

AUDIT COMMITTEE AGENDA



Monday 22nd May 2006

at 11.00am

in Committee Room 'A'

MEMBERS: AUDIT COMMITTEE:

Councillors: D Allison, G Hall, A Preece, R Waller and G 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 18th April 2006 (*attached*)
4. **ITEMS FOR DISCUSSION/DECISION**
 - 4.1 Internal Audit Outcome Report 2005/06 – Chief Internal Auditor
 - 4.2 Statement of Internal Control 2005/06 – Chief Financial Officer
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

18th April, 2006

Present:

Councillor Gerard Hall (In the Chair)

Councillors Derek Allison, Ray Waller and Gerald Wistow

Officers: Mike Ward, Chief Financial Officer
Noel Adamson, Group Auditor
Pat Watson, Democratic Services Officer

13. Apologies for Absence

None

14. Declarations of interest by members

None

15. Confirmation of the minutes of the meeting held on 17th January, 2006

Confirmed – with the addition of Councillor D Allison's apology for absence.

16. Presentation Regarding the Statement of Internal Control (SIC) and the Role of the Audit Commission *(Chief Financial Officer)*

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.

Issue(s) considered by the Committee

A short report prepared Members in advance of a presentation by the Chief Financial Officer and the Group Auditor into the role of the Audit Committee in reviewing the SIC and the purpose and format of the statement.

The presentation detailed the background to the SIC in Local Government, ie.

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

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 of Internal Control, prepared in accordance with proper practices in its financial statements”.

- CIPFA Guidance 2004

The reasoning for the SIC in the Public Sector being:

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

The presentation indicated the eight steps to preparing the SIC and gave the Council’s approach, which was to break down the evidence gathering process into two parts:

- (i) The Corporate elements – statutory obligations and organisational objectives;
- (ii) The Departmental elements – service objectives and the controls that exist to ensure they are met.

The role of the Audit Committee was described in the presentation, as follows:

- 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 Committee were advised that a Special Audit Committee meeting would be arranged for May to enable Members to receive the Internal Audit Opinion on the informal Control Environment Report for 05/06 and receive the SIC for 05/06.

In response to a Member question about the Standard(s) against which the SIC is measured, the Chief Financial Officer indicated that the background slide (at the top of the previous page) indicated the various standards, although CIPFA Solace would become the overall standard in the future. The CFO also indicated that the standards for departments are based on CPA; there is a standardised methodology and one for each department was being introduced. The CIPFA Best Practice Guide is used.

Members commented that the remit had become wider – topical issues such as the environment, recycling, vacancy monitoring etc – and asked how we monitor the whole process. Members also commented that written procedures were needed to enable audit against standards and such procedures were not always in place. The Group Auditor commented that because of the change in standards, comprehensive system notes were not available; he said “it is an area where extra weight is given and audit are aware of it”. The Chairman commented that widening the remit makes such points as service delivery more controllable. The CFO gave ‘Looked after Children’ and the Departmental Statement of Control as an example and advised that the role of Internal Audit is not to address the risks but comment on the areas necessary to control – all included in the Statement of Internal Control.

A Member asked if Audit Committee should, in a way, assess performance management. The CFO replied that indirectly it does have that role. Members also asked if the SIC would describe the areas and issues not well developed. They felt it was important that the Audit Committee look further at this in the new Municipal Year. The Group Auditor advised that there would be a departmental report on targets and how Officers are working towards meeting them. Some information did exist but was not presented to this meeting. A Member referred to performance and the street cleaning schedule, for example – he felt that Audit’s part would be to make sure it is adhered to. He felt that having procedures in place was necessary and would be a valuable tool for this Committee. The Group Auditor confirmed that is how departmental controls are working and the Statement would be based on evidence. A Member commented that the Scrutiny function, in due course, needed to tidy up these areas – to get evidence to match up with the Auditors’ findings. Discussion took place on performance reports to Portfolio Holders. It was commented that Portfolio Holders do not often refer issues to scrutiny. A Member was of the view that all Members should see performance reports automatically.

Discussion took place on partnerships and how they should be monitored/audited. Members understood that the Audit Commission had produced a document last year. The CFO indicated that a Statement had

been issued that Councils should monitor/audit Partnerships but there had been no actual definition of Partnerships. A Member commented that if we have a joint appointment there should be a Section 31 agreement with the lead commissioner as HBC, with a budget and standards showing the documented responsibilities of each party. Members felt that the Audit Committee could be heavily involved in this issue in the future.

Decision

Members noted the report and presentation and asked that their comments be noted for future reference.

17. Audit Commission review of Internal Audit (*Chief Financial Officer*)

Purpose of report

As part of the remit of the Audit Committee would be to receive and review all Audit Commission reports, the most recently agreed Review of Internal Audit was provided, with a covering report.

Issue(s) considered by the Committee

Members were advised that 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 Regulations 2003, the Audit Commission carry out an annual assessment of the activities of Internal Audit. The review 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.

More detailed coverage of the above areas is carried out every three years, including the carrying out of a more detailed review of Internal Audit plans and working paper files and this had been undertaken this year.

The main conclusion of the report was 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.

The following issues had been raised as part of the 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,
- Manager 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.

The covering report advised that all of the above points were currently being addressed.

In clarification, the Group Auditor advised that the role of Audit Committee was to receive for information and/or comment. Scrutiny Coordinating Committee would be asked to grant approval.

Members requested that the following amendments/comments to the Summary Report be recommended to Scrutiny Coordinating Committee:

- (i) Para 3 on page 4 – The second sentence should read “The SIC has to be certified by the Chief Executive, the Mayor and the General Purposes Committee of the Council”.
- (ii) In the Main conclusions, first bullet point – The second sentence should commence “The situation at present is in transition” not “transient”.
- (iii) In the Main conclusions, the second bullet point – with reference to the recommendation – Members felt that any such issue included in a report should be accompanied by an explicit transparent report on the issues/examples.

Discussion took place on ISO 9000 and the Standards set within the 10 bullet points (included at the bottom of page 4 above) which appeared to be the same or similar.

Decision

- (a) Members noted the contents of the report and Appendix.
- (b) Members requested that the comments at (i), (ii) and (iii) above be referred to Scrutiny Coordinating Committee.

18. Internal Audit Plan 2005/06 Update (*Chief Internal Auditor*)

Purpose of report

To inform Members of the progress made to date in completing the Internal Audit Plan for 2005/06.

Issue(s) considered by the Committee

Members were advised that 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 would allow the Members of the Committee to form an opinion on the controls in operation within the Council. This in turn would allow Members of the Committee to fully review the Statement of Internal Control, which would be presented to a future meeting of the Committee, and after review, would form part of the statement of accounts of the Council.

Appendix A to the report detailed the work that had been completed. As well as completing the afore mentioned audits, Internal Audit staff had been involved with the following working groups:

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

The report indicated that, in order to meet Audit Commission recommendations regarding the use of IT when carrying out audits, as well as undertaking more detailed testing of IT controls, IDEA software had been purchased and was currently being installed onto the system.

Appendix B to the report detailed the audits that were ongoing at the time of compiling the report.

Members were advised that the work completed and currently ongoing was in line with expectations at this time of year, and audit coverage to date had 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.

In reply to a question, the Group Auditor commented that Partnerships are at the top of the list for risk. Consideration was being given to what we are accountable for and how and a report would be brought to a future meeting on whether the accountability areas we being met. Officers were fully aware of the need for a comprehensive audit. A Member commented that governance arrangements need proper development of who does what etc and the nature of agreements that underpin them and the budgetary

arrangements, ie Health partnerships etc. Members also commented on cessation of funding issues and the need to keep in mind future management arrangements. The CFO agreed that, in relation to exit strategies, we need to know what will impact upon us and work was being carried out on this at the moment. Issues of responsibility and redundancy costs also have to be considered.

The CFO advised that, in relation to Appendix B, Audit were at the stage of assessing risks. Members commented that the Audit Committee needed to ask people if they are aware of risks and need, as a matter of urgency.

The CFO indicated that he would provide Members of the Committee with an example audit report and advise of follow-up arrangements.

Decision

Members noted the report and asked for their comments to be noted for future reference.

G HALL

CHAIRMAN

AUDIT COMMITTEE

22nd May 2006



Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT OUTCOME REPORT
2005/06

SUMMARY

1. PURPOSE OF REPORT

To inform Members of the Outcomes of Internal Audit work covering the period April 2005 to March 2006.

2. SUMMARY OF CONTENTS

This Report provides accountability for internal audit delivery and performance and allows Members to monitor the application of the delegated authority for ensuring an effective and satisfactory Internal Audit function in accordance with the Accounts and Audit Regulations 2003 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2003).

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

That Members note the contents of the report.

Report of: CHIEF INTERNAL AUDITOR

Subject: INTERNAL AUDIT COMMITTEE REPORT
2005/06

1. PURPOSE OF REPORT

To inform members of the outcomes of audit work covering the period April 2005 to March 2006.

2. BACKGROUND

2.1 This report provides accountability for Internal Audit delivery and performance and allows Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function.

2.2 Information for Members on the standards of financial administration and management arrangements operating within the Authority is detailed in this report, together with a progress report on the extent of implementation of audit recommendations. The consideration and effective implementation of audit recommendations is fundamental in ensuring effective financial stewardship and robust financial systems, controls and procedures.

2.3 This report also details the performance of internal audit in 2005/06 on a range of key performance indicators.

2.4 Hartlepool Borough Council also provides the audit services to the Cleveland Fire Authority. In addition to the audits detailed in Appendix A, Internal Audit completed 14 major systems and probity reviews for the CFA during 2005/06.

3. AUDIT INPUTS 2005/06

3.1 There were 2009 audit days allocated @ 1.04.05 to planned and responsive activities during 2005/06.

3.2 Staffing resources were lower than anticipated in the plan because of an incidence of long-term staff sickness. A contingency was put in place to address this shortfall by use of overtime and/or agency staff but prudent management of the in-house audit resources and contingency days avoided the requirement for external assistance and the audit plan was delivered in line with the key performance indicators.

Careful adjustment and revision to the audit plan ensured that all high-risk functions were reviewed and a balanced program of work covering all Council departments was achieved for 2005/06.

4 OUTCOMES

- 4.1. Appendix A schedules all the planned audits completed for 2005/06. Only a minority of systems and arrangements reviewed required improvement in Hartlepool.
- 4.2. Follow up work has been carried out, which has revealed that management has taken action, and improvements to controls, processes and procedures have been made.
- 4.3. Revisions to arrangements arising from some of the more significant audits undertaken this year are detailed in the table in Appendix B.
- 4.4. From the work undertaken during the year 2005/06, the Chief Internal Auditor has reached the opinion that key systems are operating soundly and that there is no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Hartlepool Borough Council's financial affairs.

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance.

These risks are reflected in the audit plan and are the subject of separate reports issued during the course of 2005/06.

5. FOLLOW UP

- 5.1 Audit reports are issued to auditees following a discussion of any audit findings. Each report includes an Action Plan where appropriate, recording:
 - Any recommended revisions to systems, procedures and operating arrangements;
 - The response of the auditee;
 - A timescale for introducing the recommended improvements.
- 5.2 In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, a system of follow up of audit recommendations is in operation to monitor what action has been taken by management in response to audit work. During 2005/06, all audits completed, that had reached the date when a follow up was due, have been the subject of follow up activity.

This position is positive and indicates a commitment by management to further improve controls and financial systems throughout the Authority.

Further follow up work is planned in 2006/07 for those recommendations not yet actioned.

6 MONITORING INTERNAL AUDIT PERFORMANCE

- 6.1 Internal Audit is committed to the delivery of a quality service, which accords with the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and to being responsive to the needs of service departments. In common with other central service providers, a number of core performance indicators for Internal Audit Services have been determined for 2005/06. Performance against these targets is detailed below:

Internal Audit Performance Indicators

Indicator	Target Set for 2005/06	Actual Performance 2005/06
Completion of High Risk Audits provides assurance that financial procedures are operating effectively and has direct impact on CPA result.	90%	92%
In addition to the managing auditor reviews, quality reviews of working paper files and evidence by the Chief Internal Auditor to ensure compliance with the standards laid down in Codes of Practice and adopted in the Internal Audit Manual.	10%	10%
Percentage of Quality Questionnaires returned.	75%	69%
Results of Quality Questionnaires - Percentage "good or very good"	75%	100%
Percentage of Audit Reports issued within 10 working days of audit completion	87.5%	100%
Percentage of Audit Recommendations followed up within 6 months of completion of the audit	100%	100%
Annual Report to Members by 30 th June following year-end.	30.06.06	22.5.06

7. RECOMMENDATION

- 7.1 That Members note the contents of the report.

APPENDIX A

Summary of Internal Audit Planned Work completed for 2005/06

Fundamental Systems

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

Governance Issues

Disabilities Discrimination Act
Data Protection Act
Freedom of Information Act
Proceeds of Crime Act

Other Systems

National Fraud Initiative
Health and Safety
Recruitment, Selection and Retention
Redundancies
VAT

Partnerships

Hartlepool Partnership
Single Regeneration Budget
New Deal for Communities

Annual Audits

Stores
Student Awards

Two Yearly Audits

Fostering and Adoption
Free School Meals
High Tunstall Secondary

Highways
Industrial Estate Lettings
Members Code of Conduct
Milk Grant
Special Education Needs Support
Tourism
Sure Start North

Three Yearly Audits

Adult Education
Allotment Rentals
Brougham Primary School
Court of Protection
Hire of Community and Public Halls
Jesmond Road Primary School
Kingsley Primary School
Lynnfield Primary School
Parks Income
Pupil Referral Unit
Rossmere Primary School
Seaton Carew Nursery
St. Aidans Primary School
St. Cuthbert's Primary School
St. Helens Primary School
St. John Vianney Primary School
St. Teresa's Primary School
Summerhill
Trade Refuse/Special Collections
Warren Road
West View Primary School

APPENDIX B

Revisions to arrangements arising from some of the more significant audits undertaken in 2005/06

AUDITS	AGREED ACTION/OUTCOMES
Benefits System	<ul style="list-style-type: none"> - All members of staff are to complete an independence confirmation to verify that they are aware of rules governing interests. These declarations are to be retained within the benefits department. - If possible, a separation of duties should be implemented which restricts assessors from inputting details.
Council Tax System	<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 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.
NNDR System	<ul style="list-style-type: none"> - That managers are asked to examine lists of employees to ensure that IWorld access held is appropriate. - 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.
Monthly Payroll System	<ul style="list-style-type: none"> - That issues relating to system security in the Audit Commission report are implemented. - Personnel returns to be completed and checked in Personnel and sent to the Payments Unit for every leaver/starter.
Weekly Payroll System	<ul style="list-style-type: none"> - That issues relating to system security in the Audit Commission report are implemented.
Cash/Bank System	<ul style="list-style-type: none"> - 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.

AUDIT COMMITTEE

22nd May 2006



Report of: Chief Financial Officer

Subject: STATEMENT ON INTERNAL CONTROL 2005/06

SUMMARY

1. PURPOSE OF REPORT

- 1.1 To provide details of the implications to the Council of the Accounts and Audit Regulations (England) 2003 requirement; that the Council publish a Statement on Internal Control with the Statement of Accounts and associated financial statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.
- 1.2 To provide a copy of the 2005/06 Statement on Internal Control for your information and approval (Attached as Appendix A).

2. SUMMARY OF CONTENTS

The report provides a background to the purpose of the Statement on Internal Control, the obligations of the Council arising from the 2003 Regulations, and the steps that have been taken by the Council to meet those obligations. The Statement on Internal Control will form part of the Council's 2005/06 Statement of Accounts.

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

That Members review and approve the 2005/06 Statement on Internal Control.

Report of: Chief Financial Officer

Subject STATEMENT ON INTERNAL CONTROL 2005/06

1. PURPOSE OF THE REPORT

1.1 To inform Members of the implications to the Council of the Accounts and Audit Regulations (England) 2003 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.

1.2 The report considers the following areas:

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

2. WHY

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

2.2 Statutory Requirement

The Accounts and Audit Regulations 2003 required that from 1.04.03: “the Council ensures that its financial management is adequate and effective and that there is a sound system of internal control which effectively facilitates its functions and which includes arrangements for the management of risk.

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

2.3 Good Governance

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

- Reviewing the adequacy of its governance arrangements
- Knowing where it needs to improve those arrangements, and

- Communicating to users and stakeholders how better governance leads to better quality public services.

The 2001 CIPFA/SOLACE publication *Corporate Governance in Local Government* recommended the publication of a statement communicating governance issues to stakeholders with the aim of enhancing public confidence in local government, the 2003 Regulations now make this a legal requirement.

2.4 Comprehensive Performance Assessment

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

3. WHO

3.1 Corporate Responsibility

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

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

3.2 Contributors to the SIC

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

4 HOW

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

The review of internal control and SIC assurance gathering included:

- Establishing obligations and objectives,
- Identifying principal risks,
- Identifying and evaluating key controls to manage risks,
- Obtaining assurances on the effectiveness of controls,
- Evaluating assurances,
- Action planning to correct issues and continuously improve.

- 4.2 In practice the Council already had most of the necessary internal controls in place, what was required was to incorporate them into a framework for producing a SIC that met the requirements of the Regulations. In order to do this the Council has:

- Identified roles and responsibilities,
- Provided training,
- Gone through a process of control self assessment,
- Gathered and retained evidence for inspection,
- Drafted the SIC.

5. RECOMMENDATIONS

That Members review and approve the attached 2005/06 Statement on Internal Control.

Appendix A

HARTLEPOOL BOROUGH COUNCIL STATEMENT ON INTERNAL CONTROL

1 Scope of Responsibility

- 1.1 Hartlepool Borough Council is responsible for ensuring that:
- Its business is conducted in accordance with the law and proper standards,
 - Public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging these overall responsibilities, Hartlepool Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2 The Purpose of the System of Internal Control

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable assurance and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.2 In order to facilitate the completion of the Statement, an officer working group has been formed and a programme of work developed. To ensure that the Statement has been given sufficient corporate priority and profile, the working group included both the Chief Financial Officer and the Assistant Chief Executive. As part of the process presentations have been made to departmental management teams and regular updates given to both the Chief Executives Management Team and Corporate Management Team (CMT).

3 **Significant Internal Control Issues Update from 2004/05 Statement**

- 3.1 Progress has been made over the course of 2005/06 to address weakness in the system of internal control identified as part of the 2004/05 process. The table below identifies action that has been taken to mitigate the areas of concern raised.

Issue Raised	Action Undertaken
IT Security/Access Controls	<ul style="list-style-type: none"> - ISO 17799 Working Group operating - Implementation of the following policies and procedures: <ul style="list-style-type: none"> - Clear Desk Policy - System Access Policy - Data Protection Act Policy - Physical Access Security Policy - IT Security upgraded on the Financial Management System - Internal Audit coverage followed up Audit Commission review - ISO 17799 compliance audit carried out by Internal Audit
Disaster Recovery	Draft plan and options developed. Appraisal of two options being undertaken for consideration by Chief Executive's Management Team

4 **The Internal Control Environment**

- 4.1 The key elements of the Council's internal control environment are as follows:

Hartlepool Borough Council has adopted a constitution, which sets out how the Council operates, how decisions are made, the procedures that are followed to ensure that these decisions are efficient and transparent, and sets out the terms of reference for the Portfolio and Committee structure. The constitution was developed in accordance with the Local Government Act 2000 and it sets out the delegated responsibilities to Key Officers such as the Monitoring Officer and Section 151 Officer.

- 4.2 Effective procedures to identify, evaluate, communicate, implement, comply with and monitor legislative change exist and are used. Human Resources (HR) policies identify suitable recruitment methods and ensure appropriate job descriptions exist for legal staff. Induction training is arranged by HR for all staff, departments have responsibility to provide induction training specific to their departmental needs. Legal Division procedures exist for monitoring new legislation, advising relevant departments, and members where appropriate. Legal personnel participation in training events.

- 4.3 Portfolio and Committee terms of reference are included in the constitution. A procedure is in place to ensure that all Portfolio and Committee agendas, minutes and supporting material are available to all staff on the Council's intranet, and to the public on the Council's Internet site.
- 4.4 The constitution contains financial and contract procedure rules, and code of conduct for Members, which have been formally approved. The Authority has adopted the CIPFA Code on Treasury Management and complies with the Prudential Code. The constitution is available to all employees on the intranet and hard copy and to the public on the Internet. A register of gifts and hospitality is maintained for Members and Officers.
- 4.5 The full cabinet and a range of Member committees regularly meet to review specific policy areas, to consider plans, reports and progress of the Authority.
- 4.6 HR has drawn up policies to ensure suitably qualified employees are employed in key areas, and supporting terms and conditions of employment for all employees cover all aspects of good employment. Induction courses for key new officers and all new members incorporate suitable training on corporate governance issues according to responsibilities and there is a general staff awareness programme in place.
- 4.7 A Health and Safety Policy has been approved and published and a Communication Strategy implemented to ensure general awareness.
- 4.8 The Authority has adopted the Community Strategy aims as its own corporate objectives. The development of the Community Strategy by the Local Strategic Partnership followed an extensive consultation process. Public priorities were established and these are a key element of the budget setting process. The Local Area Agreement (LAA) (signed on 23/03/06) further develops these arrangements and is the action plan for achieving the community strategy aims. LAA outcomes relating to the Council have been integrated into the council's corporate plan, service plans and performance management arrangements to enhance management and political accountability.
- 4.9 The Authority has monitoring and review arrangements in place in respect of the operation of its key partnerships. A framework of reporting by exception to Corporate Management Team operates and Internal Audit provides annual audit coverage of partnership arrangements. The Audit Committee has highlighted partnerships as a key area of interest and the Authority's control framework will be developed further and the committee regularly updated on progress.
- 4.10 All departments produce departmental and service plans using a corporate framework to ensure that they reflect the corporate objectives. Departments also complete extensive consultation with service users, forums, partners and View point 1000 surveys. The feedback from these exercises is used to link service and departmental objectives to both the planning process for service delivery and to the corporate objectives. Progress against the Corporate Plan

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

- 4.11 A corporate performance management framework approved by CMT and the Cabinet is operating across the Council. The framework sets out the process and timetable for reporting on performance. A Quality assurance / PI collection framework is in place with Internal Audit conducting an annual review of PIs assessed as high risk. The Performance Management database includes information relating to departmental and officer responsibility for the collation of data, target setting and addressing performance issues.
- 4.12 Key performance indicators are identified in the corporate and departmental plans. Regular reports are presented to members on the delivery of performance targets and these include national and local comparisons.
- 4.13 Key policies such as the Corporate Complaints Procedure, Proceeds of Crime (Money Laundering), Whistle blowing Policy and Counter Fraud and Corruption Policy have been developed and approved for use across the whole Authority. The policies are available to employees via the intranet. Reports are made to portfolio holders every six months summarising, for example, the complaints dealt with and the outcome. The Authority is a member of the National Anti Fraud Network and also takes part in regular National Fraud Initiative reviews.
- 4.14 The Council agreed a Risk Management Strategy in December 2004 and this has been improved on a regular basis since. The Strategy is available to all staff via the intranet. Key staff have undergone appropriate training and departmental risk champions lead on communicating the strategy to all relevant staff in their departments.
- 4.15 An annual review of strategy has been completed and approved by Corporate Risk Management Group (CRMG). The Risk Management annual work programme was approved by CRMG in March 06 and incorporated within service plan (Chief Execs). A CMT/Cabinet annual review of the Strategic Risk Register (SRR) was carried out in March/April 06. A Members training event was held on the 7 September 05 to raise the profile of Risk Management with Councillors as part of the decision-making process.
- 4.16 There is corporate support at senior management level for development of the Risk Management database with risk assessment procedures published and training given to officers (June 2005).
- 4.17 Planned control measures in SRR/DRR are in Service Plans, linked as part of business planning for Departments. The Performance Management Portfolio Holder is Hartlepool Borough Councils risk 'champion' and was involved in delivery of training to other Members. Each department also has a risk coordinator.
Risks and control measures relating to corporate and departmental plans are considered as part of the preparation of the Statement on Internal Control.

- 4.18 A database has been established to hold the departmental, corporate and strategic risk registers. The database automatically notifies responsible officers of risks that need to be reviewed and progress is monitored on a quarterly basis by the CRMG, who then report to CMT and Cabinet. Departments may use a central funding pot for risk management to assist in the financing of risk mitigation.
- 4.19 The Council has long-standing, nationally and regionally recognised emergency planning arrangements through the Cleveland Emergency Planning Unit. (EPU). The Council's Emergency Management Response Team (EMRT) meets monthly and exercises at least every 6 months.
- 4.20 Departmental business continuity plans have been developed and specific property and flu pandemic plans are in place. ICT resilience has been improved by remote access to Email and calendars and upgrading the UPS system.
- 4.21 Flu pandemic planning has identified critical services particularly in respect of vulnerable people, with alternative service provision arrangements identified as part of that process.
- 4.22 10 business continuity scenario exercises were held from September to December 2005 as part of the plan developmental process. These included at least one exercise for each department. Each department has a lead officer responsible for business continuity and the team reports to the CRMG. All senior managers have been briefed about business continuity.
- 4.23 All departments completed an annual review of diversity impact needs requirement assessments and identified steps to further improve access to services and these have been incorporated into service plans. This is part of a corporately agreed approach to mainstream diversity issues within the council and implement the Equality Standard.
- 4.24 Internal Audit reports on a regular basis to the Audit Committee on the effectiveness of the organisation's system of internal control. Recommendations for improvement are also made and reported on. Internal Audit performance is measured against standards agreed by management and Members.
- 4.25 Other review bodies external to the Authority also make regular reports on efficiency, effectiveness and compliance with regulations. These reviews include major inspections by the Commission for Social Care, Department for Further Education and Skills, Ofsted and the Planning Inspectorate of the relevant section of the Authority. The Audit Commission has also undertaken a Comprehensive Performance Assessment and the Council has been assessed as 'excellent', the highest possible ranking. The results of these reviews are reflected in the Council's own development and improvement plans. Some services within the Authority have been accredited by Investors in People and Chartermark.

5 Review of Effectiveness

- 5.1 The Council has the responsibility for conducting, at least annually, a review of the system of internal control. The review of the effectiveness of internal control is informed by the work of Internal Audit and Senior Managers who have responsibility for the development and maintenance of the internal control environment. The review is also informed by the reports issued by external audit and other review agencies and inspectorates.
- 5.2 The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:
- Corporate Management Team agreed process for the review of the internal control environment. This required departments to complete Departmental Assurance Proformas. This enables managers to provide documented evidence regarding the controls within their service units. The controls in place are designed to negate the identified and recorded risks of not achieving service, departmental or corporate objectives. Service plans and departmental risk registers are used to list departmental services provided and identify departmental service objectives. In order to ensure adequate controls are in place the procedures, processes and management arrangements in place to mitigate identified risks and the officers responsible for them are also documented. Gaps in controls can be addressed as part of the regular reviews of departmental risks and control measures.
 - Internal Audit – the Council has the responsibility for maintaining and reviewing the system of internal control. In practice, the Council, and its External Auditors, takes assurance from the work of Internal Audit. In fulfilling this responsibility:
 - Internal Audit operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.
 - Internal Audit reports to the Section 151 Officer and Audit Committee.
 - The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control.
 - Internal audit plans are formulated from an approved risk assessment package.
 - External Audit – in their annual audit letter, comment on financial aspects of corporate governance and performance management. External audit also expresses an opinion on the adequacy of Internal Audit work.
 - Other review and assurance mechanisms: for example, Department for Further Education and Skills, Commission for Social Care, Investors in People, Chartermark, Planning Inspectorate.
 - In the Comprehensive Performance Assessment by the Audit Commission, the overall report placed the Council in the 'excellent' corporate assessment category.

6 Significant Internal Control Issues

6.1 The following significant internal control issues have been identified:

No	Issue	Action	Timescale	Responsible Officer
1	Disaster Recovery Arrangements	Draft plan and options developed. Appraisal of two options being undertaken for consideration by Chief Executive's Management Team.	June 2006	A Atkin
2	Partnership Protocols	- Scoping exercise undertaken and reported to Corporate Management Team. - Framework implementation. - Update report to Audit Committee.	June 2006 Sept 2006 Dec 2006	M Ward M Ward M Ward
3	Adoption of a Code of Corporate Governance	Await outcome of CIPFA/SOLACE Code of Corporate Governance consultation.	Publication of guidance	T Brown

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority and a plan to address weakness and ensure continuous improvement of the systems is in place.

CHIEF EXECUTIVE:
DATE:

MAYOR:
DATE:

MONITORING OFFICER:
DATE: