leadership and implementation responsibilities

The portfolio holder for Finance and Performance Management is the lead councillor for performance management which includes data quality. At a member level the Finance and Performance Portfolio holder has responsibility and for ensuring data quality (see report to Performance Management Portfolio holder 21 December 2006).

The overall corporate responsibility in relation to data quality and performance management rests with the Assistant Chief Executive and the Performance and Partnership Team. The Corporate Management Team Support Group (CMT SG) supports the ACE in ensuring that the objectives of this Strategy are applied in their departments.

Day to day responsibility for corporate aspects of data quality and performance management is delegated to the Performance and Consultation Manager, who considers issues relating to performance and data quality and where necessary reports significant issues to the Head of Performance and Partnership and CMT Support Group.

Departments have day-to-day responsibility through their own management procedures for data quality and performance management within the departments and their own performance information.

Within departments responsibility rests with departmental management teams and service managers. Each department has appointed a PI Coordinator to oversee performance information management arrangements.

- Chief Executive's – Peter Turner (including Place Survey PIs), John Morton, Sandra Shears (cost PIs)
- Children and Adult Services – Trevor Smith
- Regeneration and Neighbourhoods – Steve Russell

Specific arrangements are in place for the calculation of cost PIs and Place Survey. Finance division have lead responsibility for the calculation of all cost PIs. Performance and Partnership Team have lead responsibility for the administration of the Place surveys which are carried out every 2 years. This includes submission of the data and dissemination of the information.

DMTs support PI coordinators in ensuring objectives of this Policy are applied in their departmental services.

Service managers are responsible for the complete, timely and accurate reporting of data in their area of activity including relevant national and local performance indicators (PIs). They are also responsible for ensuring that staff are aware of their responsibilities in this area and are provided with an appropriate level of training and guidance.

PI Responsible officers (Assignees in Covalent) are identified for each PI monitored corporately, including responsibility for data collection, data quality and target setting. We are working towards ensuring that all PIs are monitored with Covalent having all necessary up to date data quality information held within the system itself against each individual PI. Key PIs within the Corporate Plan and LAA have been through this process with all other PIs currently under review.

Actions, PIs and risks in relation to performance management are identified in the Chief Executive's Department Plan and where appropriate the Corporate Plan – see Outcome Improve Performance Management, Data Quality and Risk Management Arrangements. This encompasses arrangements for PI data quality, demonstrating the authority's commitment to ensuring robust but appropriate arrangements are in place. Progress is managed by the Head of Performance and Partnership and monitored by the Chief Executive's Management Team, the Finance and Performance Management Portfolio Holder and where appropriate Cabinet as part of quarterly reports on the Department and Corporate Plan. More detailed service plans and project plans are prepared where necessary.

Communications

Communication regarding data quality is primarily through the Performance and Risk Management Group via regular meetings and email and phone contacts. Arrangements are in place with the Head of Performance and Partnership to escalate any issues which may require it for consideration at Director/Assistant Director level. Ensuring an appropriate buy in to PI data quality at an operational level but also providing the opportunity to deal effectively and at a senior level with other issues should the need arise.

PI coordinators have responsibility for cascading information to PIROs and within their departments or divisions.

Procedures and controls

The corporate framework for monitoring data quality includes the following. Lead responsibility shown in bold.

- **Performance and Partnership Team** undertakes a risk analysis of all corporately reported PIs on an annual basis. This takes into account previous history of data quality issues, use of PI information (e.g. CAA, LPSA) and changes to definition/introduction of new PIs.
- **Internal Audit** are tasked annually with undertaking reviews of each selected PI and identifying control issues which are rated as High, Medium or Low (see Appendix 4 for list of testing objectives). Recommendations from Internal Audit are distributed to Performance and Partnership Team, service managers and PIROs.
- PI challenge prior to reporting. This includes the assessment of annual PI outturns and follow-up of queries. Examples of these quality checks have included robustness of base data, calculation methods compared to definition – **Departments/Performance and Partnership Team**

- Departments identify risks, control measures in place and planned control measures. These identified risks are then linked to appropriate actions and PIs for performance monitoring purposes. The relevant risk categories for data quality would include Information and technology, Contractors, partners or suppliers and Reputation - **Departments**
- Clear roles and responsibilities for Performance and Partnership Team, PI Coordinators and PI responsible officers (PIROs) in relation to PIs are established (see above). These have been communicated to all parties via data quality training sessions and via the Performance and Risk Management Group - **Performance and Partnership Team**
- **Departments** are required to ensure that all data quality fields within Covalent have been completed including procedure notes and definitions. This information is assessed as part of Internal Audit PI reviews to ensure that practice and data reflect procedures notes and definitions. Essentially what auditors want to see is all the relevant information brought together in one location and available to all relevant staff.
- **Performance and Partnership Team** organises and coordinates the annual PI collection process. This process is structured and completed using the Covalent system. All performance measures included in the corporate plan are subject to approval by the Assistant Chief Executive and Corporate Management Team.

Regular contact with PI coordinators is maintained through the Performance and Risk Management Group to identify issues and consider improvements as required. **Performance and Partnership Team**

- **Performance and Partnership Team** provide first line of support for collection and for the Covalent system. In addition support is also provided via Internal Audit and external support is occasionally sought from via external auditor and Audit Commission PI team.

Training of staff is the responsibility of the individual **departments** however Corporate training is provided on a regular basis where required. Where responsibility changes as a result of staff turnover or reorganisation then support would be provided as part of the usual induction, training and appraisal processes. It is expected that the data quality information held within Covalent would also allow for any new member of staff to complete PI reporting.

- **Corporate reporting of PIs** - PI information collected corporately is used and reported in a number of ways, following publication in the summer as part of the Council's Corporate Plan. – **Performance and Partnership Team**

July - report giving overview of improvement, targets met and comparison with Tees Valley neighbours and CPA and national quartile benchmarks. Report identifies potential improvement areas e.g. bottom quartile service areas/function. Report considered by CMTSG, Executive and Scrutiny.

January - report giving overview of improvement, targets met and comparison with Tees Valley neighbours and CPA and national quartile benchmarks (used latest national data when available). Report considered by CMTSG, Cabinet and Performance Management Portfolio Holder.

- **Departments** undertake further reporting as they require.

Roles and responsibilities

CMT/CMTSG/DMTs/service managers

- Provide support and show leadership to encourage use of performance information and importance of data quality

Departmental PI Coordinators

- Help implement Data Quality Policy within department
- Disseminate information to PIROs
- Quality control checks on PIs
- Internal departmental controls reviewed at least annually to ensure they are working effectively
- Co-operate with Internal Audit staff undertaking PI reviews
- Co-operate with Audit Commission auditor undertaking annual PI audit
- Follow up and monitor recommendations from Internal Audit and Audit Commission
- Liaise with Policy and Performance team e.g. attend PI Coordinator meetings

PI responsible Officers (PIROs)

- System in place along with appropriate control measures
- Use latest definition and guidance
- Maintain file(s) with all key information relating to a PI
- Feedback to staff
- Co-operate with Internal Audit staff on PI reviews
- Act on recommendations from Internal Audit PI reviews
- Co-operate with Audit Commission auditor undertaking annual PI audit
- Provide all appropriate working papers required for AC audit purposes

Performance and Partnership Team

- Distribute national PI guidance and definitions to PI coordinators
- Organise PI collection process for NIs and at year end
- Risk assess PIs - October each year
- Liaise with Internal Audit on completion of audit tests on selected PIs
- Quality control checks, raise queries with departments
- Submit PIs to Audit Commission and organise responses to queries
- Monitor action of high priority recommendations from Internal Audit
- Liaise with Audit Commission about on site PI audit
- Complete annual review of PI process and feedback to PI coordinators at end of AC audit
- Review Data Quality Policy

Internal Audit

- Undertake audit tests on selected PIs and report on control issues to service managers, PIROs, PI Coordinators and P&P team

APPENDIX 3 Objectives for Internal Audit's PI testing

On an annual basis, Performance and Partnership Team provides Internal Audit with a list of Performance Indicators (PIs) for review - PIs Sample. The PIs are selected for review based on a number of criteria, including: whether the PI is new, if the PI definition has been amended from previous years, where problems or errors have occurred in previous years.

The work program for the PIs Sample is produced in line with CiPFA's systems based auditing control matrices. In addition, Internal Audit also reviews the Performance Indicator and Data Quality process from a central perspective. The combination of this central process review and the results from the PI Sample review form the basis of the opinion on the control environment for the area of Performance Indicators.

The PI audit work program covers the following areas:

- awareness of the PI definitions, PI processes and data quality requirements;
- collection, storage and formulation of the PI result,;
- publication of results.

The objectives of the review are to ensure that:

- the system, policy and procedures are documented and readily accessible;
- Roles and responsibilities have been formally allocated, recorded and communicated, and training provided;
- Procedures ensure roles and skills requirements are identified and met;
- Procedures ensure staff responsible for PIs is aware of the timescale and deadlines for producing, reporting and publishing PIs;
- Procedures ensure that supporting information; data, reports, etc are produced and retained;
- Procedures ensure staff responsible for PIs has the current and correct definitions;
- Independent checks are undertaken to ensure PIs are produced and reported accurately;
- Policies and procedures have been established to ensure relevant information, data, documentation and IT facilities are held securely and are readily accessible by authorised persons;
- Procedures ensure staff responsible for PIs are aware of the timescale and deadlines for producing, reporting and publishing PIs.

APPENDIX 4 Data Quality training overview

Training is aimed at all officers who are assignees to PIs within Covalent. The briefing sessions cover:

- Background to Data Quality including the framework and why a policy is required
- Roles and Responsibilities
- Data Quality – an Internal Audit perspective
- Managing and reporting on Data Quality
- Practical workshop – using milestones within Covalent

Data Quality - Guidance on Completing Covalent milestones

The following table details the milestones, what is required within Covalent and where appropriate where the information should be recorded. The practical workshop covers this in detail.

	What is required		Covalent fields to be completed
1	PI definition and supporting guidance recorded	<p>Enter or upload PI definition to Covalent. If PI is an NI then definition should be on the system. Record “pre loaded” in [Data Quality – PI Definition field].</p> <p>Complete all supporting information. If PI is an NI then definition should be on the system. Record “pre loaded”. [Guidance – all fields]</p>	<p>[Data Quality (on PI sheet) – PI Definition field]</p> <p>[Guidance – all fields]</p>
2	Responsible staff recorded	Ensure that staff responsible are included on PI ownership and responsibility	
3	Statement of purpose recorded	<p>Enter statement explaining why is data is collected? Eg. Government return, service management</p> <p>[Data Quality – Rationale for PI field]</p>	[Data Quality (on PI sheet) – Rationale for PI field]
4	Other contributors recorded	<p>Enter list. Who provides data? Are their processes compliant?</p> <p>[Data Quality – Other organisations field]</p>	[Data Quality (on PI sheet) – Other organisations field]

	What is required		Covalent fields to be completed
5	Process documentation recorded	Enter or upload document explaining procedures for collecting and entering data. If upload document then enter “See uploaded document <name>” [Data Quality – PI Process field]	[Data Quality (on PI sheet) – PI Process field]
6	Data quality control procedures recorded	Enter or upload document(s) describing data quality controls. If upload document then enter “See uploaded document <name>” [Data Quality – PI Data quality controls field]	[Data Quality (on PI sheet) – PI Data quality controls field]
7	Data quality control results	Upload document(s) describing/authenticating results from data quality controls and any action required	
8	Raw data location	Upload data or document specifying location of data. Personal data not to be uploaded. [Data Quality – Location of Data field]	[Data Quality (on PI sheet) – Location of Data field]
9	Outturn recorded	Enter data on Data tab of Covalent	
10	Performance commentary recorded	Enter Note on PI screen.	
11	Targets recorded	Enter targets on system and commentary explaining rationale for targets [Data Quality – Commentary on targets field]	[Data Quality (on PI sheet) – Commentary on targets field]
12	Sign off by senior manager	Senior manager enters Note on PI screen and/or scanned document attached if manager non Covalent user.	