

AUDIT COMMITTEE AGENDA



Tuesday 18th April 2006

at 10.00am

in Committee Room C

MEMBERS: AUDIT COMMITTEE:

Councillors: Allison, Hall, Preece, R Waller 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 17th January 2006 (*attached*)

4. ITEMS FOR DISCUSSION/DECISION

4.1 Presentation Regarding the Statement of Internal Control (SIC) and the Role of the Audit Committee – *Chief Financial Officer*

4.2 Audit Commission review of Internal Audit - *Chief Financial Officer*

4.3 Internal Audit Plan 2006/06 Update - *Chief Internal Auditor*

5. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

17 January 2006

Present:

Councillor Gerard Hall (In the Chair)

Councillors Arthur Preece and Ray Waller.

Officers: Mike Ward, Chief Financial Officer
Noel Adamson, Group Auditor
David Cosgrove, Principal Democratic Services Officer

Also Present: Gill Gittings, District Audit Commission Audit Manager
John Stephenson, District Audit Commission

7. Apologies for Absence

Councillor Gerald Wistow.

8. Declarations of interest by members

None.

9. Confirmation of the minutes of the meeting held on 25 October 2005

Confirmed.

10. AUDIT COMMISSION IT REPORT AND ANNUAL AUDIT AND INSPECTION LETTER *(Chief Financial Officer)*

Purpose of report

Part of the remit of the Audit Committee is to receive and review all Audit Commission reports. The two most recently agreed Audit Commission reports were submitted for the Committee's information.

Issue(s) for consideration by the Committee

Copies of the Audit Commission's two most recent reports were submitted as appendices to the main report as follows:

Appendix A - Key Systems Controls,
Appendix B - Annual Audit and Inspection Letter 2004/05

Key Systems Controls

The review carried out by the Audit Commission concentrated on the following areas:

- Review and assess the operation of controls over the update of systems,
- Ascertain and evaluate the controls over the integrity of data,
- Review the controls over user access,
- Review the controls over backup and recovery for systems.

An IT specialist undertook the work for the Audit Commission and highlighted areas where improvements could be made. These related to:

- Disaster recovery arrangements,
- Password and access controls,
- Monitoring, reviewing and testing system security,
- Increased Internal Audit coverage of IT controls/security.

The District Audit Commission Audit Manager, Gill Gittings, highlighted in particular that while there were serious weaknesses on password and access control compared with the latest industry standards, once raised, they were quickly addressed. The Chief Financial Officer indicated that the software being used was some five years old and security systems had moved on considerably in that time. Mr Ward reassured members that notwithstanding the earlier point on passwords the overall controls on the system protected the Council from fraud and error to the extent that the District Auditor was able to place full reliance on the accounts for the Audit Judgement in the annual audit and inspection letter. In addition the new Financial Management System would further significantly improve the security issues raised.

The Chief Financial Officer accepted that while a number of areas for improvement had been made in the report, measures had been taken to address areas of concern highlighted. These included training for all Internal Audit staff, provided by the Audit Commission, which would enable a more comprehensive review of these areas to be undertaken internally in the future.

Annual Audit and Inspection Letter 2004/05

This report advised Members that under the new CPA assessment criteria the Council's performance had been judged as four-star (the highest rating). The report indicated that the Council's priorities were clearly defined and informed by effective community engagement.

The CPA judgement had been made using the revised methodology, "CPA – The Harder Test", which is a more stringent test with more emphasis placed on outcomes for local people and value for money. A direction of travel

judgement is now part of the test and measures how well the Council is improving. Under the new framework the Council is judged as improving well (the second highest rating).

Although the report is positive, there were some areas identified where action was needed by the Council:

1. Monitor the application of reserves and balances and periodically review levels of reserves to ensure that they are still required or sufficient for purpose; and
2. Ensure that the Council's internal control framework is mapped and evaluated in 2005/06 and that action plans to address identified weaknesses are implemented.

In relation to Point 1 - The Audit Commissions findings were based on the position applying at the 31st March 2005, as the Auditor is required to report on what the Council had done at that date and not what it intends to do in the future. Since that time a comprehensive review of the Council's reserves and balances has been completed by the Scrutiny Co-ordinating Committee (SCC) and SCC have issued a detailed report to Cabinet on their findings.

This report confirms that the majority of the Council's reserves are needed for the purpose identified. However, the report did identify three reserves, with a total value of £2.197m, which SCC recommended could be returned to the authority's General Fund Reserve.

In relation to Point 2 - The Audit Committee has been given the remit of raising awareness of internal control, reviewing controls and financial operations and developing an anti-fraud culture. The Committee will receive reports from Internal Audit that will allow the Committee to review both the internal control environment and the Statement of Internal Control for 2005/06, addressing weaknesses and ensuring corrective action is taken.

The District Audit Commission Audit Manager, Gill Gittings, highlighted that while some issues were raised in the report, Members should be reassured that this was a good report for the Council and that its four star status was a reflection of the high levels of public satisfaction for the services delivered.

Members raised concerns in relationship to managing risk; the future development of partnerships through the Local Area Agreements; and the way in which the school achievements were reflected. Mrs Gittings commented that through processes such as managing risk/disaster recovery and the development of LAA's, the Council needed to ensure clear auditable processes for reaching its decisions. The Council also needed to ensure that any partnerships had the ability to deliver what they intended.

The Chief Financial Officer reported that the report would also be submitted to the Scrutiny Coordinating Committee in the near future.

Decision

That the Audit Commission IT report and Annual Audit and Inspection Letter be noted.

11. INTERNAL AUDIT PLAN 2005/06 UPDATE (*Chief Internal Auditor*)

Purpose of report

The report informed Members of the progress made to date completing the internal audit plan for 2005/06.

Issue(s) for consideration by the Committee

In order to ensure that the Audit Committee met 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.

Appendix A of the report details the pieces of work that have been completed. Appendix B details the audits that were ongoing at the time of compiling the report. The work completed and currently ongoing is in line with expectations at this time of year, and it is anticipated that the fundamental systems currently in progress will be completed in order to fit in with the Audit Commissions programmed work.

Decision

That the report be noted.

12. INTERNAL AUDIT PLAN 2006/07 (*Chief Internal Auditor*)

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 2006/07.

Issue(s) for consideration by the Committee

Under the Accounts and Audit Regulations 2003, the Council is responsible for maintaining an adequate and effective system of internal audit of its accounting records and accounting control systems in accordance with proper internal audit practices. This responsibility has been delegated to the Chief Financial Officer.

To accord with the CIPFA Code of Practice 2003 and to assist in ensuring the objectives of Internal Audit are achieved, audit activity must be effectively planned to establish audit priorities and ensure the effective use of audit resources. Code of Practice criteria within Comprehensive Performance Assessment requires that there is an internal audit plan based on an

evidenced assessment of risk and that the plan is reported to Members.

Given available audit resources, all aspects of the Council's systems and arrangements could not be audited in one year. In recognition of this a five-year Strategic Audit Plan has been prepared using a risk model based on the model accredited by the Chartered Institute of Public Finance and Accountancy. The existing five year Strategic Plan has assisted in the production of the Annual Audit Plan for 2006/2007. Additionally, the audit plan has been tailored to add value to the Council following a process of discussion and consideration with Departmental Heads, of their current operational issues.

A total of 88 planned audits will form the basis of the mainstream Internal Audit Work for 2006/07. In addition, for 2006/07, 120 days of audit work will be provided to the Cleveland Fire Authority. Details were set out in Appendix A of the focus of coverage across the council.

Although Internal Audit and the Audit Commission carry out their work with different objectives, it is good professional practice that both parties should work closely together, which is a principle that the Council has always been committed to. The arrangements for ensuring effective joint working are formalised into a Joint Protocol Agreement, which ensured that the overall audit resources are most effectively focused and duplication was mitigated.

Members questioned if schools timed their audit inspections, or requested additional audits, in advance of Ofsted inspections. Members were informed that this was regularly the case.

Decision

That the 2006/2007 Internal Audit Plan be approved.

G. HALL

CHAIRMAN

AUDIT COMMITTEE REPORT

18th April 2006



Report of: Chief Financial Officer

Subject: PRESENTATION REGARDING THE STATEMENT ON INTERNAL CONTROL (SIC) AND THE ROLE OF THE AUDIT COMMITTEE

1. PURPOSE OF REPORT

To inform Members of the background to the development of the SIC and the role of the Audit Committee in reviewing it.

2. BACKGROUND

This report prepares Members in advance of a presentation by the Chief Financial Officer and Chief Internal Auditor, into the role of the Audit Committee in reviewing the SIC and the purpose and format of the statement. The presentation will broadly cover:

- The background to the SIC in Local Government,
- How the SIC will be prepared,
- The role of the Audit Committee in reviewing the SIC.

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

That members note the report and presentation.



Internal Audit Presentation to the Audit Committee

Internal Audit Presentation



Aims of presentation are to explain:

- **The Background to the Statement of Internal; Control (SIC).**
- **The role of the Audit Committee.**

Background to the SIC in Local Government



- CIPFA/SOLACE framework 2001
- SORP – SIFC 2002/03
- Accounts & Audit Regulations 2003 Reg 4

A body has responsibility for:

“ensuring that the **financial management of the body is adequate** and that the body has a **sound system of internal control** which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk”

“The relevant body shall **review** at least once a year the **effectiveness of its system of internal control** and shall include a **Statement on Internal Control**, prepared in accordance with proper practices” in its financial statements”

- CIPFA Guidance 2004

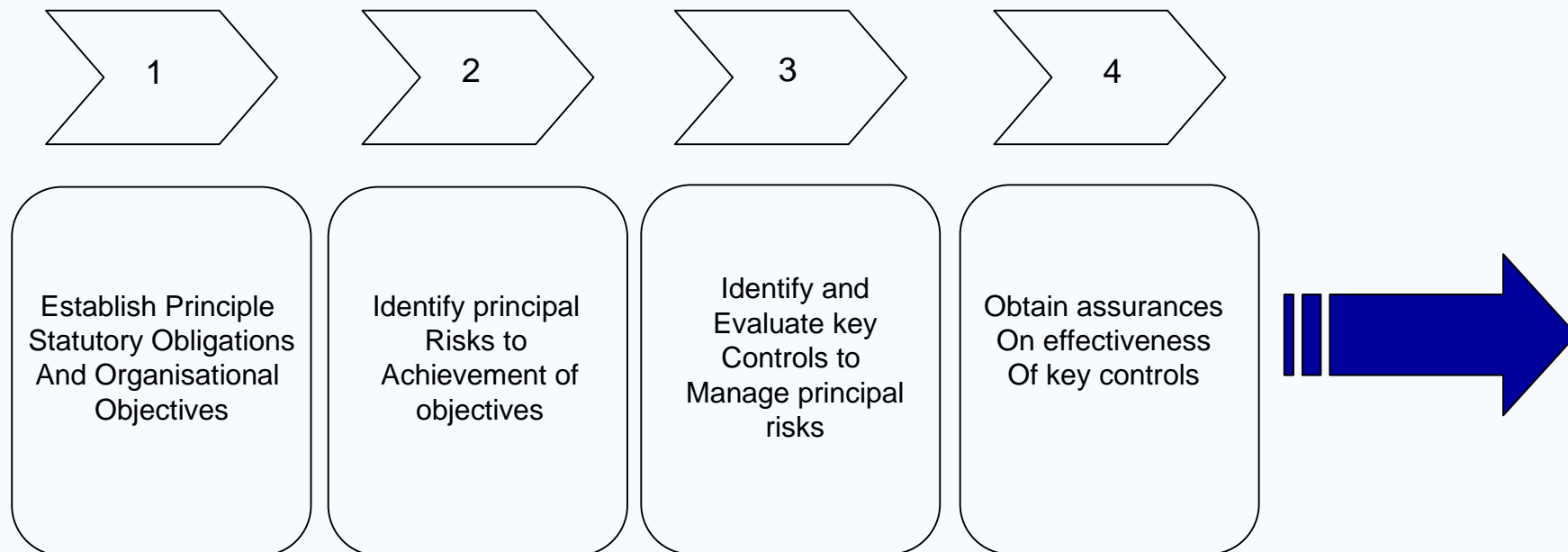
SIC: What's the point?



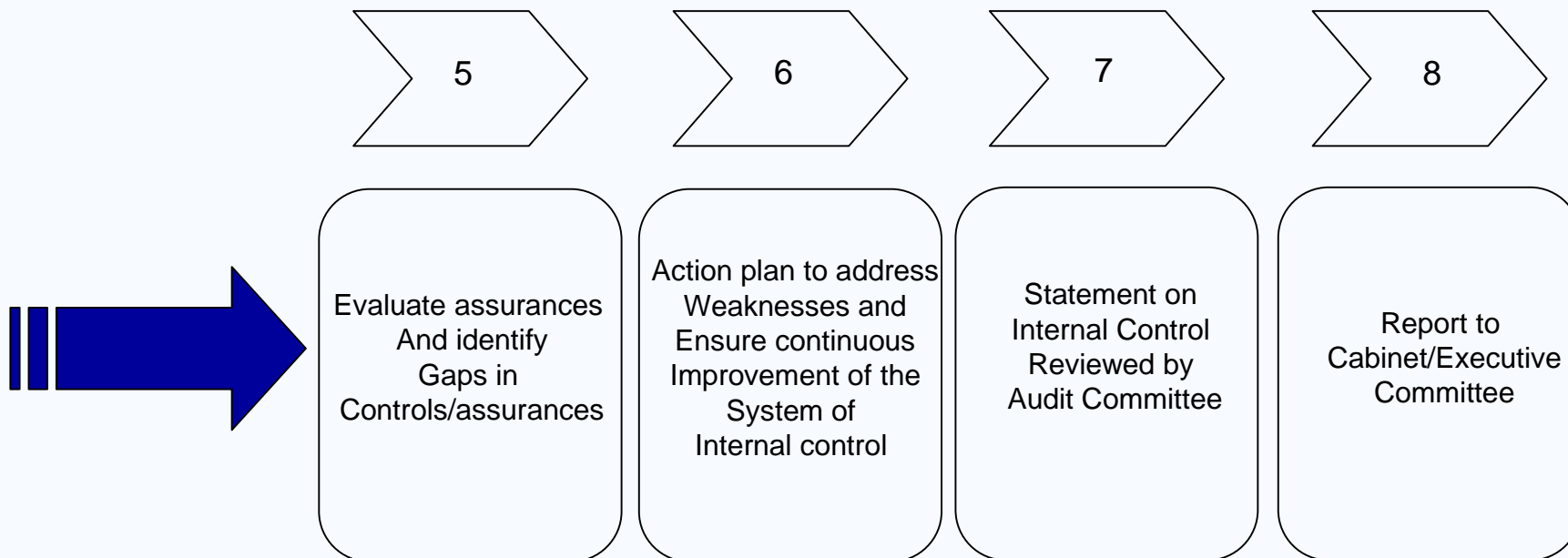
Public sector

- **Openness**
- **Accountability**
- **Framework for improvement of corporate governance & risk management**
- **Evidence for CPA**
- **Assurance to stakeholders**

The 8 Steps to Preparing the SIC ...



The 8 Steps to Preparing the SIC ...



Hartlepool's Approach



- **Broken down the evidence gathering process into 2 parts:**
- **The corporate elements:**
 - **Statutory Obligations And Organisational Objectives.**
- **The Departmental elements:**
 - **Service Objectives and the controls that exist to ensure they are met.**

The Role of the Audit Committee



- **To Review and Agree Internal Audit's Statement of Purpose, Responsibility and Authority;**
- **To Review and Agree the Audit Plan for the next financial year and Opinion on the Internal Control Environment Report for the past financial year;**
- **To Receive Quarterly summary reports of audit findings and recommendations;**
- **To Receive Reports from External Audit.**

The sum of this information allows the Audit Committee To Review the Statement of Internal Control.

The Way Forward



At a Special Audit Committee Meeting to be arranged in May:

- **Receive the Internal Audit Opinion on the Internal Control Environment Report for 05/06;**
- **Receive the SIC for 05/06.**

AUDIT COMMITTEE

18th April 2006



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REVIEW OF INTERNAL
AUDIT

SUMMARY

1. PURPOSE OF REPORT

1.1 To inform members of the most recent Audit Commission report agreed by officers.

2. BACKGROUND

2.1 It was agreed that part of the remit of the Audit Committee would be to receive and review all Audit Commission reports. To meet this requirement the most recently agreed Audit Commission report is attached. More information about the content of the report and the Councils response are included in the detailed report.

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

Members note the contents of this Report.

Report of: Chief Financial Officer

Subject: AUDIT COMMISSION REVIEW OF INTERNAL
AUDIT

1. PURPOSE OF REPORT

1.1 It was agreed that part of the remit of the Audit Committee would be to receive and review all Audit Commission reports. To meet this requirement the most recently agreed Audit Commission report is attached.

2. DETAILED AUDIT COMMISSION REPORT

2.1 A copy of the Audit Commission report is attached as Appendix A.

3 Audit Commission report “Review of Internal Audit”

3.1 In order to place reliance on the work of Internal Audit and to ensure the Audit Commission meet its requirements under the Audit Code of Practice and the Council meets its requirements under the Accounts and Audit Regs 2003, the Audit Commission carry out an annual assessment of the activities of Internal Audit.

3.2 The review carried out by the Audit Commission concentrates on the following ten areas of operation:

- Scope of Internal Audit,
- Independence,
- Audit Committee,
- Relationships with management, other auditors and other review bodies,
- Staff training and development,
- Audit strategy,
- Management of audit assignments,
- Due professional care,
- Reporting,
- Quality assurance.

3.3 More detailed coverage of the above areas is carried out every three years. This includes carrying out a more detailed review of Internal Audit plans and working paper files and was undertaken this year.

3.4 The main conclusion of the report is as follows:

- That the Audit Commission is satisfied that the Council has appropriate constitutional and management arrangements in place for its Internal Audit Service,
- That the Audit Commission has been able to place reliance upon the quality and content of the work of Internal Audit.

3.5 The following issues were raised as part of the Audit Commission review:

- It is ensured that the improved audit risk assessment procedures that are in the process of being implemented are done so as soon as possible,
- Managers should formally state why they will not implement recommendations,
- The new staff training and appraisal records that are currently being implemented are used as the basis for the provision of future training.

3.6 All of the points mentioned above are currently being addressed.

4. **RECOMMENDATIONS**

Members note the contents of this Report.

Review of Internal Audit

Hartlepool Borough Council

Audit 2006-2007

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

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

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

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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

Status of our reports to the Council

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

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

Copies of this report

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

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Summary report

Introduction

- 1 The Internal Audit service provides assurance on the adequacy and effectiveness of the Council's entire internal control framework. It is well-placed to alert management and members to any risks and problems with the control framework and is consequently a crucial component of the Council's performance and improvement system.

Background

- 2 The Accounts and Audit Regulations 2003, include a specific requirement that a relevant body must maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices (ie those contained in the Cipfa code). The section 151 officer also has specific responsibilities to maintain adequate internal control arrangements to ensure economic, efficient and effective use of resources.
- 3 The Authority has to carry out an annual review of the effectiveness of its systems of internal control and prepare a Statement of Internal Control (SIC). The SIC has to be certified by the Chief Executive and the Leader of the Council. Internal Audit has a significant role in helping to discharge this task.

Audit approach

- 4 Our approach under the Code of Audit Practice is to maximise the reliance we can place on the audited body's own arrangements, including Internal Audit. In order to place reliance on the work of Internal Audit, it is necessary to carry out an annual assessment of their activities. Such an assessment will update our understanding of the nature and quality of the work being carried out by Internal Audit and its effect on the control environment.
- 5 In order to satisfy ourselves that the Council has an effective Internal Audit service, we carry out a detailed review of a number of areas against standards of professional practice defined by Cipfa's Code of Practice for Internal Audit in local government:
 - scope of Internal Audit;
 - independence;
 - Audit Committee;
 - relationship with management, other auditors and other review bodies;
 - staff training and development;

- audit strategy;
- management of audit assignments;
- due professional care;
- reporting;
- quality assurance; and
- every third year, we extend the work done by carrying out more detailed coverage of the above criteria including reviewing Internal Audit's plans and working files.

Main conclusions

- 6 Overall, we are satisfied that the Council has appropriate constitutional and management arrangements in place for its internal audit service. There were a number of issues however and these findings are highlighted in Appendix 1 with the main points being as follows.
 - An improved risk assessment process is being introduced that will ask for direct input from all members of Internal Audit. The situation at present is transient with a lack of direct evidence for the scored assessments. The Authority needs to ensure this process is operational as soon as possible.
 - There should be a requirement for service managers to formally state why they will not implement recommendations. This requirement should be included in the financial regulations.
 - Staff appraisals and training records are now in the process of being carried out. They should be used as the main basis for the provision of training.
- 7 In addition, we have also been able to place reliance this year on the quality and content of Internal Audit's fundamental systems work to discharge elements of our statutory duties.

Appendix 1 - Detailed report

Issue	Findings	Conclusion and recommendations
Internal Audit Manual	There are no formal guidelines on working relationships with management apart from the Chief Financial Officer. This is not perceived as a problem as the Chief Internal Auditor does have unrestricted access to senior management as required. Internal Audit's role in procurement and risk management working groups is not formally recorded in the Internal Audit Manual.	Formal working relationships and roles should be recorded in the Internal Audit Manual. It should also cover their roles in any other working groups.
Internal Audit Manual	Internal Audit's own staffing structure is not included in the Internal Audit Manual.	The staffing structure should be included in the Internal Audit Manual.
Code of Ethics	Chapter 2.1 of the Internal Audit Manual contains a code of ethics. The Manual is available to all auditors. There is however, no requirement on auditors to evidence that they have seen, read and understood the ethical standards within the Manual.	Auditors should read the code of ethics and confirm in writing that they will abide by it whilst employed by the Authority.

Issue	Findings	Conclusion and recommendations
Planning Process	The Internal Audit Manual does not have clear guiding principles for the contact arrangements between Internal Audit and service management in terms of completing the final version of the annual plan.	The process to ensure all views are caught prior to the finalisation stage should be included in the Internal Audit Manual.
Risk Assessment	<p>Internal Audit is currently introducing an updated electronic version of the risk assessment process. This will require input from all Internal Audit officers and action should be taken to ensure they are all aware of what is required. The new system will provide more timely and accurate information.</p> <p>The position for 2006/07 is that the supporting evidence for assessments will be based on a combination of prior year files allied to auditor judgement.</p> <p>Consequently, we were unable to reconcile the risk assessments for a sample of systems to those recorded in the IA Plan.</p> <p>This is not a major problem in this transitional period as in most cases there is little change from one year to the next.</p>	<p>Internal Audit is going through a transitional stage in terms of their risk assessment process. All Internal Audit staff should receive guidance on how the new process will operate.</p> <p>Efforts should be made to ensure the new electronic system is operational as soon as possible.</p> <p>We will continue to track progress.</p>

8 Review of Internal Audit | Appendix 1 – Detailed report

Issue	Findings	Conclusion and recommendations
<p>Compliance with agreed standards</p>	<p>The Annual Report should make reference to Internal Audit's terms of reference (ie the IA Manual), compliance with professional standards and the Cipfa Code of Practice. The last report (2004/05) did not make reference to a quality assurance programme.</p> <p>The requirement to include a standard paragraph on compliance with agreed standards could also be applied to all reports.</p> <p>Internal Audit has not sought an accreditation such as ISO9001.</p>	<p>The Internal Audit report should make direct reference to compliance with agreed standards and their quality assurance programme.</p> <p>Internal Audit could seek to obtain an accreditation such as ISO9001 as this could be referred to in their reports and add further credibility.</p>
<p>Agreement of Internal Audit recommendations</p>	<p>The process is that recommendations are discussed and agreed with appropriate service management. Internal Audit would subsequently follow up and check that action had been taken.</p> <p>There is no laid down process in the case of managers not accepting/agreeing to implement recommendations - apart from the fact that ultimately, it would be reported to the Audit Committee.</p>	<p>Service management should take full responsibility for the action taken on their applicable recommendations. The Authority should introduce a formal requirement for managers to confirm in writing that they have implemented recommendations. Also, there should be an agreed process whereby management have to formally state why they will not implement recommendations. This requirement should be included in the financial regulations.</p>

Issue	Findings	Conclusion and recommendations
Training	The allocation of training resources does not appear to have a firm basis. The corporate requirement for staff appraisals does not appear to be being applied (although anecdotal evidence is that this is far more wide spread than Internal Audit). Training records are not being used and therefore any training provision is based on management judgement.	A formal training programme supported by individual training records should be established. The acting Chief Internal Auditor has recognised this issue and confirmed the intention to apply the Cipfa training programme, as being the most relevant for internal auditors.

AUDIT COMMITTEE

18th April 2006



Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT PLAN 2005/06 UPDATE

SUMMARY

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2005/06.

2. BACKGROUND

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

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

Members note the contents of this Report.

Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT PLAN 2005/06 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2005/06.

2. BACKGROUND

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

3. AUDITS COMPLETED AND IN PROGRESS

- 3.1 Appendix A of the report details the pieces of work that have been completed.

- 3.2 As well as completing the afore mentioned audits, Internal Audit staff have been involved with the following working groups:

- ISO 7799 Group.
- Procurement Working Group.
- Business Process Review.
- Financial Management System Upgrade
- Statement of Internal Control

In order to meet Audit Commission recommendations regarding the use of I.T when carrying out audits as well as undertaking more detailed testing of I.T controls, IDEA software has been purchased and is currently being installed onto the system.

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

4 AUDIT PLAN PROGRESS

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

5 RECOMMENDATION

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

Appendix A

Audit	Objectives	Recommendations	Agreed
Council Tax	<p>Examine and evaluate the systems and procedures in place to ensure that;</p> <ul style="list-style-type: none"> -All taxable properties are identified, assessed and recorded and that 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 property have been correctly calculated and promptly demanded from the liable person, -Secure and efficient arrangements exist for all collections, which are promptly posted to the correct taxpayer's accounts, all refunds are authorised and valid, -All arrears are promptly identified and effectively pursued and all write offs are valid and authorised, -The Authority complies with all statutory and other requirements for tax setting and the keeping of accounts. 	<ul style="list-style-type: none"> -That written procedure notes are produced for all Council Tax functions, that these procedures are formally agreed and distributed to all relevant staff. -The system should be reviewed to ensure that all composite properties are correctly recorded in the database and that the new software release allows for adequate reconciliation with the NNDR system. -That supervisors / managers carry out testing to ensure that discounts and exemptions are being correctly awarded. Any issues can then be used to identify additional training needs. -That a full opening debit reconciliation is carried out – to include the parish precepts. -That the number of bills produced is fully reconciled to the number of persons liable. -That staff involved in the recovery/billing process do not have any cash collection duties. If this is allowed all recovery action, which is suspended by those individuals, must be independently reviewed on a regular basis. These staff must not be able to 'pull' reminders once they have been produced. -That regular independent reviews of suspended recovery actions are undertaken. -That managers are asked to examine lists of employees to ensure that access held is appropriate. - To further improve controls passwords should be a minimum of 7 characters as per audit commission guidelines. - That the number of users with 'FIRST' access is limited. That the RB password should be examined. - That a disaster recovery plan is put in place and tested. 	<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> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Redundancies	<p>Evaluate the systems operated by the Human Resources for redundancy payment administration to ensure appropriate written procedures have been produced, circulated and are adhered to.</p>	<ul style="list-style-type: none"> -Comprehensive procedure notes should be available in the department for redundancy payment administration and appropriate training provided. - The standard Pro Forma calculation sheet should be used in all instances. - Relevant minutes are retained on file. - Formal arrangements should be put in place to check on any outstanding debts owed to the authority. - That a checklist is drawn up to ensure that all controls within the system are being adhered to i.e. completion of calculation sheet, receipt of approvals etc. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Creditors	Examine and evaluate the systems and procedures in place that administer the Central creditors system	<ul style="list-style-type: none"> - Procedure notes should be compiled for activities undertaken in Payments. - Departments should be reminded to use official orders to purchase all goods / services where appropriate. - Documentation providing evidence that goods / services have been received should be retained securely for reference purposes. - All paid documents should be stamped with a CODA grid and completed in full. - Responsibility for reviewing reports identifying invoices posted but not made available should be defined. Reports should be reviewed on a monthly basis. - Direct bank transfers should be authorised by an appropriate officer. - Stock checks should be carried out to reconcile financial stationary held to the manual ledger. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Cash/Bank	<p>Examine and evaluate the systems and procedures in place to administer the Central Cash Receipting system to ensure that;</p> <ul style="list-style-type: none"> -The Council provides a secure, convenient environment for the collection of income due, -Financial procedural rules are adhered to, -Income is promptly banked and correctly accounted for, -The systems in place operate effectively and efficiently, -Collection points are secure, -Cash receipting systems are secure. 	<ul style="list-style-type: none"> - Password security for access to REMIT is increased to be in line with the ICT specialist recommendations identified by Audit Commission (password expiry to be set at 28-31 days and minimum length of 6 characters). - Cashiers requiring access to the internet site to download the website payments should be given individual log-on and passwords. - A disaster recovery plan is to be put in place for the Cash Receipting function. 	<p>Y</p> <p>Y</p> <p>Y</p>
Loans & Investments	<p>Examine and evaluate the system and procedures in place to ensure that:</p> <ul style="list-style-type: none"> -An official Council policy on borrowing and investing is in place and that CIPFA guidelines are followed. -Systems are in place for daily cash flow forecasting. -Loans are subject to monitoring and satisfactory authorisation. -Investments are subject to monitoring and satisfactory authorisation. -Interest calculations are undertaken ensuring that investment repayments and interest are received on due dates. -Appointment and payment to brokers is in line with guidelines. 	<ul style="list-style-type: none"> - A senior officer checks the accuracy of all bank reconciliation and the appropriate sheet is signed. - Verification of bank reconciliation occurs prior to the subsequent weeks being completed. Any issues, which go undetected at any early stage, will have a 'knock-on' effect on subsequent weeks. - Deal tickets should be checked and initialled by an appropriate officer to verify accuracy. 	<p>Y</p> <p>Y</p> <p>Y</p>

VAT	Examine and evaluate the systems and procedures in place to administer the Sundry Debtors system	- The information document is updated to allow for better referencing within departments.	Y
Highways	Ensure that adequate controls are in place in respect of the design, ordering, inspection, undertaking and payment of any works carried out as part of any reactive or scheduled maintenance on highways, street lighting, winter gritting and gully works.	<ul style="list-style-type: none"> - Arrangements should be made to ensure that the capital budget is prepared promptly to enable effective monitoring of expenditure. - Working papers supporting the make up of the revenue budget should be retained in a secure manner. - Independent checks should be made of the standard of inspections or consideration given to rotate the routes allocated to staff on a periodic basis. - A clear client/contractor split should be developed between work being inspected or designed and work being carried out. - Large schemes should be awarded following competitive tender or an exercise be carried out to demonstrate that awarding DSO work without being subject to competition represents best value. - Results of post completion inspections should be presented to managers on a regular basis. Consideration should be given to increasing the sample tested for reactive works from 10% based upon the information received 	Y Y Y Y Y Y
Free School Meals	Examine and evaluate the adequacy and effectiveness of the systems used to administer the free school meals provision.	- Every pupil receiving a FSM has a form and evidence on file.	Y
NNDR	<p>Examine and evaluate the systems and procedures in place to administer NNDR to ensure that;</p> <ul style="list-style-type: none"> -The Authority maintains an accurate list of all hereditaments subject to locally collectable non domestic rates, -Liability for NNDR is accurately assessed and timely bills for the correct amount are sent to the occupiers of all rateable hereditaments, -All NNDR money collected is promptly posted to the correct account, -Prompt and effective recovery action is taken on all overdue unpaid amounts, -Relief given for transition, charities and hardship are given in accordance with the regulations and local schemes and all write offs are valid, -NNDR transactions are 	<ul style="list-style-type: none"> - That managers are asked to examine lists of employees to ensure that IWorld access held is appropriate. - That the number of users with 'FIRST' access is limited. That the RB password should be examined. - That a disaster recovery plan is put in place and tested. - That written procedure notes are produced for all NNDR functions, that these procedures are formally agreed and distributed to all relevant staff. 	Y Y Y Y

	recorded in the Authority's accounts.		
Weekly Payroll	Evaluate the systems operated by the Payments Unit for weekly payroll administration	<ul style="list-style-type: none"> - That the establishment list is updated. - When a missing timesheet form is used, this is to be signed on input and completion by the Payments Unit. - That issues relating to system security in the Audit Commission report are implemented. 	<p>Y Y</p> <p>Y</p>
Seaton Carew Nursery	Ensure nursery school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> - A medium term plan be developed which incorporates future predicted resources based upon pupil numbers, estimated staff costs etc for 3 future years. - The Nursery should ensure that the outturn figure is in line with the recommended amount. - Regular back-ups should be taken, and where possible stored in a locked, fireproof container. - An independent person should audit the Nursery's private fund annually. - The Governors report to parents should include income and expenditure details of the Private fund. - Official orders should be raised for the purchase of all goods/services and committed to ensure budgetary control. - All orders and invoices should be authorised. - The inventory listing should contain all identification details. - An instrument of government is to be drawn up. 	<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. Helens Primary School	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> - Three-year projection of pupil numbers is included in the school development plan. - School outturn is reduced to recommended figure of 5%. - All staff sign data protection forms of undertaking. - Bank mandate and constitution be updated. - Private fund be registered for charitable status with the Charities Commission. - Outstanding school dinner monies are pursued. - Non-order invoices to be kept to a minimum. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Members Code of Conduct	Examine and evaluate the systems and procedures in place to administer the registration of pecuniary and other interests of Members & Officers of the Council	<ul style="list-style-type: none"> - That all Members attend seminars on the Code of Conduct. - The Register of Gifts and Hospitality for Members should be more closely monitored by the Democratic Services section to ensure that it is kept up to date. 	<p>Y</p> <p>Y</p>
St John Vianney Primary School	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> - All members of staff should complete a Data Protection Form of Undertaking. - All members of staff with access to email and/or the Internet should complete an 	<p>Y</p> <p>Y</p>

		<p>Internet and Email Policy Form of Undertaking</p> <ul style="list-style-type: none"> - To forward to the Internal Audit Section a copy of the Audit Certificate following completion of the independent audit of the Private School Fund. - £10 school meals money carried forward from W/E 13/01/06 should be banked with the next Securitas collection. - 2 missing FM5 forms should be obtained. - When an order is placed, including a verbal order, the estimated cost should be committed against the appropriate budget allocation in SIMS, so that it features in subsequent budget monitoring. - All orders should be signed as authorised by the Headteacher. - Delivery Notes should be signed and checked against the original order independently of the person authorising the Order. All Delivery Notes should be kept on file at the school. - The Headteacher should sign all invoices as evidence of authorisation for payment. - Invoices should be paid promptly. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Allotment Rentals	<p>Test and evaluate the adequacy of controls in place to ensure the fair allocation of plots to tenants, efficient and economic collection of rents and effective inspection of plots to ensure compliance with Council Rules.</p>	<ul style="list-style-type: none"> - In order to demonstrate that plots are allocated in a fair manner, application forms should be retained for reference purposes. - All tenants should sign tenancy agreements. Agreements should be drawn up and completed by all existing tenants who have no signed agreement. - Notice to quit documentation should be issued to all tenants where procedures to recover debts outstanding are exhausted. - A planned and systematic approach to carrying out inspections of plots should be developed, with records maintained of all inspections undertaken along with the results of such inspections. - Consideration should be given to carry out random inspections of plots across the authority to ensure compliance with Council rules. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Market Rents	<p>Test and evaluate the adequacy of controls in place to ensure:</p> <ul style="list-style-type: none"> - A clear policy is in place setting out arrangements for the allocation of sites to tenants; - The responsibilities of both parties are clearly defined and communicated; - Accounts are promptly and correctly raised in respect of rental income due to the Authority; - Adequate procedures are in 	<ul style="list-style-type: none"> - Registration forms should be completed by all traders and retained in a secure manner. - The attendance sheets should be adapted to include a column to record the amount of income collected in order to facilitate ease of checking for outstanding debts. - Different officers should carry out the tasks of completing attendance sheets, completing receipts and collecting rental income. The separation should be evidenced by signature on both the 	<p>Y</p> <p>Y</p> <p>Y</p>

		<p>costs of the work and where the labour element exceeds £100, the invoice should be forwarded to Payments Section in order that the appropriate deductions are made.</p> <p>- All members of the Governing Body should complete a register of business interests.</p>	Y
	<p>To ensure that systems in place for storing, issuing, ordering and managing stock items are effectively and efficiently controlled.</p>	<p>- That a division of duties is maintained between ordering and receipt of the goods.</p> <p>- That delivery notes are always signed by the Storeman as confirmation that the correct items have been received.</p> <p>- That the Returns system code is not used to process adjustments.</p> <p>- Issues should be written on the first line and ruled off after the last entry. The collecting operative should always sign for the goods.</p> <p>- That job sheets are authorised.</p> <p>- That the reorder levels and quantities are updated.</p> <p>- That the minimum and maximum stock levels are set.</p> <p>- Stock checks should be carried out independently of stores officers.</p> <p>- That there are procedures drawn up for carrying out stock checks and that these procedures detail how discrepancies will be treated.</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>
Parks Income	<p>Ensure that:</p> <p>- The systems in place for monitoring the actual income received against the budget are adequate.</p> <p>- All income due to the Authority in respect of rent for the Park Centre and Lodge at Ward Jackson Park and bowling greens is collected promptly.</p> <p>- Adequate lease and tenancy agreements exist which are of benefit to the authority.</p>	<p>- The Terms and Conditions for occupancy at Ward Jackson Park Lodge are updated to reflect the Health and Safety responsibilities of both parties and the new agreement is signed.</p> <p>- Documentary evidence is retained for the calculation of inflationary increases to license agreements. The calculation and data needs to be checked to eliminate any manual errors. Ideally a spreadsheet with locked formulas would be used. This would mean that only the data input would have to be checked and not the calculations.</p> <p>- A more realistic budget is set for the Bowling Greens.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
West View Primary School	<p>Ensure school financial and governance arrangements are in line with best practice</p>	<p>- Indications of how higher/lower levels of funding would be dealt with to be included.</p> <p>- All staff signs the internet consent form.</p> <p>- The authorised signatories sign the constitution and the bank mandate to be changed to reflect the change in signatories.</p> <p>- That a procedure of documenting sales more efficiently be implemented.</p> <p>- A FM5 should be present for each pupil receiving a free school meal.</p> <p>- To ensure SIMS has accurate, up to</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		<p>date pay grades.</p> <ul style="list-style-type: none"> - That orders are raised for all invoices to ensure a commitment is made on the system. - That all governors should have a completed business interest form. 	<p>Y</p> <p>Y</p>
Hire of Community Halls	<ul style="list-style-type: none"> - Adequate procedures are in place for recording and monitoring applications and bookings. - Documentation has been adequately completed and retained. - Invoices and charges have been raised in a timely and accurate manner Income has been corrected coded within CODA. 	<ul style="list-style-type: none"> - Full procedures are drawn up to cover any periods of staff absence. - The new application form created for the 2006/07 financial year is updated to show the security charges as being exclusive of VAT. - The Aged Debtors Report (A1) is cascaded to the relevant staff when it is received from the Finance Department. 	<p>Y</p> <p>Y</p> <p>Y</p>
Petty Cash	<ul style="list-style-type: none"> - Adequate procedures are in place for the setting up, amending and monitoring of petty cash floats. - Floats can be reconciled to supporting documentation. - Adequate procedures in place to control petty cash payments and for authorising and recording expenditure. - All petty cash floats are operated adequately within departments and reconciled in Central Finance in accordance with financial procedure rules. 	<ul style="list-style-type: none"> - Full procedures are drawn up and implemented within the authority to ensure a more uniform process. - Internal Audit is to have no further involvement in the creation of new floats and increases to those already in existence. To improve budget monitoring and control this is to be delegated to budget holders. 	<p>Y</p> <p>Y</p>

Appendix B

Audit	Objectives
Budgetary Control	Examine and evaluate the systems and procedures in place to administer the councils budgetary control systems.
Debtors	Examine and evaluate the systems and procedures in place to administer the council's procedures for dealing with debtors.
Main Accounting System	<ul style="list-style-type: none"> -Correct accounting data is provided, for input into the Council's Final Accounts, Balance Sheets and Statement of Accounts, -Council Standing Orders and Financial Regulations are complied with as appropriate, -Controls are in place to ensure that data entered to CODA is complete, accurate and can be relied upon for reporting purposes, -The administration of the CODA system is carried out effectively without duplication of work, -Access to the CODA FM System is adequately controlled.
Officers Expenses	- Travel and subsistence is accurately paid and is in accordance with the Council's Scheme for Reimbursement of Travel, Subsistence and Overnight Accommodation Expenditure.
Warren Road	<ul style="list-style-type: none"> - All income is recorded, accounted for and promptly paid into the Council's Bank Account, - All expenditure is appropriate, authorised and accounted for, - All assets, including cash, are securely held.
Court of Protection	<ul style="list-style-type: none"> - The Council is appointed only where necessary and in accordance with the statutory requirements and laid down guidelines, - There are adequate arrangements in place to comply with the Council's obligations under Court of Protection rules, - Income and assets received on behalf of the Service Users are secure and expenditure made on their behalf is properly authorised, - All transactions are properly recorded and accounted for and a clear audit trail exists, supported by adequate documentary evidence. - Instructed banks were appointed through an official tendering process and that they are still providing the specified services required.
Sure Start North	<ul style="list-style-type: none"> - There are adequate financial management and budgetary control procedures in place, - All expenditure is accounted for, recorded correctly and that Financial and Contract Procedure Rules have been complied with where appropriate.
Summerhill	To test and evaluate the efficiency and effectiveness of the systems, procedures and controls used within the Summerhill Centre.
Homecare	Ensure that the procedures for determining the provision of Home Care are adequate and that all income is received and properly accounted for.
Adoption/Fostering	<ul style="list-style-type: none"> - The arrangements in place to administer fostering and adoptions comply with Council policy and existing legislation, - The systems in place provide an effective and efficient means of operating, - Data is securely held.
Hartlepool Partnership	<p>To identify the Authority's Accountable Body responsibilities and evaluate the systems/processes in place for ensuring that these are achieved.</p> <p>To ensure that there are adequate governance arrangements in place e.g. quorums are needed, minutes are taken and agreed, declaration of interest forms are completed. Examination of the systems in place for monitoring spends.</p>
ISO 17799	<ul style="list-style-type: none"> - An Information Security Policy has been drawn up and endorsed at the highest level. - Individual roles and responsibilities in drawing up and implementing the policy are clearly defined. - Legislation is complied with. - Audit Commission recommendations have been implemented. - A risk assessment has been developed. - Procedures are in place to ensure that the Policy is being complied with. - Arrangements are in place for dealing with breaches of the Policy.

SRB	<ul style="list-style-type: none"> - To identify the Authority's Accountable Body responsibilities and evaluate the systems/processes in place for ensuring that these are achieved. - To ensure that there are adequate governance arrangements in place e.g. quorums are needed, minutes are taken and agreed, declaration of interest forms are completed. - Examination of the systems in place for monitoring spends.
S17 Payments	<ul style="list-style-type: none"> - Payments made complied in principle with the provision of the Act - Payments are properly authorised and recorded. - Payments are adequately supervised and monitored.
Procurement	<p>To ensure that:</p> <p>There are systems in place to ensure that legislation is complied with – National Procurement Strategy for Local Government.</p> <p>Contract Procedure Rules and Financial Procedure Rules are adhered to.</p> <p>Milestones are set and monitored to ensure that key target dates are met.</p> <p>Roles and responsibilities with regard to procurement are clearly defined.</p> <p>Electronic Procurement issues relating to the IEG initiative are clearly identified and monitored to ensure that deadlines are achieved.</p>
Benefits - Housing & Council Tax	<ul style="list-style-type: none"> -The Council promptly and accurately provides Housing Benefit to eligible persons. -The Council is complying with statutory requirements. -Information held is complete, accurate and reliable. -The system provides the most effective and efficient use of resources. -All information is securely held and system access is well controlled.
Jesmond Road Primary School	Ensure school financial and governance arrangements are in line with best practice.