

AUDIT COMMITTEE AGENDA



Wednesday 23rd March 2011

at 9.00 am

in Committee Room A, Civic Centre, Hartlepool

MEMBERS: AUDIT COMMITTEE:

Councillors C Akers-Belcher, Hall, Hill, J W Marshall, Preece, Turner and Wells.

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 3rd December 2010.

4. **ITEMS FOR DISCUSSION/DECISION**

- 4.1 Audit Commission Report – 2009/10 Certification of Claims and Returns – *Chief Finance Officer*
- 4.2 Audit Commission Report – 2010/11 Audit Plan – *Chief Finance Officer*
- 4.3 Audit Commission Report – 2010/11 Joint Working Protocol – Financial Statements Audit – *Chief Finance Officer*
- 4.4 Audit Commission Report – Audit Progress Report – *Chief Finance officer*
- 4.5 Internal Audit Plan 2010/11 Update – *Head of Audit and Governance*
- 4.6 Proposed New Local Audit Arrangements – *Chief Finance Officer*
- 4.7 Audit Committee Member Information – *Head of Audit and Governance*
- 4.8 Internal Audit Plan 2011/12 – *Head of Audit and Governance*

5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

AUDIT COMMITTEE

23 March 2011



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT- 2009/10
CERTIFICATE OF CLAIMS AND RETURNS.

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Report 2009/10 Certificate of Claims and Returns.

2. BACKGROUND

- 2.1 This report summarises the findings from Audit Commission certification of 2009/10 claims and returns. It includes the messages arising from the assessment of arrangements in place for preparing claims and returns and information on claims that were amended or qualified.

3. FINDINGS OF THE AUDIT COMMISSION

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

4. RECOMMENDATIONS

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

Certification of claims and returns - annual report

Hartlepool Borough Council

Audit 2009/10

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

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

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

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Summary

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

This report summarises findings from our certification of 2009/10 claims and returns. It includes the messages arising from our assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.

Certification of claims and returns

1 Hartlepool Borough Council received more than £227 million of funding from various grant paying departments and other organisations in 2009/10. The grant paying departments attach conditions to some of these grants and a number are subject to auditor certification. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important the Council manages certification work properly.

2 In 2009/10, we certified seven claims with a total value of £117 million. Of these, we carried out a limited review of two claims and a full review of five claims (paragraph 12 explains the difference). We amended four claims for errors. For two claims, we issued a qualification letter to the grant paying body as well as requiring amendments. Appendix 1 sets out a summary.

Significant findings

3 Our work on the Housing Benefits and Council Tax claim led to an increase of £13,897 in the net subsidy payable of £53,104,232 to the Council.

4 In general, there are satisfactory arrangements in place for preparing claims and returns. There is scope to improve the standard of working papers and cross-referencing them more clearly to claims and returns.

Certification fees

5 In 2009/10 the fees charged for certification work were £44,687. This compares with £32,533 in 2008/09 and relates to more work carried out in 2009/10, including a new claim.

Actions

6 Appendix 2 summarises recommendations which we have discussed and agreed with officers.

Background

7 The Council received about £227 million in specific grants from central government departments and other organisations in 2009/10. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return (not just those subject to external audit certification); and
- ensuring the Council can evidence that it has met the conditions attached to each claim and return.

8 We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Hartlepool Borough Council. We charge a fee to cover the full cost of certifying claims. The fee depends on the work required to certify each claim or return.

9 The Council is responsible for compiling grant claims and returns under the requirements and by the timescale set by the grant paying departments.

10 The key features of the current arrangements are as follows.

- For claims and returns below £100,000 the Commission does not make certification arrangements (£125,000 from 2010/11).
- For claims and returns between £100,000 and £500,000, we undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 we assess the control environment in place for preparing claims and returns and decide whether we can place reliance on it. Where we place on the control environment, we undertake limited tests to agree from entries to underlying records. However we do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, we undertake all the tests in the certification instruction and use our assessment of the control environment to inform the testing required. This means the audit fees for certification work can be reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim or return. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

Findings

Control environment

11 For each claim, the auditor assesses the control environment in consultation with the reviewer. Together they decide if reliance can be placed on it. Where the auditor is not placing reliance on the control environment, they perform detailed testing. The specific claim section below details recommendations for improvement in the control environment.

12 For all claims and returns, it is important that officers carry out a comprehensive review before the signature of the claim or return by the responsible financial officer. All reviews should be clearly documented in the grant file. This will allow the auditor to assess how comprehensive the review has been as well as providing assurance to the responsible financial officer before their signature.

13 There is scope for improvement in the standard of working papers. In particular ensuring that all entries on claims and returns are clearly cross-referenced to supporting working papers.

Recommendations

R1 All claims should be subject to a comprehensive review before signature by the responsible officer. This review should be documented on the working paper file.

R2 Ensure all entries on claims and returns are clearly cross-referenced to satisfactory supporting working papers.

Specific claims

14 We certified seven claims in the financial year 2009/10. Four of the seven claims and returns required amendments. Of these four amended claims and returns, two required qualification reports to the grant paying body. The section below sets out our main findings.

Housing and Council Tax Benefit Claim

15 For the Housing and Council Tax Benefit claim we tested 20 cases for each benefit type (Non-Housing Revenue Account, Rent Allowances and Council Tax Benefit). Testing resulted in two issues in respect of the classification of Council Tax Benefit overpayments. Following extra testing, the Council agreed to amend the claim which meant no qualification letter was necessary. This amendment led to a net increase of £13,897 in the subsidy payable to the Council. This was because of the pre-set thresholds set by the government for payment of subsidy for different overpayment types changing following the amendment to the claim.

Land stabilisation

16 A qualification letter was issued to the grant paying body for this claim. The qualification letter covered three issues.

- Income and expenditure was claimed at a rate of 100 per cent instead of the 61.3 per cent set out in the original offer letter.
- Future costs of £31,259 were included on the claim.
- The split of expenditure shown on the claim differed to the offer letter.

17 The Council did not wish to amend the claim as they had received informal approval for these variations. As there was no formal evidence to support this, a qualification letter was required.

New Deal for Communities (NDC)

18 A qualification letter was issued for this claim covering several issues, including how the claim form had been completed. This is an ongoing issue arising from the particular use of previous years' NDC sales proceeds previously approved by the grant paying body. However this has resulted in a mismatch with the claim form, hence the qualification letter.

Teachers' Pensions

19 One minor amendment was made to the return as additional voluntary contributions (AVCs) were included in the wrong cell.

20 Testing also identified a weakness with arrangements for recording pension opt in and opt outs which the Council is addressing.

Recommendation

R3 The Council should ensure there are satisfactory controls in place for recording pension opt in and opt outs.

Appendix 1 Summary of 2009/10 certified claims and returns

Table 1: **Claims and returns above £500,000**

Claim	Value (Original) £	Reliance on control environment	Amended	Qualification letter
Housing and Council Tax benefit	£53,104,232	n/a	Yes	No
New Deal for Communities	£2,700,000	No	Yes	Yes
Sure Start	£5,004,498	No	No	No
Teachers' Pension	£31,315,221	No	Yes	No
National Non- Domestic Rates	£25,187,171	No	No	No
	£117,311,122			

Table 2: **Claims and returns between £100,000 and £500,000**

Claim	Value (original) £	Amended	Qualification letter
Disabled Facilities Grant	£275,000	No	No
Land Stabilisation	£404,238	Yes	Yes
	£679,238		

Appendix 2 Action plan

Recommendations

Recommendation 1

All claims should be subject to a comprehensive review before signature by the responsible officer. This review should be documented on the working paper file.

Responsibility	Head of Finance – Corporate
Priority	Medium
Date	2010/11 claims and returns
Comments	This will be actioned and we will ensure the existing checklist will be used for all claims.

Recommendation 2

Ensure all entries on claims and returns are clearly cross-referenced to satisfactory supporting working papers.

Responsibility	Chief Finance Officer
Priority	Medium
Date	2010/11 claims and returns
Comments	This will be addressed to via use of the checklist referred to above.

Recommendation 3

The Council should ensure there are satisfactory controls in place for recording pension opt in and opt outs.

Responsibility	Assistant Chief Finance Officer – Revenue and Benefits
Priority	Medium
Date	Ongoing
Comments	This has already been actioned by the Council.

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



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AUDIT COMMITTEE

MINUTES AND DECISION RECORD

3 December 2010

The meeting commenced at 9.00 a.m. in the Civic Centre, Hartlepool

Present:

Councillor Christopher Akers Belcher (Chair)

Councillors Ged Hall, Cath Hill, Arthur Preece and Ray Wells

Officers: Chris Little, Chief Finance Officer
Noel Adamson, Head of Audit and Governance
Sarah Bird, Democratic Services Officer

Diane Harold, Audit Commission

19. Apologies for Absence

Lynne Snowball, Audit Commission

20. Declarations of interest by members

None

21. Confirmation of the minutes of the meeting held on 22 September 2010

Confirmed.

Matters Arising

Annual Statement of Accounts – The Chair clarified that the previous meeting had been scheduled on that particular date to reflect the previous decisions of both General Purposes Committee 2008 and Audit Committee 2009 in that meetings should be held in sufficient time to allow Members to have a meaningful input and allow time for any amendments to be enacted.

Counter Fraud Initiatives – The Chair commented that the recommendation of Audit Committee to look at Counter Fraud initiatives within the Service Delivery Options, as part of the budget process, had not been carried out. It was suggested that the Chair could raise this proposal at the Scrutiny Co-ordinating Committee later that day. This was agreed.

Treasury Management Training – The Chair thanked officers for arranging this training which had been appreciated by Members. However he was

disappointed that this had not been taken up by many Members not on Audit Committee.

22. Internal Audit Charter (Head of Audit and Governance)

Purpose of Report

To inform Members of the updated Internal Audit Charter attached as Appendix A to the report.

Issues for Consideration

This document was produced in order that the purpose, authority and responsibility of Internal Audit was formally defined and consistent with the code of practice for internal audit in local government. Amongst other responsibilities was the establishment of Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

It was clarified that right of access to partner organisations was in relation to the extent where council funding was involved.

Decision

The Audit Committee approved the Internal Audit Charter.

23. Internal Audit Strategy (Head of Audit and Governance)

Purpose of Report

To inform Members of the updated Internal Audit Strategy attached as Appendix A to the report.

Issues for Consideration

The Strategy communicated the contribution that the Internal Audit makes to the Council and included

- Internal Audit objectives and outcomes
- How the Head of Audit and Governance would form and evidence the opinion on the control environment
- How the service would be provided
- The resources and skills required to deliver the strategy

The department had been reduced by one post.

Members queried whether this strategy had changed much from the last one and were informed that it had been updated with job titles. However

the last time internal audit professional code of practice had been reviewed was 2006 and the code of practice had not changed so there was no need to change the Authority's strategy.

It was clarified that the Government had not made any announcements which would change the requirements and remit of Internal Audit although there was a possibility of transfer of services from health services to local authority from 2013.

It was clarified that following the abolition of the Audit Commission, whoever was the external auditor for the Council would attend Audit Committees to speak to Members.

Decision

The Audit Committee approved the Internal Audit Strategy.

24. Treasury Management 2011/2012 *(Chief Finance Officer)*

Purpose of the Report

To enable the Audit Committee to consider the proposed Treasury Management Strategy for 2011/2012 prior to the strategy being referred to Council in February 2011.

Issues for Consideration

The report outlined the Authority's Treasury Management Strategy for 2011/2012

Decision

Members considered and approved the proposed Treasury Management Strategy detailed in the report prior to the Strategy being referred to Council in February 2011.

Members noted that a number of technical prudential indicators would be calculated once the Government announced capital allocations and this would be reported to Council in February 2011. The report covered the outlook for Interest Rates, the Capital Financing Requirement and Borrowing Strategy, Investment Strategy and also Prudential Indicators and Treasury Limits.

A Member queried the consequences of borrowing from banks and was reassured that short term borrowing would be at favourable rates. However the market for longer term borrowing had not been tested although this was also likely to be at favourable rates. Butlers were employed to provide market intelligences and this was kept under constant review. The Authority also had reserves and a positive cash flow which mitigated risk.

A Member queried whether it was likely that there would be government pressure to use reserves. He was informed that the Authority had reserves set aside for a number of purposes including money in trust for schools.

A Member suggested that it would be useful for the Chair of the Audit Committee to have some input in the presentation of the report at Council. The Chief Finance Officer suggested that this report could include the fact that the Audit Committee had considered and endorsed the recommendations.

Decision

Members:-

- Considered and approved the proposed Treasury Management Strategy detailed in the report prior to the Strategy being referred to council in February 2011
- Noted that a number of technical prudential indicators would be calculated once the Government announced capital allocations, and this would be reported to Council in February 2011

25. Audit Commission Report – Annual Audit Letter *(Chief Finance Officer)*

Purpose of Report

To inform members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commission's Annual Audit Letter.

Issues for Consideration

The representative from the Audit Commission presented the findings from the 2009/10 audit. An unqualified opinion on the value for money conclusion had been issued. It was acknowledged that the Council had responded rapidly to cuts in capital and revenue funding for 2010/11 and beyond. The Council had continued to review its medium term financial plan and the Business Transformation Programme was helping review and manage this. The impact of the Local Government Boundary Commission electoral review would also impact on the governance framework and approach. It was highlighted that the Authority had taken a pro-active approach to following up data matches arising from the latest National Fraud Initiative.

The Chair commented that he felt that paragraph 32 on page 9 of the Audit letter which stated the estimated cost of fraud and error would be up to £150,000 should have read '**may** have totalled up to £150,000'.

The Chair expressed concern that changes in local government boundaries may increase pressure on the proposed fewer number of Members. He highlighted the work of scrutiny forums where 90% of recommendations had been accepted by the Executive.

A Member highlighted the need to let residents know that cuts in services were due to cuts in Government grants.

Decision

The Audit Committee:-

- noted the report
- agreed that the minutes from this meeting be circulated to all Members in order that comments on the Audit Report could be noted by them

26. Treasury Management Strategy Update 2010/2011 (Chief Finance Officer)

Purpose of Report

To update the Members on matters relating to Treasury Management and to enable members to confirm the continuation of the existing Treasury Management Strategy

Issues for Consideration

Members were reminded that there had been no change to the Strategy this year. In relation to the Investment strategy the Council took a cautious approach as to who it invested with and had a restricted list with only specified institutions. Building societies and foreign banks were excluded from this list.

Decision

Members noted the report and the continuation of the Treasury Management Strategy.

27. Internal Audit Plan 2010/11 Update (Head of Audit and Governance)

Purpose of Report

To inform Members of the progress made to date completing the internal audit plan for 2010/11.

Issues for Consideration

The appendix to the report detailed pieces of work completed and ongoing. In relation to the National Fraud Initiative, all of the required information had been uploaded onto the Audit Commission's secure website. The Government had decided to end the current Financial Management Standard in School with immediate effect. Once its replacement had been agreed, this would be reported to Members.

Members were informed that there were performance indicators in place to ensure that suppliers were paid within 30 days. Local suppliers were paid within 10 days.

A Member queried whether the awareness of fraud had been implemented and was informed that messages had been relayed on payslips. Information in relation to fraudulent use of disabled badges for car parking had been issued in the Hartlepool Mail. The Chief Finance Officer agreed to circulate the information on fraud to Members.

A Member highlighted that reductions in staff would put pressure on remaining staff and communities would suffer from reduced services.

It was clarified that the income and expenditure analysis for the Tall Ships event would be reported to a future meeting of the committee.

Decision

Members noted the contents of the report.

28. Role of Audit Committee in Approving Audit Plans (Head of Audit and Governance)

Purpose of Report

To provide Members of the Audit Committee advice regarding their role in approving future audit plans.

Issues for Consideration

A briefing paper provided background information and questions relevant to the role of the Audit Committee members. Members were reminded that they should be both challenging of the Audit Plan and supportive in its delivery.

A Member commented that the Committee dealt with reports which were presented by Officers and perhaps there was a risk that some areas were not looked at. He was informed that Auditors gave an annual opinion. There was a 3 – 5 year plan on areas to Audit although it was acknowledged that some areas had a very low risk and therefore were not visited as often. There was a full work programme for each year, although there was a contingency in the plan in case areas did need looking at unexpectedly.

Members felt it important that new Members were made aware of the role of the Audit Committee via a training session within their induction programme.

Decision

Members:-

- reviewed the content of the briefing paper and considered the issues raised when approving future audit plans.
- Agreed that induction training for new Members should include the role of the Audit Committee

29. International Financial Reporting Standards (IFRS) – Update *(Chief Finance Officer)*

Purpose of Report

To advise Members on the progress being made on the implementation of IFRS.

Issues for Consideration

It was a statutory requirement for all local authority's financial statements to be IFRS compliant by 2010/2011. To comply with this, the Council would need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures from 2010/2011. An updated Action Plan had been produced to ensure the Council complied with the relevant timescales. It was anticipated that a restated set of accounts for 2009/10 would be produced and audited by the external auditors by the end of the calendar year.

A Member commented that a large amount of work was necessary to comply with the IFRS standards and that staff should be commended for completion of this work.

A Member commented that these standards should prevent malpractice e.g. in selling land inappropriately and was informed that there was governance in place so that land was sold on a proper basis.

Decision

Members noted the report.

The meeting concluded at 10.39 am.

CHAIR

AUDIT COMMITTEE

23.03.11



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT – 2010/11
AUDIT PLAN.

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Report, 2010/11 Audit Plan.

2. BACKGROUND

- 2.1 This report summarises the Audit Commission Report 2010/11 Audit Plan. It sets out the audit work that the Audit Commission propose to undertake for their audit of financial statements and value for money conclusion 2010/11.
- 2.2 The plan is based on the Audit Commission's risk-based approach to audit planning and reflects:
- audit work specified by the Audit Commission for 2010/11;
 - current national risks relevant to local circumstances; and
 - local risks.

3. FINDINGS OF THE AUDIT COMMISSION

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

4. RECOMMENDATIONS

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

Audit plan

Hartlepool Borough Council

Audit 2010/11

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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £267,000, as indicated in my letter of 29 April 2010.

4 The Audit Commission scale fee for Hartlepool Borough Council is £233,260; based on a set amount of £135,500 plus 0.032 per cent of the Council's planned gross expenditure. The fee for 2010/11 is 14 per cent above the scale fee and is within the normal variations specified by the Audit Commission, to allow appropriate provision to carry out the required work, taking into account specific risks at the Council.

5 However, the Commission wrote to all audited bodies, on 9 August, about its proposed new arrangements for local value for money audit work. This indicated the impact on audit fees for 2010/11 would be considered as part of the Commission's consultation on its work programme and scales of fees for 2011/12, planned for September. In light of the Secretary of State's announcement on the government's intention to abolish the Commission, this consultation was delayed, however it is now underway.

6 The Audit Commission has separately issued a one-off rebate of £13,669 or 5 per cent of the fee to cover the cost of the additional audit work required for the transition to IFRS.

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit; and
- The Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS).

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Chief Finance Officer and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in appendix 1.

Specific actions the Council could take to reduce its audit fees

10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

11 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

12 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

13 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Implementation of International Financial Reporting Standards (IFRS).	The Council is carrying out work on the restatement of the 2009/10 financial statements under IFRS. My team will continue to liaise with the Council and carry out early substantive work.
Calculation of the Infrastructure depreciation accounting estimate completed late in the 2009/10 accounts process.	My team is liaising with the Head of Finance - Corporate and aim to carry out early work on the infrastructure depreciation, with consideration of any adjustment to this accounting estimate.

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

14 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

15 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- IFRS restatement work.
- Review of accounting policies.
- Bank reconciliation.
- Year-end feeder system reconciliations.
- Related party transactions.
- Set up predictive analytical reviews for Council Tax, Business Rates and payroll.

Where I identify other possible early testing, I will discuss it with officers.

16 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities. For 2010/11, I expect to be able to use the results of Internal Audit's payroll work.

17 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas.

- Pension Fund auditor (Deloitte).

18 I also plan to rely on the work of experts in the following areas.

- Actuary (Barnett Waddinghams).

Value for money conclusion

I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

19 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

20 I will plan a programme of VFM audit work based on my risk assessment, focusing my work in the following areas:

- how robust and achievable the Medium Term Financial Strategy is in addressing the changes in funding;
- consideration of how the Council is addressing upcoming changes in governance arrangements; and
- the robustness of the Business Transformation Programme in delivering the planned efficiency savings and contributing to continued VFM in the Council's use of its resources.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

21 The key stages in producing and auditing the financial statements are in table 2.

22 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

23 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries.

Table 2: **Proposed timetable**

Activity	Date
Control and early substantive testing	February 2011
Receipt of accounts	By 30 June 2011
Sending audit working papers to the auditor	By 30 June 2011
Start of detailed testing	By 30 June 2011
Progress meetings	Weekly
Present report to those charged with governance (the Audit Committee)	23 September 2011
Issue opinion and value for money conclusion	30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Lynne Snowball District Auditor	l-snowball@audit-commission.gov.uk 0844 798 1670	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Diane Harold Audit Manager	d-harold@audit-commission.gov.uk 0844 798 1641	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer and the Head of Finance - Corporate.
Cathie Eddowes Team Leader	c-eddowes@audit-commission.gov.uk 0844 798 1639	Team Leader. Key point of contact for the Head of Finance - Corporate.

Independence and objectivity

24 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

25 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

Meetings

26 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

Quality of service

27 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk who will look into any complaint promptly and to do what he can to resolve the position.

28 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

29 My team will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
External Audit Plan	December 2010
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum (if required)	November 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:

- my cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Council officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- the fee for the value for money conclusion is the same as for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit meets the appropriate professional standards;
- Internal Audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit;
- you provide:
 - good quality working papers and records to support the financial statements by the agreed date;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules.

The key rules relevant to this audit appointment are as follows.

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

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive	District Auditor (DA)	Quarterly or as required.	General update
Assistant Chief Executive	DA and Audit Manager (AM)	Quarterly or as required	General update Progress on VFM conclusion
Chief Finance Officer	AM	March, July, September	General update plus: <ul style="list-style-type: none">■ March - audit plan;■ July - accounts progress; and■ September - annual governance report.
Head of Finance - Corporate	AM and TL	Quarterly or more frequently, as required.	Update on audit issues
Head of Internal Audit and Governance	AM	Quarterly or as required.	General update Sharing relevant work.
Audit Committee	DA and AM, with TL as appropriate	Quarterly	Formal reporting of: <ul style="list-style-type: none">■ Audit plan;■ Annual governance report; and■ other issues as appropriate.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Annual Governance Statement

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements. The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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

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



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AUDIT COMMITTEE

23 March 2011



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT – 2010/11
JOINT WORKING PROTOCOL – FINANCIAL
STATEMENTS AUDIT.

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Report, 2010/11 Joint Working Protocol – Financial Statements Audit.

2. BACKGROUND

- 2.1 This report summarises the Audit Commission Report 2010/11 Joint Working Protocol – Financial Statements Audit. It details the Audit Commissions objectives as appointed auditor and how it plans to carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice.

3. FINDINGS OF THE AUDIT COMMISSION

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

4. RECOMMENDATIONS

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

Joint working protocol - financial statements audit

Hartlepool Borough Council

Audit 2010/11

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

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

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

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Joint working protocol

Introduction

- 1** My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and my audit work focuses on the risks that are relevant to my audit responsibilities under the Code. I issue an audit opinion on whether your financial statements fairly state your financial position and transactions for the year ended 31 March 2011.
- 2** I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. This document reflects my commitment to promote productive joint working between my audit team and your finance team.

Audit approach

- 3** To support effective joint working I think it would be helpful to explain my approach to delivering your audit. Table 1 shows a summary of my approach and my proposed timetable.

Table 1: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through your material information systems. Testing the key controls within these systems including, where possible, reviewing the work of Internal Audit. Evaluating your control environment including assessing general information technology (IT) controls. Carrying out testing before the year-end on material balances that you expect to include in the financial statements.	From November 2010 to March 2011.
2. Post-statements	Testing the material balances, transactions and notes within your financial statements.	From July 2011 to September 2011

4 My team will work closely with you throughout the opinion audit. I include a table at appendix 1 showing the meetings scheduled throughout the year. I am keen to continue developing good joint working arrangements to help improve the efficiency of the audit.

Clarified International Standards on Auditing – changes you can expect to see

5 In 2009 the auditing professional body, the International Auditing and Assurance Standards Board (IAASB), completed a comprehensive project to improve the clarity of all International Standards on Auditing (ISAs). This is the Clarity Project.

6 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.

7 The new clarified framework will apply to my audit of your 2010/11 financial statements. You can expect to see some changes in the way my audit team delivers your audit and the information they seek from you because of the new standards. The purpose of this section is to highlight to you the main changes and how they will impact on you.

8 Appendix 4 sets out more detail on the changes you will see which cover:

- journals;
- related party transactions;
- accounting estimates;
- group accounts (this has been included for information only as historically group accounts have not applied in recent years for the Council); and
- reporting any identified deficiencies in internal control.

Pre-statements audit

Documenting and walking through your systems

9 I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

10 To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year.

Identifying and testing key controls

11 Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate for the purposes of my audit. I call these key controls.

12 Testing that these key controls are operating effectively provides me with assurance that there is a reduced risk that your financial statements contain material errors. It also enables me to report to you any deficiencies in your system of internal control.

13 Wherever possible I will seek to rely on the work undertaken by Internal Audit in respect of your key controls. My team meets regularly with Internal Audit to discuss the scope and timing of our respective audit plans. This includes identifying the key controls within each material information system. If I do seek to place reliance on Internal Audit I will review and evaluate their work.

Control environment and Information Technology (IT) controls

14 I consider the strength of your control environment and general IT controls in assessing the risk that your financial statements contain material misstatements.

15 As part of the pre-statements audit, I consider and document the control environment in which you operate. For example, I will discuss with management and the Audit Committee (as those charged with governance) the arrangements that the Council has in place for issues including fraud, governance and complying with laws and regulations, and seek written confirmation of the arrangements.

16 In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.

Early testing of material balances and notes

17 I am aware that the post-statements stage of my audit falls during a busy period for your finance team and I aim to reduce, as far as possible, the extent of audit work I need to carry out on your financial statements at that time.

18 During the pre-statements audit I will agree with your finance team any aspects of your financial statements that will be known before the year-end. For example, I can test any in-year material additions or disposals of property, plant and equipment rather than test them at the year-end.

Post-statements audit

19 At the post-statements stage of the audit I focus my work on testing of the material balances and notes within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

20 My assessment will also take into account a number of factors including the materiality of the item, political sensitivity, known problems from previous years, any findings from internal audit and any changes in accounting practice and the CIPFA Code of Practice. As a result the work undertaken and requests for further information may differ to previous years. However, I will ensure that I provide the finance team with an outline timetable of when auditors will be reviewing which aspects of the financial statements.

What we expect from you

Obtaining external confirmations

21 There will be instances where the most appropriate effective method of obtaining audit evidence is by obtaining external confirmations. External confirmations are most commonly used with regards to the confirmation of balances. Examples of where I use them include:

- bank balances and other information from bankers;
- investments; and
- loans from lending institutions.

22 You will need to give permission to the following third parties to release information which will be requested by me in due course:

- the Pension Fund Actuary; and
- bodies with which the Council holds investments or borrows from.

Reporting

23 I am required by auditing standards to report the results of my work to the Audit Committee as those charged with governance. I do this in the Annual Governance Report. This report will include only the significant findings identified from my audit work. If necessary, I will report more detailed findings and recommendations from my audit of the financial statements in a separate final accounts report to officers.

Communications and working papers

24 I have outlined to you my audit approach so that you know what to expect from me and my audit team. To deliver an effective and efficient audit our respective teams need to work collaboratively. The following paragraphs outline my expectations from you.

- Access to key finance staff (including those listed in appendix 2).
- Notification of when key staff are unavailable.
- Fast resolution of audit queries and issues (this would ordinarily be within two working days).
- Relevant and available working papers in accordance with your closedown timetable. Working papers should be:
 - cross referenced to all accounting systems and other sources of information where possible;
 - clearly labelled and headed;

- accompanied by clear audit trails to individual transactions making up the balance;
- signed and dated; and
- ideally provided in an electronic format.

25 I recommend that you include within the working papers detailed supporting documentation for any transactions over £1.911 million (based upon our initial planning performance materiality). This is because we are likely to carry out detailed testing on individual transactions above the performance materiality level. As part of the post-statements audit I may request further ‘drilling down’ into transaction listings for testing. Finance staff should ensure that this information is retained and is readily available.

26 I also recommend that you provide these working papers at the beginning of the post-statements audit. This will reduce the time that finance staff have to spend dealing with audit queries. Any delays in the provision of adequate working papers or in the resolution of queries will impact on the audit programme and may lead to a delay in issuing the opinion and a potential increase in the fee that I have agreed for the audit.

What can you expect from me and my team

27 You can expect the following.

- A set of working paper guidelines for the post-statements audit.
- A schedule of all audit errors and uncertainties arising from my work.
- Regular audit liaison to discuss matters arising from the audit.
- During the post-statements audit, weekly liaison from the Team Leader and Audit Manager to discuss the progress of the audit and unresolved queries, using a rolling schedule of errors and uncertainties to track agreed actions.

28 My team and I will raise matters of urgency promptly if issues could have an adverse impact on the audit opinion or the Annual Governance Report.

29 I have proposed a timetable (see Appendix 1) to enable me to issue an Annual Governance Report to the Chief Finance Officer and to the Audit Committee on 23 September 2011. This will allow sufficient time for the Council to respond to any matters. Subject to gaining sufficient assurance from my audit testing, I aim to give my opinion by 27 September to enable the Council to publish the audited accounts by the deadline of 30 September 2011.

Way forward

30 I have prepared this protocol to improve the way my audit is delivered and where possible, help reduce the load on your finance team in preparing the financial statements and responding to auditor queries. I recommend that you share this protocol with finance staff who are responsible for compiling working papers and responding to audit requirements.

31 If you have any queries about the working papers requested, or the contents within this protocol, please contact your Audit Manager (see appendix 3 for contact details).

Appendix 1 Schedule of meetings

The following schedule of meetings is not an exhaustive list but highlights the likely meetings between us throughout the year.

Meeting	Attending	Frequency/Confirmed dates
Progress meeting	Audit Manager/ District Auditor Head of Finance - Corporate/ Chief Finance Officer	Quarterly Discussion of Annual Governance Report - early September 2011
Progress meeting	District Auditor/ Audit Manager Chief Executive/ Assistant Chief Executive	Quarterly or as required
Audit Committees	District Auditor Audit Manager/ Team Leader Audit Committee members	March 2011 June 2011 September 2011 December 2011
Progress meeting	Audit Manager/ Team Leader Head of Finance - Corporate	Quarterly or as required
Progress meeting	Audit Manager Head of Internal Audit and Governance	Quarterly or as required
Progress meeting	Audit Manager Chief Solicitor	Quarterly or as required
Post-statements Progress meeting	Audit Manager/ Team Leader Head of Finance - Corporate	Weekly throughout post- statements testing

Appendix 2 Key Officer contacts

The key contacts from the council will be as follows.

Name	Title	Extn	Expected date/period of contact
Chris Little	Chief Finance Officer	3003	Ongoing
Sandra Shears	Head of Finance – Corporate	3492	Ongoing
Noel Adamson	Head of Internal Audit and Governance	3173	Ongoing

Appendix 3 Audit Commission staff

The key Audit Commission staff involved in the audit are listed below.

Name	Title	Contact number
Lynne Snowball	District Auditor	0844 798 1670
Diane Harold	Audit Manager	0844 798 1641
Cathie Eddowes	Team Leader	0844 798 1639

Appendix 4 Clarified international auditing standards - impact of the main changes

This appendix details the main changes as a result of the clarified international auditing standards (ISAs) referred to earlier in this document.

Journals

ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATS (computer aided audit techniques), Idea software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work with you.

Related party transactions

ISA (UK&I) 55 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting estimates

ISA (UK&I) 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and related disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to help you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the uncertainty arising because the estimate cannot be precise or exact); and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

ISA (UK&I) 265 (Communicating Deficiencies in Internal Control to Those Charged with Governance and Management) is a new standard.

If I identify a deficiency in any of your internal controls during the audit, I will discuss it with you and undertake more audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to your Audit Committee, as 'Those Charged with Governance'.

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AUDIT COMMITTEE

23.03.11



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT – AUDIT PROGRESS REPORT.

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Report, Audit Progress Report.

2. BACKGROUND

- 2.1 This report summarises the Audit Commission Audit Progress Report. The report reflects progress the Audit Commission has made on the external audit of Hartlepool Borough Council as at 9 March 2011.
- 2.2 Details of the national consultation on fees and work programme for 2011/12 onwards by the Audit Commission are also given, as well as details of other national publications including:
- an update to the VfM profiles; and
 - Statement of responsibilities of auditors and audited bodies applicable to 2010/11 audits.
- 2.3 Also included is the standard Audit Commission Letter to those Charged with Governance. This relates to the Audit Committee responsibility for preventing and detecting fraud and ensuring the legality of transactions. In carrying out the annual accounts audit, the Audit Commission have to demonstrate compliance with International Standards for Auditing (UK and Ireland). Among these are ISA (UK&I) 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, and ISA (UK&I) 250 Consideration of Laws and Regulation in an audit of financial statements.
- 2.4 Attached at Appendix B is the Chairs response to the Audit Commission request for last year.

- 2.5 Also attached is the detailed report, Statement of responsibilities of auditors and audited bodies applicable to 2010/11, as mentioned in the Audit Progress Report. The purpose of this statement is to assist auditors and audited bodies by summarising where - in the context of the usual conduct of an audit - the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Details of key messages from the work carried out are included in the main body of the reports attached as Appendix A and C.

4. RECOMMENDATIONS

- 4.1 That the Audit Committee:
- i. note the reports of the Audit Commission;
 - ii consider the requirement to provide a response to the Audit Commission request regarding compliance with international Accounting Standards.

Audit Progress Report

March 2011

Hartlepool Borough Council

Audit 2010/11



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

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

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

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Introduction

- 1 This update report reflects progress on the external audit of Hartlepool Borough Council as at 9 March 2011.
- 2 In summary, we have carried out planning for the 2010/11 audit and are completing our interim work. As part of our work, we make enquiries of management and members in relation to compliance with laws and regulations and knowledge of any fraud; this is covered in this report.
- 3 Details of the national consultation on fees and work programme for 2011/12 onwards by the Audit Commission are also given, as well as details of other national publications including:
 - an update to the VfM profiles; and
 - Statement of responsibilities of auditors and audited bodies applicable to 2010/11 audits.

2010/11 audit progress and update on fees

Audit plan 2010/11

4 Our separate report 'Audit Plan 2010/11' sets out our planned approach to the audit of the financial statements in 2010/11. It also covers our high-level approach to the Value for Money conclusion.

5 We are completing our interim work looking at the material information systems of the Council.

Impact of clarified auditing standards on the 2010/11 audit

6 Our audit is governed by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures which govern our professional conduct.

7 The auditing standards have recently been revised and updated as part of a comprehensive Clarity project. These new standards apply to the 2010/11 audit and the following paragraphs highlight the main changes.

8 In summary, the main changes you will see cover:

- Journals: we will review all material year-end adjustment journals;
- Related party transactions (RPTs): we will review the Council's procedures for identifying RPTs and what controls you have in place;
- Accounting estimates: we will look at accounting estimates in detail including both controls, processes and how you assess the degree of estimation uncertainty; and
- Reporting any identified deficiencies in internal control: this is a new auditing standard ISA 265 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management'. If we identify a deficiency in any of your internal controls during the audit, we will discuss this with you and will undertake more audit testing to decide whether the deficiency is significant. If we decide it is significant, we will report it in writing to the Audit Committee and/ or the Council as representatives of 'Those Charged with Governance'.

Audit fee 2010/11 update

9 The Audit Commission began a consultation on its work programme and scales of fees for 2011/12 in December 2010. This is referred to later in this report.

10 Our separate Audit Plan 2010/11 refers to the original agreed audit fee of £267,000 for 2010/11.

11 However the Audit Commission plans to issue rebates for the 2010/11 audit fees. These will be notified to councils later in the summer. In addition, a rebate of 6% of the scale fee was issued last year for the 2010/11 fee in respect of the added costs from the transition to International Financial Reporting Standards

Enquiries of the Audit Committee about compliance with laws and regulation and knowledge of fraud

12 In carrying out the annual audit of the financial statements, auditors have to demonstrate compliance with International Standards for Auditing including:

- The auditor's responsibility to consider fraud; and
- Consideration of laws and regulations.

13 Included as an appendix is our letter which we have previously issued to the Audit Committee Chair.

14 We have made similar enquiries of management.

Recommendation

R1 It would be helpful if we could receive assurances in respect of the 2010/11 financial year to date from the Audit Committee, as in previous years.

Other developments including national publications

Introduction

15 This section of the report summarises other developments, including relevant national work undertaken by the Audit Commission, for consideration by officers and members.

Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting, December 2010

16 This report gives a summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local government bodies.

17 The report covers:

- auditors' work on the 2009/10 financial statements;
- the results of auditors' 2009/10 local value for money work;
- the public interest reports and statutory recommendations issued by auditors since December 2009; and
- the key financial management and financial reporting challenges for 2010/11.

18 The report congratulates seven councils, one police authority, three local government bodies and one fire and rescue authority for early publication.

19 The report highlights the five characteristics of councils that manage money strategically as being:

- strong and accountable financial leadership;
- an organisational culture of financial awareness;
- an ability to specify priorities and make choices within means;
- comprehensive financial information that clearly underpins decision; and
- an ability to anticipate changing circumstances and manage financial risks.

20 Link to Audit Commission website:

<http://www.audit-commission.gov.uk/localgov/audit/UoR/Pages/auditingtheaccounts200910.aspx>

2011/12 proposed work programme - consultation response February 2011

21 The Audit Commission has consulted on its work programme and scales of fees for 2011/12.

22 The Audit Commission is again cutting audit fee scales for health and local government and community safety organisations next year. Scale audit fees for bodies will be between 5 and 20 per cent lower in 2011/12 than in 2010/11.

23 Following the consultation, the Commission has agreed, subject to affordability, to make additional rebates in 2011/12. This means all audited bodies will see a significant net decrease in fees compared to 2010/11. The Commission will notify audited bodies of the amount due to them in the summer.

24 Subject to the timetable for abolishing the Commission, it is also committed to delivering further significant fee decreases of up to 15 per cent in 2012/13.

25 The Audit Commission is planning to specify the scale fee for each individual audited body, rather than, as in the past, providing a scale fee with fixed and variable elements.

26 These specified provisional scale fees are set out on the Audit Commission's website:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/fees/pages/20101210individualfeeslocalgov.aspx>

27 For the Council, the scale fee for 2011/12 is provisionally set at £240,300. This represents a decrease of £26,700 or 10 per cent on the original 2010/11 audit fee.

28 The Audit Commission has also stated that, Subject to the timetable for its abolition, it is also committed to delivering further significant fee reductions of up to 15 per cent in 2012/13.

29 Link to Audit Commission website:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/fees/Pages/1112workprogfees.aspx>

Value for money profiles update, February 2011

30 The Audit Commission updated its value for money profiles on its external website in December 2010 with a further update in February 2011.

31 The local authority VfM profiles start with an overview of financial performance and contextual information about the area. This profile includes charts on the costs of revenues collection and back office services.

32 There is a profile covering aspects of financial resilience. This includes indicators of specific features of a council's financial position including sources of income, reserves, and assets. This will help to identify potential risks for councils in ensuring a stable and sustainable financial position.

33 We will consider the VfM profiles as part of our 2010/11 VfM conclusion work.

<http://vfm.audit-commission.gov.uk/RenderReport.aspx?Gkey=282VqlaaVSJoxnMy6HUTWIIvuNM9TL3TDD0QYRBjIPxuu%2bE%2b3msZOhF2XxKRJB%2by>

Statement of responsibilities of auditors and audited bodies applicable to 2010/11

34 The Audit Commission is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice, which prescribes the way in which auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and paragraph 7 of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits in both sectors and so supports each Code.

35 The purpose of this statement is to assist auditors and audited bodies by summarising where - in the context of the usual conduct of an audit - the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members of the body (for example, elected members in local authorities and directors of NHS bodies) and its management (the senior officers of the body).

36 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence of the audited body, the audit role does not include providing financial or legal advice or consultancy to the audited body.

37 The statement addresses:

- Responsibilities in relation to the financial statements;
- Electronic publication of the financial statements;
- Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of a body's resources;
- Specific powers and duties of auditors;
- Reporting the results of audit work;
- Ad hoc requests for auditors' views;
- Grant claims and returns - certification; and
- Access to information, data security and confidentiality.

38 Link to Audit Commission website:

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

Appendix 1 Audit Commission letter: enquiries of the Audit Committee about compliance with laws and regulations and knowledge of fraud

Our reference HA02211

9 March 2011

Cllr C Akers-Belcher
Audit Committee Chair
Hartlepool Borough Council

Direct line

01429 523490

0844 798 1641

Email

d-harold@audit-
commission.gov.uk

Dear Cllr Akers-Belcher

Audit Committee responsibility for preventing and detecting fraud and ensuring the legality of transactions

In carrying out the annual accounts audit, auditors have to demonstrate compliance with International Standards for Auditing (UK and Ireland). Among these are ISA (UK&I) 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements, and ISA (UK&I) 250 Consideration of Laws and Regulation in an audit of financial statements.

ISA (UK&I) 240

Under the Standard, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which we consider to mean the Audit Committee for the Council. The Standard views fraud in two ways, as either:

- the intentional misappropriation of the Council's assets (for example, cash, property); and
- the intentional manipulation or misstatement of the financial statements.

The Standard requires us to gain each year, an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them. We are making similar enquiries of management and Internal Audit.

Therefore I would be grateful for your responses, on the Committee's behalf, on the following issues:

- How does the Committee assess the risk the financial statements may be materially misstated because of fraud?
- Is the Committee aware of the management's process for identifying and responding to the risks of fraud and specific risks of misstatement in the financial statements?

- Is the Committee aware of the arrangements in place for management to report about fraud to the Committee?
- Is the Committee aware of the arrangements management have in place, if any, for communicating with employees, non-executive directors, partners and stakeholders about ethical governance and standards of conduct and behaviour?
- Does the Committee have knowledge of actual or suspected fraud, and if so is it aware of what actions management is taking to address it?
- What arrangements are in place for the Committee to oversee management arrangements for identifying and responding to the risks of fraud and establishing the system of internal control?

ISA (UK&I) 250

As with preventing fraud and corruption, the primary responsibility for ensuring that transactions are conducted under appropriate laws and regulations rests with both management and 'those charged with governance'.

Auditors must gain a general understanding of the legal and regulatory framework applicable to the audited body and how the audited body is complying with that framework.

After gaining a general understanding auditors need to undertake audit procedures to help identify instances of non-compliance with those laws and regulations where this impacts on preparing the financial statements. This includes:

Enquiring of management whether they have complied with all relevant laws and regulations;

Written representation from management that they have disclosed to the auditor all known actual or possible areas of non-compliance; and

Enquiring with "those charged with governance" whether they are aware of any possible instances of non-compliance.

Therefore I would be grateful for your responses, on the Committee's behalf, on the following issues:

- How does the Committee assess the risk the financial statements may be materially misstated because of failure to comply with relevant laws and regulations?
- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations?
- What arrangements are in place for the Committee to oversee this process?
- Is the Committee aware of the arrangements management have in place, for communicating with employees, non-executive directors, partners and stakeholders about following relevant laws and regulations?
- Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with, and if so is it aware of what actions management is taking to address it?

The information you provide will inform our understanding of the Council and its business processes, helping us to plan audit work that is the most appropriate. This will enable us to give an opinion on your financial statements.

A brief response by letter or email would be helpful. If you have any queries, please do contact me.

Yours sincerely

Diane Harold
Audit Manager

Appendix B

Cllr Christopher Akers Belcher
Audit Committee Chair
Civic Centre
Hartlepool
TS24 8AY

Tel: 01429 266522
www.hartlepool.gov.uk
Our Ref:
Your Ref

05.07.10

Diane Harold
Audit Manager
Audit Commission

Dear Diane,

Further to your request regarding compliance with International Standard on Auditing (UK&I) 240 and 250, I have outlined below how the Audit Committee exercises oversight of the processes in place for identifying and reporting the risk of fraud and possible breaches of internal control and how we gain assurance that all relevant laws and regulations are complied with.

- *Considered the 2009/10 Internal Audit Plan* – This informed the committee of the direction of Internal Audit activity and sought approval of the annual operational Internal Audit Plan for 2008/09. It also provided accountability for internal audit services allowing the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Considered Internal Audit Plan 2009/10 Updates* – Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and comment upon any areas of concern.
- *Reviewed the Internal Audit Outcome Report 2009/10* – This provides accountability for internal audit delivery and performance and allowed the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory Internal Audit function in accordance with the Accounts and Audit Regulations 2003 as amended 2006 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Reviewed and approved the 2009/10 Annual Governance Statement* – This allowed members to review the council's approach to meeting the implications of the Accounts and Audit Regulations (England) 2003 as

amended 2006 requirement; that the Council publish a Statement on Internal Control with the Financial Statements, and the action undertaken by the Council to meet its obligations within the scope of the Regulations.

- *Reviewed and approved the findings of the review of the effectiveness of the system of internal audit* – This allowed the committee to place reliance on the totality of systems and procedures in operation at the council in pursuit of its objectives
- *Review and Approval of Council Accounts.*
- *Review of Audit Commission Reports.*

I can confirm that the Audit Committee has no knowledge of any actual, suspected or alleged frauds affecting the Council and is satisfied adequate arrangements are in place for the committee to be made aware of any such instances.

In drawing this conclusion Cllr Arthur Preece was consulted throughout the 2008/09 municipal year as previous Audit Committee Chair.

Cllr Christopher Akers Belcher
Audit Committee Chair

Statement of responsibilities of auditors and of audited bodies

Local government, March 2010

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

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

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

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Introduction

1 The Audit Commission (the Commission) is responsible for appointing auditors and determining their terms of appointment, as well as for preparing a Code of Audit Practice (the Code), which prescribes the way auditors are to carry out their functions. The Commission has prepared a Code for the audits of local government bodies and a Code for the audit of local NHS bodies. From time to time, the Commission issues guidance to auditors under section 3(8) of the Audit Commission Act 1998 (the Act) and Paragraph 7(3) of Schedule 1 to the Act. This statement sets out guidance on general responsibilities relevant to audits of local government bodies and so supports the Code. A separate statement has been prepared for the audits of NHS bodies.

2 This statement serves as the formal terms of engagement between the Audit Commission's appointed auditors and local government bodies.ⁱ It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. Throughout this statement, the term 'audited body' covers both the members and senior officers of the body.

3 The responsibilities of auditors are derived from statute (principally the Audit Commission Act 1998) and from the Code. Nothing in this statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that because auditors must not prejudice their independence of the audited body, the role of the appointed auditor does not include providing financial or legal advice or consultancy to the audited body.

4 Auditors may wish to refer to this statement in audit planning documents, annual audit letters, reports and other audit outputs.

Introduction to responsibilities

5 Those responsible for the conduct of public business and for spending public money are accountable for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

ⁱ This statement covers the audits of local government bodies. These include the various bodies that provide public services locally, including local authorities (and their pension funds, if applicable), fire authorities, police authorities, local councils, local probation boards and trusts and integrated transport authorities and passenger transport executives.

6 In discharging this accountability, public bodies are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.ⁱ They are also required to report on their arrangements in their statement on internal control.ⁱⁱ

7 It is the responsibility of the audited body to ensure that proper arrangements are in place, but certain individuals may also have specific responsibilities. Local authorities have designated statutory officers, each of whom has a specific role in relation to accountability and control. For local authorities, these include:

- the head of paid service, usually the chief executive, responsible to the full council for the corporate and overall strategic management of the authority;
- the monitoring officer, who is responsible for reporting to the authority any actual or potential breaches of the law or any maladministration and for ensuring that procedures for recording and reporting key decisions are operating effectively; and
- an officer with responsibility for the proper administration of the authority's financial affairs.

8 In carrying out their work, auditors will:

- plan and manage the audit in a timely, professional and efficient manner;
- plan to complete work within agreed deadlines;
- maintain close liaison with the audited body; and
- provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.

9 In meeting their responsibilities, auditors obtain representations from management, both orally and in writing, on specific aspects of the audit.

10 The following paragraphs summarise the specific responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Code.

Responsibilities in relation to the financial statements

11 The financial statements, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the audited body to:

- put in place, and review the effectiveness of, its system of internal control, including arrangements to ensure the regularity and lawfulness of transactions;ⁱⁱⁱ

i The various local government bodies covered by this statement are constituted differently and their governance arrangements will vary accordingly.

ii Known as Annual Governance Statement for local authorities.

iii For example, Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended, requires local authorities and other specified bodies to 'conduct a review at least once in a year of the effectiveness of its system of internal control'.

- maintain proper accounting records; and
- prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income and that they are in accordance with applicable laws, regulations and accounting policies.

12 A local authority that is the administering authority for a local authority pension fund must prepare pension fund financial statements and an annual report for each financial year. The financial statements must give a true and fair view of:

- the financial transactions of its pension fund during the year; and
- the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

13 The audited body is also responsible for preparing and publishing with its financial statements a statement on internal control and, where required to do so, a remuneration report.ⁱ Local authorities and other specified bodies also prepare a whole of government accounts return. Although not required to do so, some local government bodies publish other information, such as an annual report, alongside the financial statements.

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

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

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

ⁱ Local authorities prepare an Annual Governance Statement which includes a statement on internal control. Regulation 4(4) of the Accounts and Audit Regulations 2003, as amended, requires that a statement on internal control is included with an authority's accounts.

to this timetable, or is provided to an unacceptable standard, the auditor will incur additional costs in carrying out any extra work that is necessary. The Commission will charge an additional fee if the additional work is substantial.

16 In carrying out their responsibilities in relation to the financial statements, auditors have regard to the concept of materiality.

17 Subject to the concept of materiality, auditors provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

18 Subject to the concept of materiality, auditors of local probation boards also provide reasonable assurance on the regularity of expenditure and income. In carrying out an audit, auditors do not perform detailed tests of all transactions. Therefore the audit process should not be relied upon to disclose all unlawful transactions or events that may have occurred or might occur.

19 Auditors plan and perform their audit on the basis of their assessment of risk. Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

20 Auditors evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. However, they do not provide assurance to audited bodies on the operational effectiveness of specific systems and controls or their wider system of internal control. Where auditors identify any weaknesses in such systems and controls, they draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

21 Auditors review whether the statement on internal control has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information the auditor is aware of. In doing so, auditors take into account the knowledge of the audited body gained through their work in relation to the financial statements and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources. They also have regard to the work of other regulators, to the extent that it is relevant to auditors' responsibilities. Auditors are not required to consider whether the statement on internal control covers all risks and controls, and auditors are not required to express a formal opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

22 Auditors also review for consistency other information that is published by the audited body alongside the financial statements, such as an annual report. If auditors have concerns about the consistency of any such information they will report them to those charged with governance.

23 At the conclusion of the audit of the accounts, auditors give their opinion on the financial statements, including:

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

24 In the case of local authorities and other specified bodies, auditors also give their opinion on whether the whole of government accounts return has been properly prepared.

25 Auditors of local authorities that are the administering authorities for a local authority pension fund include a separate opinion on the pension fund accounts within their report on the financial statements. They also issue a separate opinion on the financial statements contained in the pension fund annual report.

Electronic publication of the financial statements

26 Where the audited body wishes to publish its financial statements electronically, it is responsible for ensuring that the publication presents accurately the financial statements and the auditor's report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods. Similarly, where the audited body wishes to distribute electronic copies of the financial statements, and the auditor's report on those financial statements, to its stakeholders, it is responsible for ensuring that these are presented accurately.

27 The auditor's report on the financial statements should not be reproduced or referred to electronically without the auditor's prior written agreement. This enables the auditor to review the process by which the financial statements to be published electronically are derived from the financial information contained in the manually signed financial statements, check that the proposed electronic version is identical in content with the manually signed financial statements and check that the conversion of the manually signed financial statements into an electronic format has not distorted the overall presentation of the financial information.

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

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

29 It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and demonstrating the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help it deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

30 The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

31 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In doing so they are required to have regard to criteria specified by the Audit Commission.ⁱ In meeting this responsibility auditors review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements.

ⁱ These criteria are published on the Commission's website.

32 In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of these risks with the audited body.

33 When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code;
- other business risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

34 In assessing risks auditors have regard to:

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

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

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

37 Auditors do not provide assurance to audited bodies on the operational effectiveness of specific aspects of their arrangements for the use of resources. Neither can they be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

38 In reviewing audited bodies' arrangements for producing relevant and reliable data and information to support decision making and manage performance, auditors may review the data supporting specific performance information. Audited bodies are responsible for applying appropriate data quality standards, collecting data that is fit for purpose and, where applicable, conforms to prescribed definitions. Audited bodies are also responsible for satisfying themselves that performance information is reliable and accurate.

39 Where auditors identify significant misstatements or errors in specific performance information or the underlying data, they draw them to the attention of the audited body, but they do not provide assurance to audited bodies on the accuracy or reliability of performance information or the underlying data.

40 Audit work in relation to the audited body's arrangements to ensure it promotes and demonstrates the principles and values of good governance and does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Neither is it the auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they are alert to the possibility and act promptly if grounds for suspicion come to their notice.

41 The reviews arising from national studies developed by the Commission, and the extent to which auditors are expected to apply them at relevant bodies, are prescribed by the Commission and are notified to audited bodies each year by the Commission in its annual work programme and by auditors in their audit planning documents. When carrying out national studies, auditors are required to follow the methodologies and, for certain studies, use comparative data provided by the Commission. Responsibility for the adequacy and appropriateness of these methodologies and the data rests with the Commission.

42 At the conclusion of the audit, auditors report their value for money conclusion on:

- the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- whether significant matters have come to their attention which prevent them from concluding that the audited body has put in place proper arrangements.

Specific powers and duties of auditors

43 Auditors have specific powers and duties under the Audit Commission Act 1998 (the Act) in relation to matters of legality and, for local authorities, electors' rights.

44 Auditors must:

- consider whether to issue a public interest report concerning any matter that comes to the auditor's attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention (section 8 of the Act); and
- give electors the opportunity to raise questions about a local authority's accounts, and consider and decide upon objections received from electors in relation to the accounts (sections 15 and 16 of the Act).

45 Auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report (section 11(3) of the Act);
- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful (sections 17 and 19A of the Act), if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body; and
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body (section 24 of the Act).

46 Fees arising in connection with auditors' exercise of these powers and duties, including costs relating to the appointment of legal or other advisers to the auditors, are borne by the audited body.

Reporting the results of audit work

47 Auditors provide:

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

48 Audit reports are addressed to officers or members of the audited body, as appropriate. Auditors do not have responsibilities to officers or members in their individual capacities (other than observing the rules of natural justice in the exercise of auditors' specific powers and duties in relation to electors' rights) or to third parties that choose to place reliance upon the reports from auditors.

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

- a report under section 8 of the Act;
- recommendations under section 11(3) of the Act; and
- information to be reported to the Commission in a specified format to enable it to carry out any of its functions, including assessments of performance at relevant bodies, or to assist other bodies, such as the National Audit Office, in carrying out their functions.

50 When considering the action to be taken on audit reports, audited bodies should bear in mind the scope of the audit and responsibilities of auditors, as set out in the Code and as further explained in this statement. Matters raised by auditors are drawn from those that come to their attention during the audit. The audit cannot be relied upon to detect all errors, weaknesses or opportunities for improvements in management arrangements that might exist. Audited bodies should assess auditors' conclusions and recommendations for their wider implications before deciding whether to accept or implement them.

Ad hoc requests for auditors' views

51 There may be occasions when audited bodies seek the views of auditors on the legality, accounting treatment or value for money of a transaction before embarking upon it. In such cases, auditors are as helpful as possible, but are precluded from giving a definite view in any case because auditors:

- must not prejudice their independence by being involved in the decision-making processes of the audited body;
- are not financial or legal advisers to the audited body; and
- may not act in any way that might fetter their ability to exercise the special powers conferred upon them by statute.

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

Grant claims and returns – certification

53 Auditors may be required by the Commission to carry out work to support certification of grants or returns. Auditors carry out this work on an agency basis on behalf of the Commission. A separate statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors covering this work can be found at www.audit-commission.gov.uk

Access to information, data security and confidentiality

54 Auditors have wide-ranging rights of access to documents and information in relation to the audit. Such rights apply not only to documents and information held by the audited body and its members and staff, including documents held in electronic form, but also to the audited body's partners and contractors, whether in the public, private or third sectors. Auditors may also require a person holding or accountable for any relevant document to give them such information and explanation as they consider necessary.

55 There are restrictions on the disclosure of information obtained in the course of the audit, subject only to specific exemptions. The Freedom of Information Act 2000 does not apply to the Commission's appointed auditors, as they have not been designated as 'public authorities' for the purposes of that legislation, although they are subject to the Environmental Information Regulations 2004. Audited bodies wishing to disclose information obtained from an auditor, which is subject to a statutory restriction on its disclosure, must seek the auditor's consent to that disclosure.

56 Auditors protect the integrity of data relating to audited bodies and individuals either received or obtained during the audit. They ensure that data is held securely and that all reasonable steps are taken to ensure compliance with statutory and other requirements relating to the collection, holding and disclosure of information.

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This document is available on our website

We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk



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AUDIT COMMITTEE

23 March 2011



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2010/11 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2010/11.

2. BACKGROUND

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

3. AUDITS COMPLETED AND IN PROGRESS

- 3.1 Appendix A of the report details the pieces of work that have been completed.
- 3.2 As well as completing the afore mentioned audits, Internal Audit staff have been involved with the following working groups:
- Information Governance Group.
 - Procurement Working Group.
 - Performance and Risk Management Group.
- 3.3 The section has now received data matches from the Audit Commission in relation to the National Fraud Initiative (NFI) for 2010/11. The section, along with the Benefit Fraud Team, is currently investigating any anomalies identified.
- 3.4 Appendix B details the audits that were ongoing at the time of compiling the report.

4 AUDIT PLAN PROGRESS

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

5 RECOMMENDATION

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

Appendix A

Audit	Objectives	Recommendations	Agreed
Integrated Transport Unit - Workshops	Procedures are in place to ensure identified risk is mitigated in achieving the objectives of the workshops.	- Training records should be maintained for all staff detailing training provided.	Y
		- An analysis of costs should be undertaken to determine an appropriate schedule of rates. The rates should then be formally documented and published. Such schedules should clarify charges for retests, non-attendance etc. and be enforced on a consistent basis.	Y
		- All vehicle equipment should be included on the scheduled plan of maintenance.	Y
		- The scheduled plan of maintenance should be monitored to ensure that all assets are subject to necessary maintenance.	Y
		- Job sheets should be retained in a secure manner.	Y
		- Testable items on VOSA checklists should be marked as pass or fail to provide assurance that each area has been tested.	Y
		- All documentation relating to taxi inspections should be retained securely.	Y
		- Analysis of quality control checks should be undertaken and performance recorded on Covalent.	Y
		- Pre-condition assessments should be undertaken on all private vehicles prior to undertaking works. Such assessments should be documented and signed by the fitter and the customer.	Y
		- A replica safe key should be obtained. Both keys should be retained in a secure manner, i.e. kept with individual. Safe limits should be considered when storing cash and bankings should be undertaken more frequently to avoid safe limits from being exceeded.	Y
Transport Plan	Ensure adequate arrangements are in place for compiling the Transport Plan, Funding arrangements, budget allocations and budgetary control processes, performance management and sustainability.	- Details of the committee or portfolio approval of the Annual Performance Plan to be provided.	Y
		- Further testing to be carried out at the follow up audit to establish that there are effective links between the performance indicators set in the LTP3 and the Corporate Performance Management system (Covalent). This	Y
		- Central finance review current arrangements in place to ensure meaningful budgetary information is produced from Integra.	N

Audit	Objectives	Recommendations	Agreed
		<p>control will ensure that the PIs are tracked appropriately.</p> <p>- That the Regeneration and Neighbourhoods Information Governance Representative is contacted to assist in establishing an information sharing protocol.</p> <p>- Plans for expenditure on individual schemes need to be established early in the financial year to provide a reasonable chance for them to be achieved within that year.</p> <p>- The issues around data quality should be risk assessed to ensure that resources are allocated to the most appropriate area to provide the best possible assurance that the figures reported are accurate. The depreciation element will be reviewed as part of the follow up audit.</p> <p>- The LTP3 be reviewed by Internal Audit when complete to evaluate the processes in place for addressing sustainability.</p> <p>- Explanations are provided for the queries raised during the audit to enable assurance to be placed on the budget approval process.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Fraud Awareness	<p>To evaluate the awareness of fraud across the Authority considering the following areas: Newslines, Management Matters, Payslips, Article in Hartbeat, Council Tax Leaflet and Trading Standards. Identify any gaps. Complete the 'Managing the Risk of Fraud' checklists covering: Adopting the Right Strategy, Accurately Identifying the Risks, Creating and Maintaining a Strong Structure, Taking Action to Tackle the Problem, Defining Success. Examine Corporate Risk Register re: Risk of Fraud.</p>	<p>- Hartlepool Borough Council's Fraud Awareness leaflet be updated and amended to conform with similar leaflets available at other Local Authorities and be added to the Intranet.</p> <p>- An advert to be added to the Hartlepool Borough Council Intranet Homepage to draw staff attention to the revised leaflet.</p> <p>- All Members to be emailed or provided with a hard copy of the Fraud Awareness leaflet along with a short explanation of what the document is and why we have one.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
SIMS School System	<p>There are effective procedures in place for the SIM's system. Children's Services, Accountancy and Schools are all fully aware of their responsibilities surrounding the SIM's System. There are comprehensive arrangements in place for effective budget setting in SIM's & INTEGRA. Effective arrangements in place surrounding import files and coding within SIM's. Regular reconciliations are carried out between SIM's and Integra. Effective arrangements in place</p>	<p>- Schools should examine both Integra and SIM's budget reports to identify any errors or differences, these should be reported back to the Finance Division, where applicable, and a record made that the reconciliation has been undertaken.</p> <p>- The use of both systems should be reviewed in light of the introduction of Integra as the Council's Financial Management System.</p>	<p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
	for posting of Income. Effective personnel arrangement in place at schools. Effective security arrangements are in place.		
Grange Primary	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - The Governing Body should formally adopt a Scale of Charges which should be reviewed on an annual basis. - A stock check should be undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory and should sign and date the inventory. - A sample test will have to be carried out at the time of the follow up audit when all information has been received. - The bank mandate for the school private fund is amended appropriately to reflect staffing changes at the earliest opportunity. - The auditor will discuss monitoring arrangements of the SDP at the time of the follow up audit. - Orders should be raised for all goods and services prior to receipt with a few limited exceptions. - The auditor will confirm whether back ups are tested and records are maintained at the time of the follow up audit. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Tees Archaeology	<p>The focus of the audit review was to examine the arrangements in place of the shared service, in particular the areas relating to:</p> <ul style="list-style-type: none"> • Responsibility and accountability. • Strategy and purpose. • Standards of conducts. • Performance management. • Financial management. • Risk management. • Staffing. • ICT security. • Contracts. 	<ul style="list-style-type: none"> - There should be a signed Service Level Agreement in place for the governance arrangements of the Tees Archaeology Service. The SLA should clearly define the respective roles and responsibilities of partners and enforce governance arrangements, decision making processes and statutory requirements. The agreement should be subject to regular reviews. - Local authority contribution costs should be formally agreed prior to the beginning of the financial year. - All artefacts/finds with a monetary insurance value should have annual inventory checks. 	<p>Y</p> <p>Y</p> <p>Y</p>
Petty Cash	Examination of guidance and procedures for petty cash and imprest accounts, the setting up, amending and monitoring of petty cash. Reimbursement and reconciliation of floats and imprest accounts. Authorisation of petty cash and reasonableness of expenditure. Review the security arrangements of floats and imprests.	- Formal written procedures should be drawn up and adopted by those responsible for the administration of Petty Cash. The procedures should then be made available to all responsible officers, and staff who utilise the petty cash service. Petty cash procedures should include an overall system review and also specific guidance notes for petty cash holders, Cash Office staff, Accountancy etc.	Y

Audit	Objectives	Recommendations	Agreed
		<p>- Authorisation should be granted for new floats / imprests and amendments by Accountancy prior to cash being handed out. This will ensure Accountancy are aware of all floats across the authority and usage can be monitored. Also it will ensure Accountancy have correctly accounted for the float/imprest in the statement of accounts. The Cash Office should not provide a petty cash float without the required authorisation from Accountancy.</p> <p>- Regular spot checks should be carried out on petty cash coding to identify any coding errors.</p> <p>- As soon as petty cash is paid out the relevant Integra codes should be used to avoid duplication of work. Petty cash expenditure can also then be fully analysed by expense codes.</p> <p>- Regular independent checks should be undertaken to ensure that reimbursements are bona fide. Also guidance should be available (see petty cash procedure notes exception) which states what expenditure can be put through petty cash.</p> <p>- Petty cash should not be paid out unless there are receipts attached to the claim form, which total the amount to be paid out.</p> <p>- A petty cash authorised signatory list should be maintained in the Cash Office to ensure all petty cash claims have been authorised by the appropriate officer.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Bailiffs	Bailiff Section have adopted relevant legislation and incorporated it into the internal Bailiff procedures. There are procedures in place to ensure all staff have undertaking Bailiff training. There are effective security arrangements in place for the collection, storage and banking of income.	<p>- Performance targets should be formally adopted and regularly monitored to ensure effectiveness of the bailiff service.</p> <p>- Training records should be held on file for all internal bailiff training to ensure that all training needs have been addressed.</p> <p>- A copy of the signed SLA should be obtained and retained in the department.</p> <p>- It has been recommended by the insurance team that cash collected on evening and weekends that cannot be banked until the next working day is stored in the locked cash tin in the bailiff's house.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Employees Register of Interest / Gifts and Hospitalities	All council employees are aware of the need to disclose all pecuniary and other interests, including gifts and hospitality. Ensure that there is an adequate	None	

Audit	Objectives	Recommendations	Agreed
	system in place for the disclosure and recording of all declarations of interest. Data is held securely and in line with the authority's policies and the Data Protection Act.		
Tallships Income	Review income streams from parking permits and the various on site sales that were arranged (e.g. event guide sales).	<ul style="list-style-type: none"> - Proper records, as discussed and agreed prior to the event, are completed without exception for future events. - All prime documents are retained. 	Y Y
Contracts/ Procurement	The audit focused on the Authority's Procurement Policy and Procurement Operations/monitoring and the tender processes undertaken to ensure that Contract Procedure Rules were being adhered to.	<ul style="list-style-type: none"> - Date of revised policies should be added to document. - Performance Indicators should be put in place throughout procurement. - Centralised contracts to be reviewed as part of the follow up audit. - Procurement training should be rolled out to all departments. 	Y Y Y Y
Catcote School	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - Checks should be undertaken to ensure that salary costs recorded on the contracts Information on SIMS agree with actual salaries. - Regular reviews (annual) should be undertaken of the school catering function in consultation with Durham County Council advisory service, with results reported to Governors. Such reports should consider: <ul style="list-style-type: none"> :nutritional content; :standards of hygiene; :financial performance etc. - Supporting documentation in respect of school trips and parental donations will be reviewed at the follow up audit. - The school should seek advice from Children's Services Finance on how to include Post 19 pupils within the SIMS accounting system to ensure that income and expenditure for the provision of school meals is accounted for in one place. Advice should also be sought on the VAT treatment of provision of meals to post 19 pupils. - Evidence that appropriate checks are undertaken to verify the tax status of individuals provide services to the school should be retained. - CRB disclosures should be requested for all new members of the Governing Body. CRB clearances should be reviewed every three years. - A stock check should be undertaken on an annual basis. The person undertaking the stock take should be independent of the day to day maintenance of the inventory and should sign and date the inventory. - Copies of Data Protection Forms of 	Y Y Y Y Y Y Y

Audit	Objectives	Recommendations	Agreed
		<p>Undertaking signed by staff will be reviewed as part of the follow up review.</p> <p>- The school should register its private funds with the Charity Commission.</p> <p>- Source documentation (invoices, remittances) should be maintained to maintain an effective audit trail and enable assurance on the validity of records to be given.</p> <p>- The school should comply with HMRC guidance when procuring goods from its delegated budget on behalf of the private fund in order to save VAT, i.e.: VAT may only be recovered on the purchase of items for the school if the following conditions are all fulfilled:-</p> <p>:the money used to make the purchase is paid into the schools delegated budget PRIOR to the invoice being passed for payment;</p> <p>:the items purchased are of a kind which the Local Authority would ordinarily purchase from its resources;</p> <p>:the purchase is made through the schools delegated budget, with an official order, goods and services are received and a tax invoice is received addressed to the school;</p> <p>:the Local Authority / school assumes ownership of the goods and uses them for its own non business purposes;</p> <p>:sufficient records are kept to identify the purchase and the purpose for which it is to be put;</p> <p>The school should insure the bus through HBC insurance.</p> <p>- Catcote Futures should be administered and accounted for outside of the school's SIMs account with any expenditure incurred by SIMS on behalf of the fund reimbursed regularly via invoice to the fund. Given that the fund will exceed both Charity Commission and HMRC thresholds, the school should seek advice from Children's Services Finance on the accounting arrangements to be adopted, and the appointment of appropriately qualified auditors.</p> <p>- Budget monitoring should include detailed and effective analysis of expected outturn position for the budget. Explanation should be sought for areas of the budget where significant variances arise with action taken to address such variances.</p> <p>- The Governing Body should classify</p>	<p>Y</p> <p>N</p> <p>N</p> <p>N</p> <p>N</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>its information assets (both electronic and paper based information) and agree a publication scheme (see model publication schemes) and access policy in accordance with the Freedom of Information Act.</p> <p>- The school should ensure that back ups are regularly tested to ensure that data / systems can be restored in the event of failure.</p>	N
Mobile Communication	Telephones are used in accordance with policies in place.	<p>- The draft mobile phone usage policy should be completed as soon as possible and the process of agreeing and approving the policy, and subsequently formally issuing the policy to staff, should be started. Consideration should also be given to issuing interim guidance for mobile phone usage to all staff who have been assigned a mobile phone while the policy is completed, if this is possible. The policy should include reference to responsibility for monitoring and/or analysing usage of mobile phones is that of the budget holder.</p>	Y
West Park Primary	Ensure school financial and governance arrangements are in line with best practice.	<p>- Two members of staff should be involved in the collection and counting of cash income received. The income record should be signed by the two members of staff to verify that the amount collected agrees to the amount banked. Regular banking of income received should occur. Adequate income records should be maintained for the general fund.</p> <p>- Debts exceeding £20 should be referred to the LEA in order that recovery action can be taken.</p> <p>- The school should check the insurance limit of its safe and ensure that the value of cash & cheques held does not exceed this limit.</p> <p>- Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending.</p> <p>- All invoices should be paid within 30 working days of receipt.</p> <p>- The school should have an ICT Strategy in place which provides direction in the use of ICT resources in the areas of learning, teaching and administration.</p> <p>- Access to SIMS should be restricted to authorised staff only. The level of access given to such users should be the minimum required for them to</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		perform their duties.	Y
		- A register of business interests (including 'nil' returns) should be maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually.	Y
		- All staff with access to IT systems should complete a data protection form of undertaking.	Y
		- Records should be maintained by the school of all software loaded onto desktop machines/laptops etc. Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licenses retained agrees to the software loaded on to machines.	Y
		- The school review the list of returned policies and follow up parents of children with outstanding policies.	Y
		- Where the school employs contractors to carry out construction type work, it should ensure that the contractor has a: :Valid CIS certificate; :£5m Public Liability Insurance.	Y
		- CRB clearances should be obtained for all governors and periodic reviews should be undertaken to obtain up to date CRB clearances.	Y
		- All relevant documentation relating to recruitment is retained.	Y
		- Back ups should be stored in a secure location within the school away from the main computer/server. For Data Protection reasons, back ups should not be taken off the premises. Records of back ups are maintained and detail testing undertaken.	Y
		- As the annual income of the school's private fund exceeds £5,000, the school should consider registering the fund as a charity with the Charity Commissioner.	Y
		- Children's Services Finance visit the school to resolve budget differences.	Y
		- The school should enquire with Children's Services why income banked is not being received on SIMS.	Y
		- The salary information within SIMS is amended to reflect current staff salary payments.	Y
		- Checks should be undertaken to ensure that the salary costs recorded on the Contracts Information on SIMS agree with actual salaries.	Y

Appendix B

Audit	Objectives
Creditors	Ensure that Supplier accounts are raised promptly, accurately and only when they do not already exist or when the raising of such suppliers would breach corporate contracts in place at the authority. Controls are in place to prevent the amendment of supplier accounts for fraudulent purposes. Official orders are raised to purchase goods and/or services unless in exceptional circumstances. Payment is only made for goods and/or services received with sufficient evidence retained that checks are made to ensure that goods are received in full and of the appropriate quality. Arrangements are in place to ensure that payments are made promptly, and any discrepancies that prevent the prompt payment are resolved in a timely manner. Processing controls are robust and ensure that all payments are fully processed. The payment process is secure. A management trail is in place to enable financial transactions to be vouched from source to payment.
West View Primary	Ensure school financial and governance arrangements are in line with best practice.
Debtors	<p>The audit has focused on the following areas:</p> <ul style="list-style-type: none"> - Creation of debtor accounts to ensure that debts for one individual are all in the same account and that the accounts contain sufficient detail to enable effective recovery action to be taken. - Raising of both invoices and credit notes to ensure that they are accurate, timely and authorised. - Allocation of payments to the accounts to establish that the processes in place provide assurance that the payment is accurately and timely allocated to the correct invoice. - Recovery of debt outstanding to ensure that all debt due to the authority is effectively followed up to reduce the amount of debt owing and only written off as a bad debt where all recovery avenues have been exhausted.
Springwell School	Ensure school financial and governance arrangements are in line with best practice.
Capital Programme	Ensure that there is a strategic approach to allocating capital resources which links to the Authority's overall aims and objectives. Determine and evaluate the methods in place for prioritising schemes/projects. Examine the arrangements in place for obtaining financing for the capital programme to ensure that all agreements entered into are appropriately authorised. Evaluate the processes in place for allocating and monitoring funding made available for specific projects/schemes. Ensure that there are robust processes in place for monitoring spend against the capital programme and reporting on any issues arising.
BSF/PCP	<p>To provide assurance that arrangements in place will successfully deliver both the BSF and PCP programmes. It was not intended to review individual projects carried out under the schemes. Due to cessation of the BSF programme, the audit focussed on the Primary Capital Programme and involved reviewing the following areas:</p> <ul style="list-style-type: none"> Strategy development; Governance; Development and delivery of the BSF / PCP programmes; Budgetary control; Risk management.
Wrap Around Care Provision	Review the arrangements in place within schools for establishing wrap around care provision and ensuring that they operate in a sustainable manner and all appropriate action taken to comply with legislative requirements.
VAT	The aim of the audit was to review the arrangements in place for administering VAT to ensure that that staff involved in the processing of VAT are aware of their responsibilities, VAT categories are correctly identified accounted for, and effective planning ensures efficient, effective and economic operations which maximise benefits to the Council.
NNDR	<p>Review the following areas of operation in relation to NNDR:</p> <ul style="list-style-type: none"> • Legislation, • valuation, • liability, • billing, • collection and refunds, • Security.

Social Care Transformation	Review procedures to ensure arrangements are in place that allow the Council to meet its commitments in terms of social care transformation responsibilities.
Cash/Bank	Review all cash transactions and the reconciliation process within the Cashbook Section of Accountancy in relation to direct debit payments, holding accounts, payroll and creditor payment transactions.
Benefits	Ensure adequate arrangements are in place for the administration of the service, claims processing, Discretionary Housing Payments, Payments, Fraud prevention and detection, subsidy claims and performance monitoring.
Council Tax	To evaluate the adequacy of systems and procedures in place to ensure that all taxable properties are identified, assessed and recorded and these records are accurately maintained; all persons liable for council tax and all discounts, exemptions, benefits and other allowances have been identified and correctly recorded; amounts due in respect of each taxable property have been correctly calculated and promptly demanded from the person(s) liable; secure and efficient arrangements exist for all collections, which are promptly posted to the correct taxpayers' accounts; all refunds are authorised and valid; the billing authority complies with all statutory requirements for tax setting and the keeping of accounts.
Members Allowances	That allowances are paid in accordance with the appropriate regulations, are only to be paid in respect of approved duties and there is evidence to support any claims. All relevant records are updated to record the claim. All claim forms are completed properly. Any allowances are paid in accordance with the rates issued by the Department of Transport, Environment and the regions. All claims are completed and submitted promptly. Allowances which are paid via invoice are checked to ensure that the duties claimed for are on the approved list and that the member attended. Data is held securely and in line with the authority's policies and the Data Protection Act.
Business Continuity	To review the arrangements in place for improving the Council's resilience to interruption and planning to facilitate the recovery of key business systems and processes within agreed time frames while maintaining the responder's critical functions and the delivery of its vital services, in the event of disruption.
Historic Quay	Ensure adequate governance arrangements are in place in respect of the operation of the establishment.
Loans and Investments	Ensure All legislative and regulatory requirements have been met. All loans are properly authorised, controlled & recorded in line with current Contract & Financial Procedure Rules. Borrowing levels are related to the authority's needs and there is an adequate borrowing policy. All investments are properly authorised, controlled & recorded in line with current Contract & Financial Procedure Rules. The treasury management software is sufficiently secure to prevent unauthorised access. Procedures are in place to ensure that all relevant Treasury Management Practices (TMPs) have been incorporated into the organisation's Treasury Management Policy Statement, and all the relevant systems and routines to be used in the treasury management function are laid down in the schedule to the policy statement. Key treasury management indicators are correctly calculated and reported on, giving an accurate and informative picture of the treasury management function's performance. Results are benchmarked or compared to similar organisations and/or similar treasury management functions. Procedures are in place to ensure legislative and regulatory requirements are met regarding reporting and accounting for treasury management in the accounts. Appropriate levels of valid fidelity insurance are maintained. All bank accounts are set up following laid down secure procedures.
Improvement Grants	Ensure adequate arrangements are in place in respect of initial funding allocation and budget setting; Criteria for awarding grant/loan; Legislative requirements / local policy; Procedures/training; Evidence required to support claims/applications made; Payments; Repayment; Grant/loan terms and conditions; Budget Monitoring.
NI 62	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.

NI 157	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.
Asset Management	Roles and responsibilities are clearly defined on a framework for delivering the effective management of assets across the organisation as a whole. Parties involved in asset management have the skills and competencies required to successfully deliver the objectives of the asset management plan. Accurate, complete and up to date information is maintained of the council's portfolio of assets to enable effective monitoring of the performance of assets in delivering efficient & effective services and aid decision making. The management of assets complies with the capital strategy and asset management plan ensuring that investments in capital schemes provide or configure assets that better suit the public and staff and identify / dispose of surplus and under-performing assets. Buildings and land are used efficiently and effectively to improve value for money and intensify the use of assets through rationalisation, partnership sharing or transferring to third sector organisations. Access to buildings is controlled. Performance measures and benchmarking exercises are used to evaluate how the council's assets contribute to the achievement of corporate and service objectives, including improvement priorities, sustainability objectives and setting challenging targets for improvement.
Capital Accounting	Ensure adequate arrangements are in place in order to comply with all legal and technical requirements.
Building Maintenance	Examine the arrangements in place to manage the maintenance of Council property in line with Council objectives, procuring the services required to provide a maintenance function and the monitoring of this provision.
NI PO11	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.
Housing Market Renewal	Ensure strategies and policies in relation to Housing Market Renewal are consistent with HBC Corporate Aims and Objectives and these are reviewed at regular intervals to ensure that they remain consistent.
NI 136	Provide assurance that calculations are accurate and in accordance with Performance Indicators definitions and relevant guidance; Systems in place to produce the calculation are robust; Supporting documentation is in place to verify the accuracy of calculations; The methods of collecting and calculating the information are economical, efficient and effective.

AUDIT COMMITTEE

23 March 2011



Report of: Chief Finance Officer

Subject: PROPOSED NEW LOCAL AUDIT
ARRANGEMENTS

1. PURPOSE OF REPORT

- 1.1 To inform Members of proposals for new local audit arrangements published by the Department for Communities and Local Government (DCLG).

2. BACKGROUND

- 2.1 On 25 June 2010, the Government instructed the Audit Commission and five other inspectorates to stop Comprehensive Area Assessments. On 13 August 2010, the Government announced plans to disband the Audit Commission. The Government has described these decisions as being part of a fundamental shift in power away from central government to councils and communities, overturning decades of increasing central government control.
- 2.2 The memorandum from the DCLG, attached as Appendix A, outlines how the Government is trying to taking forward the establishment of a new, more localist, audit regime for local public bodies, and the underlying principles on which the Government believes any such regime should be based.

3. GOVERNMENT PROPOSALS

- 3.1 The memorandum goes into quite some detail regarding the history of the Audit Commission, how its role has developed and why the government believe change is necessary. It brings together the Governments rationale and view for the future of local audit arrangements with many of the proposals being previously outlined by the Secretary for State. The main themes emerging from the memorandum centre on the following issues:

- National Audit Office taking on a greater role - e.g. publishing codes;

- Accountancy bodies maintaining a register of firms and auditors that are eligible to carry out local audit work;
- Quality assurance will be provided by the Audit and Inspection Unit;
- The National Fraud Initiative will continue;
- Safeguards are to be built into the framework to ensure independence.

3.2 It is proposed that as and when Government intentions in relation to the detail of future arrangements are clearer, Members of the Audit Committee will be kept up to date with all implications.

4 RECOMMENDATION

4.1 It is recommended that Members note the contents of the report and are kept fully apprised of any future developments in relation to the provision of local audit arrangements.

Appendix A

The audit and inspection of local authorities

Memorandum from the Department for Communities and Local Government

1. Summary and introduction

The Audit Commission was set up in 1983 to audit local authorities, to improve the quality of local audit and to promote and develop value for money studies. This role expanded over time to include audit of other organisations, such as local health bodies, and an increasing amount of inspection activity across the local government sector. In particular, from 2002 (2003 for district councils), the Commission was responsible for the system of Comprehensive Performance Assessment, which itself was replaced from April 2009 by the Comprehensive Area Assessment regime.

Following its establishment, the Audit Commission increased the professionalism and quality of local government audit, and its in-house audit practice continues to be well-respected. However, the Commission also became overly focused on reporting to central government and supporting Whitehall oversight of local bodies

The Government is clear that such centralised inspection and supervision is both an unnecessary burden on frontline services and is detrimental to the genuine local accountability that is essential if local services are to be efficient and meet the needs and aspirations of local communities.

Accordingly, on 25 June 2010, the Government instructed the Audit Commission and five other inspectorates to stop Comprehensive Area Assessments. On 13 August 2010, the Government announced plans to disband the Audit Commission. These decisions are part of a fundamental shift in power away from central government to councils and communities, overturning decades of increasing central government control.

This memorandum outlines how the Government is taking forward the establishment of a new, more localist, audit regime for local public bodies, and the underlying principles on which the Government believes any such regime should be based. Given the terms of reference for this inquiry, the memorandum largely addresses these issues from a local government perspective.

As Ministers have made clear to Parliament, the Government is developing proposals for a new local audit regime with the Audit Commission, the National Audit Office, the Financial Reporting Council, local government, audit firms and other interested parties. Close involvement of the Audit Commission in this work is essential to secure an effective transition, and the Department is grateful for the Commission's constructive participation.

The Government will be seeking views widely on the proposals, and will want to have careful regard to the Select Committee's report. A first consultation on the details of a new audit framework is planned for early in 2011, and the

Government envisages that it may subsequently publish a draft Bill for pre-legislative scrutiny, ahead of the final introduction of legislation to Parliament. Following such consultation and scrutiny it is the Government's intention to introduce the necessary legislation at the earliest opportunity.

As to the underlying principles, local bodies – councils and local health bodies - will continue to be subject to robust and efficient auditing that follows the established principles of public audit. Any new local audit regime will provide full and appropriate accountability, ensuring that local authorities are effectively accountable to local communities for their spending decisions. Local audits would thus continue to have the wide scope of public audit, covering the audit of financial statements, regularity, propriety, and value for money.

The Government considers that the current arrangements for local audit, whereby a single organisation - the Audit Commission - is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. Accordingly, the Government intends to move the work of the Audit Commission's in-house practice into the private sector. It will put in place new arrangements, with stringent safeguards to ensure independence, for councils to appoint their auditors, and for the appointment of auditors to local health bodies.

For the future, the Government envisages that the National Audit Office, given its role in providing Parliament with assurance on public spending, would have oversight of auditing standards; the professional accountancy bodies, as supervisory bodies under the oversight of the Financial Reporting Council, would maintain a register of firms and auditors that are eligible to undertake local public audit engagements; and quality assurance and monitoring of audits, under the Financial Reporting Council's oversight, would be undertaken by the supervisory bodies and the Council's Audit Inspection Unit (in the case of larger local bodies).

The Audit Commission's inspection activities will stop. In future, any central inspection will be focused on the most vulnerable, for example to help maintain high standards in children's services and adult social care. Intervention will focus on cases of serious risk or failure. The Commission's National Fraud Initiative should continue, and this Department is in discussions with a number of bodies that have expressed an interest in taking on the Initiative. The Audit Commission's research activities, including its value for money studies, will cease. The National Audit Office's value for money studies will be able, as they can currently, to cover activities of local bodies.

2. The work of the Audit Commission

1. The Audit Commission was set up in 1983 as a self-funding, independent body to secure the audit of local authorities, promote and undertake value for money studies and to increase both the expertise of government auditors and the impact of external audit.

2. The Audit Commission's role developed under successive governments until, at the time of the last General Election, it encompassed:

A) **Audit** of local authorities, NHS Trusts and other local bodies in England. A full list of bodies audited by the Commission is at Annex A.

B) **Assessment and inspection** of the performance of councils, fire and rescue services and housing association.

C) **Research** (including value for money studies), on a wide range of social and financial issues.

D) **Assurance functions**, including data-matching through the National Fraud Initiative and grant certification on behalf of Government Departments.

3. Audit of expenditure by local public bodies

The current local audit regime

3. The Audit Commission currently combines within one body the regulation and commissioning of public audit, as well as providing auditors for 70% of local bodies. The Government is committed to strengthening democratic accountability and decentralisation of decision making. As part of that, it is committed to developing a decentralised approach to the external audit of public bodies.

The Commission as Regulator

4. As regulator of the current local audit regime, the Commission sits alongside and partially overlaps the more extensive audit regulatory regime of the Companies Act audit sector. The Government considers that having a specific regulator for the local government sector and the local health sector is inefficient and risks duplication.

5. The Government therefore believes there should be a single regulatory regime for audit, covering the private sector and the local government and local health sectors. This single regime can be more readily tailored to local accountability – in the way that the commercial sector is tailored to shareholders – rather than accountability to central government, as is the case with the Commission.

6. However, the local audit regime cannot entirely replicate the private sector regime because of the need for accountability to Parliament and Government and the nature of the activities required to provide those assurances. It is also necessary for the audit of public bodies to follow the principles of public audit.

The Commission as Commissioner of Services

7. The Audit Commission currently appoints all auditors of the local bodies listed in Schedule 2 of the Audit Commission Act 1998 (as amended). However, the Government believes that, in the case of elected local bodies, centralised commissioning of audit services is fundamentally inconsistent with the concept of accountability to the electorate. Under the Government's proposals, authorities would appoint their own auditors. However, the principle of auditor independence will be retained as a cornerstone of the new regime. In this respect, independence encompasses the methods of appointment of auditors, the financial relationship between auditors and audited body, discretion in the amount of work necessary, the ability to follow up recommendations, and free access to information.

The Commission as Audit Provider

8. The Audit Commission's in-house audit practice provides auditors to 70% of local public bodies, with the remaining 30% of auditors employed by accountancy firms under contract to the Commission. The Commission sets fees for auditing work on a 'post office pricing' basis, whereby all principal authorities pay the same rates, which include a surcharge of around 20% to cover the costs of the Commission's work. The direct commissioning of audit services by the local bodies should therefore reduce fees by removing the Commission's overheads.

9. The in-house audit practice is well respected and has consistently done a good job. However, the Government does not believe that there is a rationale for the audit practice - the fifth largest provider of audit services in the UK – remaining in the public sector. The Government expects that the commissioning of audit services directly, and through a genuinely competitive process will be more efficient, effective and locally accountable than the current arrangements.

The proposed new audit regime

10. Subject to consultation and Parliamentary approval, the new regime will consist of:

Regulation – The Government expects regulation, monitoring and quality control to be undertaken one or more of the accountancy professional bodies, with independent oversight provided by the Financial Reporting Council and its operating bodies. The Financial Reporting Council would have direct responsibility for certain matters: for example its Audit Inspection Unit would carry out the monitoring of the largest public interest audits. The National Audit Office would provide the necessary oversight of auditing standards, including responsibility for developing and maintaining the audit codes and supporting guidance.

Commissioning – auditors would be appointed by local bodies with appropriate stringent safeguards built into the audit framework to ensure audit independence is maintained. Competitive appointment will be from those licensed in accordance with the regulatory regime, bringing an end to centralised commissioning.

Provision - audit would be undertaken by private sector commercial firms, licensed by the regulator and appointed through a competitive process, charging commercial market rates.

11. The design principles underpinning the new local audit regime include maintaining audit standards and ensuring independence, competence and quality.

12. The Government expects that the scope of audit will cover:

Regularity and propriety – the auditor would need to be satisfied regarding compliance with legal requirements and control mechanisms

Financial statements – the auditor would give an opinion as to the whether accounting statements give a true and fair view of the financial position and of income and expenditure

Value for money – the auditor would need to be satisfied as to whether there have been effective arrangements to secure economy, efficiency and effectiveness

Financial resilience – the auditor would need to be satisfied as to whether there are any risks to the future financial sustainability and whether mitigation action taken.

The scope of audit would be set out in the audit codes and supporting guidance that would be developed and maintained by the National Audit Office.

13. Auditors would still consider matters in the public interest through public interest reports. They would be able to undertake, possibly as part of a wider team, further inspections, such as corporate governance inspections, where they considered this necessary to meet their public interest responsibilities. They could also carry out such inspections if requested to do so by the audited body, one of the continuing inspectorates or the Secretary of State. More generally, auditors would be able to undertake audit-related value for money investigations, with the agreement of the body.

14. To help ensure independence, the Government envisages that councils would be able to appoint the same audit firm for a fixed number of years, but they would not be able to reappoint the same responsible individual for successive periods. The new regime would ensure that members of public could still make representations to auditors.

15. The Government is considering very carefully how to treat parish and town councils and other small bodies under the new framework, to ensure that a proportionate approach is adopted, perhaps similar to that which applies to small companies and charities.

Consultation

16. The Government intends to consult on the detail of the new local audit framework early in 2011. It also envisages that it may publish a draft bill to allow full scrutiny of the proposed legislative framework, ahead of final introduction of legislation in Parliament.

Transferring in-house audit work to the private sector

17. The Government is working with the Commission and other partners to develop and assess a range of options for the transfer the work of the Commission's in-house audit practice to the private sector. In assessing options, it will seek to secure strong value for money for taxpayers, including local taxpayers. The Government would be happy to see a mutual set up by existing Audit Commission staff, if this proves to be appropriate and practical.

Timetable

18. The Government has stated that reforms to the local audit regime are likely to take effect from 2012/13. However, it will take account of the views expressed by the Select Committee and responses to the planned consultation on the new local

audit framework and will review the implementation timetable in the light of these views.

4. Oversight and inspection of local authority performance

Background

19. Inspection and assessment have played an increasing role in the governance of public bodies, including local authorities. From April 2009, the main programme of inspection and assessment for local authorities was the Comprehensive Area Assessment, which attempted to provide an overall picture of how councils and their partners were delivering services and outcomes for local people.

20. However, inspection and assessment placed costly burdens on local service providers and made them focus on reporting to central government rather than delivering the services their citizens wanted. For this reason, the Comprehensive Area Assessment was abolished in June 2010.

21. The Government is decentralising power in many areas of local authorities' work, including education, health, and housing. In November 2010, this Department announced the end to the strategic housing inspections previously carried out by the Audit Commission. The Department of Health also announced the ending of annual performance assessments of councils under the Care Quality Commission's current framework, while Ofsted announced, in December 2010, the phasing out of the annual children's services assessment.

Increasing local accountability

22. Local government performance has improved over a number of years, and local authorities are well placed to deliver services that local people want, independent of central control. The Government wants to free up local authorities to enable them to be innovative in the delivery of services, rather than merely seeking to raise performance against centrally established criteria to achieve good inspection results. Local authorities will have the freedom to deliver services in ways that meet local needs, and will be accountable for those services to their electorates. These principles are key elements of localism.

23. The Government is committed to increasing transparency across Whitehall and local authorities and will make data more readily available to the citizen to allow them to hold politicians and public bodies to account. The Secretary of State has called upon councils to increase transparency and openness by publishing information on senior salaries, councillor allowances and all spending over £500. These are first steps, but the Government is considering other types of data that should be more accessible, such as council minutes and papers, performance data, food hygiene reports and licensing applications. Greater transparency will help root out overspending and waste in local government.

24. A key part of the change will be putting information into the public domain in an accessible and readily comparable format so people have access to the information they need to judge the performance of their local service providers, and hold them to account. National government will still have a role to play in

aggregating data of national importance, or to allow accountability to Parliament, but it is for local authorities to provide local residents with the data they need.

25. This Department is putting together the single data list of all the data that central government requires from local government. The principal aim is to reduce the burden of data collection on local government, but all of the data is being assessed to ensure that it needs to be aggregated at the national level. The exercise will provide a transparent catalogue of all data that central government collects from local government.

26. The Government is also committed to creating a new 'right to data' to empower citizens to request access to government-held datasets if they feel they need more information. The Government fully supports the work being done by local government as part of the Place Based Productivity Programme to develop effective benchmarking tools to allow citizens to compare their local council's performance against others.

Future of inspection and the role of Inspectorates

27. Approaches to inspection and assessment of local authorities are being developed across Government in the light of the decentralisation and localism agenda. Key principles include independence from the service providers and accountability for the most vulnerable. The benefits of inspection must outweigh the costs, including those of the inspected body. Those local service inspectorates that remain must provide credible judgements for the public and have a clearly defined purpose which focuses on public protection. The sharing of information by inspectorates can help identify where service failures in one part of an authority are linked to broader questions about the authority's capacity to manage its overall corporate responsibilities effectively.

28. The Department for Education is working with Ofsted, which is making changes to its inspection arrangements to reduce costs and burdens, re-focus on key priorities and ensure they are proportionate. The statutory duty on Ofsted to publish an annual rating for children's services will be repealed as soon as a suitable legislative slot is identified. Details of future changes to safeguarding and children's social care inspection, and early years and childcare inspection reforms will be informed by the results of the reviews carried out by Professor Eileen Munro and Dame Clare Tickell. Extensive reforms to schools inspection are already underway.

29. The Department of Health has agreed a new approach to the assessment and inspection of councils. The annual assessment of councils as commissioners of adult social care has been discontinued, and the Care Quality Commission will no longer publish information about council performance. This new approach will see a shift towards more sector-led assessment, with councils taking greater responsibility for driving improvement. The Care Quality Commission will retain the ability to respond to concerns about council services by carrying out inspections. The Department of Health will continue to work with the Care Quality Commission and local government organisations to develop the detail of the new approach.

5. Research

30. The Audit Commission has undertaken research (including value for money studies) and produced national reports on a range of issues of interest to its customers. In 2008-2009 it produced twenty-three national reports including *Tougher at the Top*, about the role of local authority Chief Executives, *Well Disposed*, about how councils are responding to the challenge of reducing the amount of waste sent to landfill and *Risk and Return*, about how the collapse of banks in Iceland affected English local authorities.

31. However, local government and others outside of central Government are well-placed to decide when and where research should be undertaken. The Government expects that value for money will remain an important component of local audit. The National Audit Office, using its existing powers, will be able, when reporting to Parliament on the activities of central government departments, to directly examine the impact of policies administered by local bodies. This will contribute to parliamentary accountability, as well as providing useful insights for local communities.

32. It will also be possible for an auditor to undertake value for money studies connected to audit work, with the agreement of the audited body. In addition, the National Audit Office would be able to identify wider issues of concern about local bodies' use of resources in general, should such issues be identified by the audit process.

6. Assurance functions

National Fraud Initiative

33. The National Fraud Initiative (NFI) is a data matching exercise, which is run under the Audit Commission's statutory data matching powers. The NFI works within a strong legal framework, including the Data Protection Act 1998, which is designed to protect individuals' personal data.

34. The NFI plays an important role in protecting the public purse against fraud. For example, fraudsters often target different organisations at the same time, using the same fraudulent identities. The NFI combats this threat by comparing or 'matching' information held by different organisations and within organisations to identify anomalies that indicate potentially fraudulent claims and overpayments.

35. A key strength of the NFI is that it brings together a wide range of bodies in tackling fraud. It helps individual organisations go beyond what they could do acting alone. The last NFI exercise in 2008/09 processed some 8,000 datasets from 1,300 organisations, including 100 from the private sector; It helped trace £215m in fraud, error and overpayments bringing the total detected since it started in 1996 to £664m

36. The Government is currently considering how the function might be delivered in the new audit environment and is discussing this with other bodies that have an interest in ensuring its future. In the meantime the 2010-11 exercise is continuing as normal.

Grant certification

37. Under section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants or subsidies from Government Departments. Auditors also certify other financial returns such as contributions payable to the national non domestic rating pool, and the Commission provides significant technical guidance, advice, tools and system support for auditors.

38. Certification work is separate from audit and is a form of assurance engagement designed to provide assurance for the accounting officers of the grant paying bodies and contribute to the assurance sought by the National Audit Office when auditing grant-paying bodies.

39. It is the Commission, rather than its appointed auditors, that has the responsibility for making certification arrangements. In discharging this function the Commission works with each of the grant paying bodies to develop certification instructions specific to each grant scheme, and which must be followed by auditors appointed by the Commission. It also provides technical guidance, advice and tools to auditors and the grant paying bodies to ensure a consistent approach.

40. In future, the Government envisages that grant certification will be undertaken by the external auditor. The certification arrangements will continue to be proportionate to the amount of the claim and the auditors' assessment of the control environment involved.

7. Conclusion

41. In conclusion, the Government has already removed burdens on local authorities and is committed to reducing further central Government control and monitoring. It is disbanding the Audit Commission and refocusing audit on helping local people to hold councils and local public bodies to account for local spending decisions.

42. The Government is working with a wide range of partners to design a new local audit regime, and prepare the in-house practice for transfer to the private sector, wind down the Commission and transfer any residual functions that are to be retained. The primary legislation necessary to make these changes will be introduced at the earliest opportunity. In the meantime, the Government will consult on its proposals for a new audit regime and will consider whether a draft bill would be helpful as a means of achieving early scrutiny of legislation.

Annex A

List of bodies to which the Audit Commission appoints auditors

A local authority
 A joint authority
 The Greater London Authority
 A functional body
 The London Pensions Fund Authority
 The London Waste and Recycling Board
 A parish meeting of a parish not having a separate parish council
 A committee of a local authority, including a joint committee of two or more such authorities
 The Council of the Isles of Scilly
 Any Charter Trustees constituted under section 246 of the Local Government Act 1972
 A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the National Health Service Act 2006
 A port health authority
 The Broads Authority
 A national park authority
 A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000
 A police authority established under section 3 of the Police Act 1996
 A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies
 An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities)
 A licensing planning committee
 An internal drainage board
 A local probation board established under section 4 of the Criminal Justice and Court Services Act
 A probation trust (other than a Welsh probation trust as defined in paragraph 13(6) of Schedule 1 to the Offender Management Act 2007
 An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009
 A combined authority established under section 103 of that Act
 The accounts of the collection fund of the Common Council and the accounts of the City fund
 The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995
 Passenger Transport Executive

AUDIT COMMITTEE

23 March 2011



Report of: Head of Audit and Governance

Subject: AUDIT COMMITTEE MEMBER INFORMATION

1. PURPOSE OF REPORT

- 1.1 To provide Members of the Audit Committee advice regarding their role in approving future audit plans, their role in relation to fraud, strategic risk management and approving the Annual Governance Statement.

2. BACKGROUND

- 2.1 In order to ensure that the Audit Committee fulfils its requirements in relation to the approval of audit plans, understands their role in relation to fraud, strategic risk management and process for approving the Annual Governance Statement the Better Governance Forum has provided briefing papers for Audit Committee members in public sector bodies.
- 2.2 The briefing papers are attached as Appendix A, and provide background information and questions relevant to the role of Audit Committee members in the processes.

3 RECOMMENDATION

- 3.1 It is recommended that Members review the contents of the briefing papers and consider the issues raised when undertaking their role in relation to approving future audit plans, their role in relation to fraud, strategic risk management and approving the Annual Governance Statement.

Appendix A

Introduction

Dear Audit Committee Member,

This is a new briefing paper for audit committee members in public sector bodies. It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This first issue includes an article to help you review your internal audit plan and pointers to other information and guidance relevant to your role.

The CIPFA Better Governance Forum is part of the Chartered Institute of Public Finance and Accountancy which is the leading body for setting standards of governance and recommended practice for audit committees in local government and other parts of the public sector. The Forum is a subscription network covering all aspects of governance providing guidance, briefings and workshops. I hope you will find this first issue helpful. It is our intention to produce this briefing three times a year. It will be emailed to the key contact in your organisation who will be able to email it to you or print it if you prefer. If you want to make sure you receive your copy directly please provide us with your details using the link on page 3. We welcome feedback on this issue and suggestions for future topics. Please let us know if we have got this right.

Best wishes
Diana Melville
Governance Advisor
CIPFA Better Governance Forum

Reviewing the Audit Plan

At least once a year, but possibly more frequently, both your internal and external audit teams will ask you to review their audit plans and approve them. If you aren't familiar with audit plans, you may well be asking yourself how to do this and how you can add value. In this article, I will discuss:

- Why draw up an audit plan?
- Who is involved?
- How is the audit plan produced?
- What does the audit plan cover?
- When is the audit plan written?
- Your role in relation to the audit plan.

I will finish with a “dashboard” of key questions for you to ask to satisfy yourself that the plan has been drawn up appropriately and will deliver the assurance that you need as an audit committee member. While I concentrate on your role in relation to internal audit, many of these points also relate to external audit.

Why draw up an audit plan?

An audit plan is needed to ensure that your auditors address all the main areas of risk within your organisation and can provide assurance to support your Annual Governance Statement or Statement on Internal Control. At the end of each year the head of internal audit provides an opinion on the effectiveness of the control environment so it is vital

that the plan is sufficient to support that opinion. It is also needed to ensure auditors use their limited resources (budget, time, people and expertise) to best effect. Almost inevitably audit needs outstrip audit resources and the plan will help your audit team set its priorities, in discussion with you.

Who is involved?

The audit plan is normally drawn up by the head of internal audit, in consultation with directors and members of the audit team. As the internal audit plans and external audit plans should be aligned, each should consult the other as part of this process.

How is the audit plan produced?

The audit plan is 'risk-based' to address the financial and non-financial risks faced by your organisation and your key priorities. Your organisation's risk register and the effectiveness of risk management will be reviewed to help develop the plan. The plan may also include work to be undertaken on behalf of your external auditor. The identified audits will be balanced against the resources available and the plan drawn up accordingly.

What does the audit plan cover?

The audit plan should show how your internal audit strategy is going to be achieved in accordance with the section's terms of reference. Plans include a combination of planned work and allowances for reactive work. They are always flexible so that they can reflect the changing risks and priorities within your organisation. Plans will also include allowances for "non-chargeable" time.

Planned audit work consists of a series of reviews of different aspects of your organisation's operations. The plan will include some high risk areas, for example areas of significant financial risk or high profile projects or programmes. Or they could be areas where there are concerns about poor performance, fraud or emerging risks. Some higher risk audits may feature annually in audit plans. Other areas, particularly financial systems, may be audited regularly even if they are well controlled because of their significance to the financial statements. The frequency will usually be agreed with the external auditor. Other parts of the plan will reflect the risks and priorities of the organisation and the judgement of the head of internal audit.

Reactive audit work may include investigations, giving advice, supporting working groups and other such matters. Non-chargeable time includes annual leave, training, administration, team meetings etc. A working year is approximately 260 days. A typical auditor (not a trainee or a manager) will carry out about 200 audit days/year.

When is the audit plan written?

Detailed audit plans normally cover the organisation's financial year, although this is not mandatory. The audit plan is, therefore, generally written a few months before the start of the audit year for approval by the audit committee at the meeting before the start of that year. As the plan has to be flexible, you should be kept informed of minor changes and receive a revised plan for approval if there are any significant changes during the year.

There may also be a strategic plan that outlines the main direction for the audit team over a longer period than a year (perhaps three years). This is particularly useful to understand the wider coverage of risks and controls.

The audit committee's role

The audit committee should be both challenging of the plan and supportive in its delivery. You need to be sure that the organisation's risks and priorities are considered, that the plan is aligned with the audit strategy and terms of reference, that internal and external audit have liaised in drawing up their plans and that your auditors have exercised their independence and have not been unduly influenced by others in deciding what they will or (even more importantly) will not examine. You could review the audit strategy and terms of reference at the same time to ensure that they are still relevant and appropriate.

You also need to consider how the plan relates to other sources of assurance to support the Annual Governance Statement or Statement on Internal Control, for example assurance from the risk management process or management assurances. Taken as a whole, will you get the assurance you need?

Once the plan has been approved, your role is then to monitor activity and outcomes against that plan. Is it being delivered? Is the audit work delivering the expected outcome? You may also need to support your auditors, if they are struggling to get auditee engagement or experience a shortfall in resources. Above all, you are there to get action as a result of audit work.

Key questions to ask:

1. Who did the head of internal audit liaise with in drawing up this plan? Did this include external audit?
2. How does this audit plan link to our risk register and our strategic plans?
3. What audits have you left off this plan and why? When do you plan to carry out this work?
4. How does the audit plan fit with other assurance work? Are there any gaps or is there duplication?

Elizabeth Humphrey
Senior Associate, CIPFA Better Governance Forum

Strategic Risk Management Governance risks in 2011

Audit Committee Update

- Helping audit committees to be effective

The role of the audit committee in strategic risk management

This article will outline the key role an audit committee should play in supporting and reviewing risk management in their organisation. The role of the audit committee is important but it can be difficult sometimes to determine what the discrete role is. The article will outline first of all what risk management is all about and then consider the audit committee role. It will end with some key questions that audit committees might like to consider.

What is risk management and why is it important to the organisation?

The British Standard ISO 31000:2009 (1) defines risk management as 'coordinated activities to direct and control an organisation with regard to risk'. Risk is simply defined as the 'effect of uncertainty on objectives'.

Effective risk management has a number of benefits to an organisation and is now seen as a key tool across public and private sectors. Management of risk enables an organisation to:

- Increase the likelihood of achieving objectives;
- Improve governance;
- Comply with legal and regulatory requirements;
- Support better decision making;
- Improve operational effectiveness and efficiency.

These benefits demonstrate that risk management isn't just about dealing with problems better; it is also an aid to improvement.

How does risk management link to internal control and governance?

The importance of risk management in supporting good governance is clearly set out in the principles of the Good Governance Standard for Public Services (2). One of the six principles is 'Good governance means taking informed, transparent decisions and managing risk.' In the local government Good Governance Framework (3) this principle has been adapted to the local government context to be 'Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.' The framework emphasises the importance of risk management for the successful delivery of services.

The internal controls of an organisation should be influenced by the risks. An effective control will manage an identified risk, perhaps by reducing the likelihood of the risk happening, or minimising the impact if it did. When controls are reviewed their success in managing those risks should be considered. Sometimes controls are put in place to manage risks but continue to operate even though the risk has changed or other controls now address the risk. This can lead to inefficiency.

What is the typical role for the Audit Committee?

The precise roles and responsibilities towards risk management will vary according to the terms of reference. CIPFA's position statement on audit committees in local government (4) identifies the following core functions:

- Consider the effectiveness of the authority's risk management arrangements.

- Seek assurance that action is being taken on risk related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements... properly reflect the risk environment.

The way that an audit committee fulfils these functions are likely to include:

- Oversight of the risk management function & its effectiveness, for example whether there are senior management and member risk management champions, reviewing improvement plans, results of benchmarking etc.
- Reviewing risk management annual plans, annual reports and the assessment of risk maturity of the organisation.
- Commenting on changes to the risk management policies of the organisation.
- Understanding the key risks facing the organisation, by reviewing risk registers or receiving briefings on key risk areas. Knowledge of the key risks helps the committee discharge their other responsibilities such as reviewing the internal audit plan or reviewing the annual governance statement.

How can the Audit Committee support and encourage the effectiveness of the risk management function?

This is a valuable role for the organisation. Good understanding amongst audit committee members of what risk management can and should be doing, will help to raise the profile of risk management across the organisation. By monitoring the performance of risk management and any obstacles to improvement, the audit committee can help to ensure the adoption of good practice across the organisation.

When the audit committee reviews the organisation's key risks it may want to seek assurance that the actions being undertaken are having an effect. If there are concerns about critical risks then questions from the audit committee can help to ensure that the appropriate action is taken. Understanding the organisation's key risks and the overall risk profile can help the audit committee take a more coordinated approach to its assurance statements. This can help those working in risk management too. For example the committee can consider what assurance it receives about the major risk areas.

The following case studies provide some examples of how an audit committee can support their organisations to manage risk better.

Case Study 1

A local authority was planning a major refurbishment of the building where the IT data centre was located. This was highlighted as 'high risk' on the risk register because of the IT director's concerns about damage and service interruption. The audit committee requested a briefing from the property team responsible for the refurbishment to ensure that adequate protection and contingency arrangements would be in place.

Case Study 2

In one central Government Department, the Chairman of the Audit Committee plays an active role in the corporate governance exercise for preparing the Statement on Internal Control. The Chairman meets with each Director General to discuss the assertion statement and return they have provided on the effectiveness of the risk and internal control environment operating in their Group. This helps the Chairman understand how the Groups are managing their risks as well as identifying some common risk and control themes across the Department. The Chairman then discusses these themes with the Accounting Officer which are fed into the draft Statement on Internal Control. This approach enables the Chairman to be able to attest to the rest of the Audit Committee that an appropriate evidence base exists for the disclosures made in the draft Statement on Internal Control and facilitates the Committee's recommendation to the Accounting Officer that he or she sign the Statement on Internal Control.

Case Study 3

At the London Borough of Enfield, in addition to considering corporate risks and opportunities every six months and departmental risk registers on a rolling programme, Members of the Audit Committee decided to track the management of risk relating to safeguarding vulnerable adults and children. A review of procedures against risk of abuse to the vulnerable had been included on the Corporate Risk Register; however Audit Committee Members wanted to seek additional assurance following recent nationally publicised tragedies at neighbouring authorities. Members questioned and challenged reports presented on safeguarding services to vulnerable children, to vulnerable adults, and about ensuring safeguarding within the recruitment process. They gained assurance, despite the inherent risks associated with this high profile area of Council responsibility that every reasonable measure is being taken to minimise and manage relevant risks.

These case studies demonstrate how strategic risk management provides the audit committee with the opportunity to influence and support good governance in the organisation. Familiarity with this role will enable the audit committee to identify new risks to good governance and also support the audit committee to be more effective across the full range of its responsibilities

Key Questions to ask:

1. How consistently is the risk management policy applied across the organisation? What is being done to address any weak areas?
2. Has the risk maturity of our organisation been assessed? In what areas have we improved in the last year and what still needs to be done?
3. What are the major risks facing the organisation?
4. How effectively are risks being managed in a particular area? For example, a major project, change programme or key strategic service.
5. How do we get our assurance about the management of risks and how does this link to the annual governance statement (statement on internal control, statement on internal financial control as appropriate)?

Diana Melville
Governance Advisor
CIPFA Better Governance Forum

10 governance risks for 2011

The audit committee is well placed to understand the risks to good governance the organisation faces. Such risks might arise from external factors, for example legislative changes. Or they could arise from changes or initiatives within the organisation.

The Better Governance Forum has put together a 'Top 10' of governance issues the audit committee might want to review during 2011.

Potential Risk Area		What the audit committee can do
1	Service reduction plans Has the approach to identifying budget savings involved 'good governance' principles? For example have the full range of risks been identified? Will new risks be created by the proposals? There is no 'easy' way to implement a significant programme of savings but the goal should be to maintain a viable organisation. This means looking at longer term issues as well as short term impacts.	Ask about the process to identify proposed budget savings or service reductions. Seek assurance that the proposals are supported by: <ul style="list-style-type: none"> • Good quality data. • Comprehensive risk identification • Evidence of consultation • Impact assessments, for example equalities or environmental • Use the Better Governance Forum risk tool to assess governance risks.
2	Major organisational change programmes Is your organisation pursuing a major change programme, for example significant outsourcing or shared services arrangements? Such programmes are likely to have significant legal, financial, service continuity and people risks that need to be carefully managed. Assurance and accountability arrangements also need to be considered, both for the project itself and for the new arrangements.	Seek assurance over the effective management of project risks. Ask about the plans for assurance and accountability. For example: <ul style="list-style-type: none"> • Will internal audit have access to the new body? • What financial risks are there and how will these be monitored? • Will the annual governance statement need to cover the new body?
3	Partnerships and the 'Big Society' Your organisation's goals and objectives for its partnerships might have changed, and so might those of your partners. As well as internal factors such as reduced funding, new initiatives such as the Big Society may change things. The consequence could be that you or a partner needs to change a partnership agreement or withdraw from the partnership. New forms of partnership might be proposed with new partners. Are there any financial, legal or reputation risks as a result? What are the consequences for service delivery?	Ask for the latest partnership risk assessments. Where there are significant strategic risks the audit committee might want to ask for assurance about how these risks are being managed. Consider whether there is scope to work with the audit committees of your partners.

4	<p>Fraud Risks All of these governance risk areas also potentially increase the risk of fraud. Does the organisation have an up to date fraud risk assessment that reflects current changes? Has the risk of fraud been considered in relation to service reduction planning, IFRS etc?</p>	<p>Ask whether fraud risks have been identified, assessed and appropriate actions taken. Review major fraud risks Use the checklist for those charged with governance to review your counter fraud arrangements. Ask if there have been briefings or guidance given for example on legislation such as the Bribery Act and to those working in 'at risk' areas such as procurement and contracts.</p>
5	<p>Transparency Agenda All public bodies are expected to publish details of expenditure by January 2011. Has your organisation complied or will they be able to do so? Have other aspects of decision making been made as transparent and accessible as possible? At the same time have you considered the fraud risks of greater transparency? Has the organisation developed a clear strategy to deal with redaction and commercially sensitive information?</p>	<p>Ask what actions have been taken and whether your organisation is ready. Ask whether the fraud risks have been identified and whether controls have been put in place. For example, staff should not change invoice or supplier details without verification from the supplier.</p>
6	<p>Changes to information governance legislation The Information Commissioner is now enforcing monetary fines on organisations which fail in their duties to comply with the Data Protection Act 1998. Other enforcement action (Undertakings and Audits) are also available. There is expected to be changes to the Freedom of Information Act to cover private sector organisations which deliver major outsourced public services. Cloud computing is considered as a major source for future efficiencies. Has the audit committee been presented with a business plan?</p>	<p>Ask what your organisation has done to review its compliance arrangements. If the organisation is collaborating with neighbouring authorities, have they set up an Information Sharing Protocol? Does the organisation have a clear policy about data security and encryption and are these policies updated regularly and brought to the attention of staff? Has the organisation developed a strategy of protecting and responding to a cybercrime attack? Do you have clauses in your contracts to manage FOI requests which may go to your private sector partner organisations?</p>
7	<p>Forthcoming changes to the standards regime (England) How will leadership in ethical government in your organisation be affected by the forthcoming legislation on standards committees? The Localism Bill was published in December 2010 and once enacted English authorities will no longer be required to have a standards committee or a code of conduct for members. The authority will have a duty to promote and maintain high standards of conduct.</p>	<p>Find out if your authority will be keeping its Standards Committee and whether it plans to develop a voluntary code of conduct. If there will be no standards committee, what Member body will provide leadership on ethical governance to ensure the authority can fulfil its duty to promote high standards of conduct?</p>

8	Local Accountability With the reduction in national accountability such as the CAA, the government has said it wants to see greater local accountability. New plans for local referenda are set out in the recently published Localism Bill, together with measures for pay accountability. How is the audit committee responding to this challenge?	Evaluate how effective the audit committee is in providing local accountability. Existing routes for ensuring accountability are likely to be holding public meetings and publishing an annual report. Consider how effective these are and what more could be done.
9	Changes to external audit of local authorities In England new arrangements are being developed by Communities and Local Government. Legislation and guidance will come out later in 2011, together with any transition arrangements. There are likely to be implications for the audit committee concerning the appointment of external auditors.	Ensure that you are kept up to date with the latest guidance.
10	International Financial Reporting Standards For local authorities the 2010/11 accounts will be the first presented under new IFRS regulations. One of the goals of IFRS is to introduce greater transparency and accountability, but any change carries risks that need to be properly managed.	Ask how the IFRS transition is being managed. Ask for a briefing on what the changes mean for the audit committee and their review of the accounts. Review the Audit Commission checklist 'Countdown to IFRS'

Counter fraud arrangements – What is the role of the Audit Committee?

The audit committee exists to gain and provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the organisation is operating effectively – calling the organisation to account. Its key role is overseeing and assessing the risk management, control and governance arrangements and advising the governing body (for example the full Council in a local authority) on the adequacy and effectiveness of these arrangements. An audit committee's main responsibilities include advising the organisation on all matters relating to its governance and in doing so considering the effectiveness of the risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.

Fundamentally, the Audit Committee makes sure that effective actions to counter fraud and corruption take place. It acts to enforce, enable and encourage successful actions to counter fraud. Good counter fraud is essential for organisations that want to stop losing money, harm, hurt and fear and maintain a high status and good reputation with their stakeholders, regulators and funders. On the other hand, poor governance weakens an organisation's potential and, at worst, can pave the way for financial difficulties, poor performance, loss of reputation, fraud and corruption.

The mere existence of an audit committee does not eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an audit committee can:

- gain and give assurance through a process of independent and objective review
- raise awareness of the need for sound control and the implementation of recommendations by internal and external audit.

Managers (directly employed people) are responsible for establishing and implementing arrangements to counter fraud and corruption. The Audit Committee is responsible for overseeing these management arrangements. The Audit Committee is powerful (e.g. it has delegated responsibility to act on behalf of the full Council, and is "those charged with governance".) The role of the Audit Committee is crucial to support managers in achieving their anti-fraud objectives. The action needed to be effective in countering fraud and corruption is described in the CIPFA Red Book 2, *'Managing the Risk of Fraud – Actions to Counter Fraud and Corruption'*. This is available from the following web link: [CIPFA Networks - Better Governance Forum](#). Countering fraud and corruption is everyone's job. It requires organisational and individual commitment to a culture of zero-tolerance, Nolan principles and ensuring that money is spent on what it was intended for.

"Taking actions to proactively stop fraud occurring in the first place is a far better remedy than merely managing the risk"

Steve Freer, Chief Executive, The CIPFA Group.

It is management's responsibility to establish and implement effective arrangements. It is the job of the audit committee to oversee, monitor, support, enable, encourage, evaluate and when necessary enforce effective actions to counter fraud. A good committee agenda includes regular reports, updates and discussion of fraud issues and cases. It may be necessary to hold separate special meetings and/or exclude the press and public from main meetings. Committee members are better able to accomplish their role when they have been provided with training to understand their counter fraud responsibilities, for example:

- Internal control
- Fraud risk factors: the fraud triangle – incentives, rationalization, opportunity
- Good governance
- Financial management and reporting

- International Financial Reporting Standards and Standards on Auditing
- Links to achieving organisational objectives
- Final accounts.

Counter fraud arrangements – So, what questions should an Audit Committee ask?

20 Questions:

This checklist can be used by those responsible for governance (Audit Committees or equivalent) to assess their contribution to the fraud defences of their organisation and determine what action is needed. This is appropriate to use in any organisation. It is adapted from the checklist designed specifically for local authorities published by the Audit Commission in September 2009 as part of Protecting the public purse.

Checklist for those responsible for governance

Issue	Yes	No	Action
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			
5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter fraud resources against good practice?			
7. Do we raise awareness of fraud risks with: - new staff (including agency staff)? - existing staff? - non executives/members?			
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?			
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in data matching?			

12. Do we set the right “tone at the top” to influence the creation / maintenance of a strong counter fraud culture in the organisation?			
13. Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified?			
14. Have we reassessed our fraud risks because of the current economic climate?			
15. Have we amended our counter-fraud action plan as a result?			
16. Have we reallocated staffing as a result?			
17. Are we satisfied that payment controls are working as intended?			
18. Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?			
19. Are we satisfied that our recruitment procedures are: - preventing employment of people working under false identities? - validating employment references effectively? - ensuring applicants are eligible to work in the UK?			
20. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?			

Reviewing the Annual Governance Statement or Statement on Internal Control

What is an Annual Governance Statement (AGS), Statement on Internal Control (SIC) or Statement on Internal Financial Control (SIFC)?

The AGS, SIC or SIFC is a public statement, normally included with your statement of accounts, which explains how your organisation manages its governance and control arrangements. They are produced by both public and private sector organisations.

What does my organisation need to have?

Confusingly not all public bodies have the same requirement! While CIPFA recommends that all local government bodies in the UK have an Annual Governance Statement, this is only a statutory requirement in England and Northern Ireland. Welsh authorities have a Statement on Internal Control although an AGS is likely to be required from 2010/11 as the Welsh Assembly Government have consulted on this. In Scotland authorities are required to have a Statement on Internal Financial Control. Central government bodies and health authorities are all required to have a Statement on Internal Control.

What's included in these statements?

Although the names are different, there are many similarities between these statements as they all evolved out of the Statement on Internal Financial Control. And there are common features in all good statements. A good statement is open and honest, stating what works well and where improvements are needed. It includes a plan, showing who is responsible for taking action and when they will take action by. It also outlines progress against previous action plans. Whilst the focus of an SIFC is on financial controls, the other statements cover the full range of internal controls and the AGS covers wider governance matters such as ethics and leadership too. The statement summarises the key processes for delivering good systems of control and governance and indicates who is responsible for what. Processes are likely to include internal audit activity, risk management, performance management and other types of review and challenge. Responsibility lies with management, especially senior management, and the audit committee has an important role to play in providing challenge and oversight.

What does the Audit Committee do?

The audit committee has an on-going role in delivering good governance. Every time it reviews an audit report (internal or external) or holds an officer to account for his or her action (or inaction), it is helping to deliver good governance. In relation to the statement itself, the audit committee should take a robust and challenging approach, ensuring that:

- The statement reflects the organisation and is an honest self-assessment. Members should review evidence and challenge it where they believe it to be inaccurate or incomplete.
- They have sufficient assurance from enough separate parts of the organisation (this is known as 'triangulation' in audit circles) to be confident that, where controls and governance are deemed to be good, they are good and, where weaknesses are identified, the statement contains an accurate assessment of those weaknesses.
- The statement itself is well written and would be understood by someone with no knowledge of your organisation. In other words, it should be in plain English, with no jargon and it should include sufficient explanations.

- The action plan addresses all identified problem areas, including those identified in previous years where actions remain incomplete. Actions should be SMART (specific, meaningful, allocated, realistic and timely).

What makes for good governance?

Good practice approaches include:

- Creating and regularly reviewing a vision and direction for your organisation so that everyone understands what they are there to deliver.
- Indicating the level of service to be delivered – you can't be excellent at everything so what will you concentrate on and what can be good enough?
- Board / Member and officer roles are clearly defined, with schemes of delegation and codes of practice/conduct, so that everyone understands what they should and should not be doing.
- Having standing orders, financial regulations and guidance notes so that everyone knows what procedures are to be followed.
- A robust, challenging and supporting audit committee to provide oversight and review.
- Arrangements to ensure that you comply with laws and regulations and identify and act on changes promptly.
- Appropriate and flexible whistle-blowing arrangements.
- Methods to identify and act on officer and member development needs.
- Excellent and open communication with your community.
- Ways to ensure good governance in all your partnerships.
- Promotion of the values of good governance and ethical standards.

How do you draw up a good statement?

- Review and map your assurance framework to make sure that it covers all areas, including the hard to reach ones such as partnerships, and that you do not have any duplication in assurance.
- Obtain wide engagement – not just the head of audit or governance doing everything, but getting mini-governance or assurance statements from directors and heads of service that contribute to the overarching statement and/or setting up a working group to develop the statement.
- Be open and honest – it's about improvement and adding value, not about looking good.
- Be prepared to challenge yourself and look for areas for improvement, perhaps by benchmarking or comparing yourself with other organisations.
- Compare the assurances received to the strategic risk register. Are there any high risk areas that have not been adequately covered?
- Look for any inconsistencies or discrepancies. For example, has assurance been provided that there are no significant problems in an area but you have conflicting evidence from elsewhere (audit, risk, performance, complaints, fraud, etc)?
- Check progress against action plans during the year so problems can be dealt with quickly and governance becomes part of the way we do things round here, not just a once-a-year activity.
- Ensure that the action plan is widely known and understood in the organisation and beyond so that those charged with action are held to account and delivery is more likely.

Key questions to ask:

1. What process has the organisation gone through to gather evidence to support the AGS/SIC/SIFC? Has it involved staff from across the organisation?

- 2. Have assurance statements already gone through a process of challenge and review prior to presentation to the audit committee? What did this show?**
- 3. Does the action plan flow out of the statement and identify the major issues we need to address as an organisation?**
- 4. Does the action plan include actions outstanding from previous years, prioritised as necessary?**
- 5. How will the action plan be communicated to staff, stakeholders and the public?**

AUDIT COMMITTEE

23 March 2011



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2011/12

1. PURPOSE OF REPORT

- 1.1 To inform Members of the direction of internal audit activity, and to seek approval of the annual operational Internal Audit Plan for 2011/2012 (Appendix A).

2. BACKGROUND

- 2.1 Under the Accounts and Audit Regulations 2006, 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. At Hartlepool, the authority for ensuring this responsibility is discharged, has been delegated to the Chief Finance Officer.
- 2.2 To accord with the CIPFA Code of Practice 2006 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
- 2.3 Given available audit resources, all aspects of the Council's systems and arrangements cannot be audited in one year. In recognition of this a Strategic Audit Plan has been prepared using a risk model based on the model accredited by the Chartered Institute of Public Finance and Accountancy, which factors include:
- System Factors
 - Managerial and Control environment
 - Value of transactions
 - Volume of transactions
 - Opinion critical
 - May incur legal penalties
- 2.4 The Strategic Audit Plan is produced in a way that ensures all relevant risk areas are covered. This allows the most relevant and comprehensive annual opinion on the councils control environment to be given to the Audit Committee. Additionally, the audit plan has been

tailored to add value to the Council following a process of discussion and consideration by Corporate Management Team Support Group, of their current operational issues.

- 2.5 Hartlepool Borough Council Internal Audit establishment consists of a Head of Audit and Governance and 6 FTE audit staff.

3 INTERNAL AUDIT RESOURCES 2011/2012

Mainstream Internal Audit

- 3.1 A total of 73 planned areas of audit coverage will form the basis of the mainstream Internal Audit work for 2011/12. The plan includes fundamental systems such as salaries, debtors, creditors, risk management etc., which are identified, for the purpose of the plan, as single audits. However, these will include system and probity audits in each or some of the departments, in support of the main system reviews.

In addition to the planned audit work, advice and support will be provided on an ad hoc basis throughout the financial year together with unplanned reactive work wherever necessary and appropriate.

- 3.2 In addition, for 2011/12, 100 days of audit work will be provided to the Cleveland Fire Authority.
- 3.3 Further details are provided in Appendix A of the focus of coverage across the council.

4 DELIVERING THE AUDIT

- 4.1 Regular liaison is an essential feature of an effective and responsive audit function. In this context, Internal Audit will:
- Have frequent meetings with departments to discuss the short term audit program, any current departmental issues which may benefit from an audit review and provide the opportunity to raise any concerns with the audit services provided
 - Following audit reviews, agree action plans scheduling recommendations, identifying responsibilities and timescales for action
 - Carry out follow up work to monitor the effectiveness of management in actioning audit recommendations
 - Ensure audit recommendations are focused on improving controls and delivering benefits to the Council.
 - Provide feedback to the Chief Finance Officer and Members on progress on the audit plan and the outcomes of audit work.

5 INTEGRATION

- 5.1 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.
- 5.2 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 is mitigated.

6 RECOMMENDATION

- 6.1 It is recommended that Members approve the 2011/2012 Internal Audit Plan.

Appendix A

Department Name		2011/12
Child and Adult Services	Adoption	
Child and Adult Services	Adult Education	
Chief Executives	Advertising Revenue	5
Chief Executives	Age Discrimination Act	
Child and Adult Services	Allotment Rentals	
Regeneration and Neighbourhood Services	Asset Management	
Chief Executives	Asset Register	
Chief Executives	Assisted Car Purchase	
Chief Executives	Attendance Management	5
Chief Executives	Bailiff Services	
Child and Adult Services	Barnard Grove Primary School	
Chief Executives	Benefits - Housing & Council Tax	20
Child and Adult Services	Book Fund	
Child and Adult Services	Brougham Primary School	8
Chief Executives	Budgetary Control	25
Regeneration and Neighbourhood Services	Building & Development Control Income	5
Regeneration and Neighbourhood Services	Building Maintenance	
Regeneration and Neighbourhood Services	Business Improvement Districts	5
Chief Executives	Business Transformation Process	
Chief Executives	BVPI's	10
Chief Executives	Capital Accounting	5
Regeneration and Neighbourhood Services	Capital Programme Monitoring	10
Regeneration and Neighbourhood Services	Car Parking - Blue Badge Scheme	
Regeneration and Neighbourhood Services	Car Parking - Income	5
Child and Adult Services	Carlton Centre	
Chief Executives	Cash/Bank	5
Child and Adult Services	Catcote Special School	
Child and Adult Services	Catering	
Child and Adult Services	Cemeteries & Crematoriums	
Chief Executives	Central Land Charges	
Chief Executives	Central Printing	
Child and Adult Services	Children Centres	10
Child and Adult Services	Childrens Fund	
Child and Adult Services	Childrens Trust	
Chief Executives	Claim Adjustor Reviews	
Child and Adult Services	Clavering Primary School	
Regeneration and Neighbourhood Services	Cleaning of Buildings	
Chief Executives	Communication - Land Lines	
Chief Executives	Communication - Mobile Phones	
Child and Adult Services	Community Grants	
Regeneration and Neighbourhood Services	Community Safety	10
Regeneration and Neighbourhood Services	Community Strategy	
Chief Executives	Complaints Procedure	
Chief Executives	Computer Audit	50
Child and Adult Services	Connexions	
Child and Adult Services	Consistent Financial Reporting (CFR)	
Chief Executives	Contact Centre	5
Regeneration and Neighbourhood Services	Contaminated Land	

Chief Executives	Continuous Audit	70
Chief Executives	Contracts	15
Child and Adult Services	Contracts & Commissioning	
Child and Adult Services	CONTROCC	5
Chief Executives	Corporate Manslaughter Act	
Chief Executives	Corporate Postages & Franking	
Chief Executives	Council Tax	15
Chief Executives	Courier Service	5
Child and Adult Services	Court Of Protection	
Chief Executives	CRB	10
Chief Executives	Credit Card Payments	5
Chief Executives	Creditors	15
Chief Executives	Data Quality - DPA	
Chief Executives	Data Quality - Fol	
Chief Executives	Debtors	10
Chief Executives	Democratic Services	
Child and Adult Services	Devolved Capital/Asset Management	
Child and Adult Services	Direct Payments	5
Chief Executives	Disabled Discrimination Act	
Chief Executives	Duplicate Payments	10
Child and Adult Services	Dyke House Secondary School	
Chief Executives	Early Retirement/Voluntary Retirement Procedures	10
Regeneration and Neighbourhood Services	Economic Development	
Child and Adult Services	Education 14 - 19	
Child and Adult Services	Education Development Centre	
Child and Adult Services	Eldon Grove Primary School	
Child and Adult Services	Elwick C Of E Primary School	
Chief Executives	Emergency Planning	5
Chief Executives	Employee Protection/Violence Register	
Chief Executives	Employees Registers of Interest/Gifts and Hospitalities	5
Regeneration and Neighbourhood Services	Energy Management	9
Child and Adult Services	English Martyrs Secondary School	
Regeneration and Neighbourhood Services	Environmental Enforcement - Abandoned Vehicles/Fly Tipping	
Regeneration and Neighbourhood Services	Environmental Enforcement - Dog Fouling Income	
Regeneration and Neighbourhood Services	Environmental Enforcement - Dog Warden Service	
Chief Executives	Equal Pay/Single Status	10
Child and Adult Services	Fens Primary School	
Chief Executives	Flu Pandemic Response Plan	5
Child and Adult Services	Foreshore Management	
Child and Adult Services	Fostering	
Chief Executives	Fraud Awareness	20
Child and Adult Services	Free School Meals	
Child and Adult Services	Golden Flatts Primary School	8
Child and Adult Services	Governor Support	
Child and Adult Services	Grange Primary School	
Child and Adult Services	Greatham C Of E Primary School	
Regeneration and Neighbourhood Services	Ground Maintenance/Horticulture	
Regeneration and Neighbourhood Services	Hackney Carriages	
Child and Adult Services	Hart Primary School	
Child and Adult Services	Havelock Day Centre	
Chief Executives	Health and Safety	

Child and Adult Services	High Tunstall Secondary School	
Regeneration and Neighbourhood Services	Highways - Repairs and Maintenance	
Regeneration and Neighbourhood Services	Highways - Street Cleansing	
Child and Adult Services	Hire Of Community & Public Halls	
Child and Adult Services	Holy Trinity C Of E Primary School	
Child and Adult Services	Home Care	
Chief Executives	Housing Hartlepool	
Regeneration and Neighbourhood Services	Housing Market Renewal	10
Regeneration and Neighbourhood Services	Housing Options Centre	10
Regeneration and Neighbourhood Services	Housing Strategy	
Regeneration and Neighbourhood Services	Improvement/Renovation/Disabled Facilities Grants	
Child and Adult Services	Individual School Budgets	
Regeneration and Neighbourhood Services	Industrial Estate Lettings/Rental	
Chief Executives	Information/Data Management Security	25
Chief Executives	Insurances	
Regeneration and Neighbourhood Services	Integrated Transport Unit - Highways Capital Grant	10
Regeneration and Neighbourhood Services	Integrated Transport Unit - Concessionary Travel	
Regeneration and Neighbourhood Services	Integrated Transport Unit - Fuel Management	
Regeneration and Neighbourhood Services	Integrated Transport Unit - Home to School	
Regeneration and Neighbourhood Services	Integrated Transport Unit - Operators License	5
Regeneration and Neighbourhood Services	Integrated Transport Unit - Workshops	
Child and Adult Services	Jesmond Primary School	8
Chief Executives	Job Evaluation Payments/Equal Pay	
Chief Executives	Journal Review	5
Child and Adult Services	Kingsley Primary School	8
Regeneration and Neighbourhood Services	Landscape Planning and Conservation	
Child and Adult Services	Libraries	
Regeneration and Neighbourhood Services	Licensing	
Chief Executives	Loans & Investments	5
Child and Adult Services	Looked After Children	
Chief Executives	LSP Theme Partnerships	5
Child and Adult Services	Lynnfield Primary School	8
Chief Executives	Main Accounting	20
Child and Adult Services	Manor College Of Technology	
Regeneration and Neighbourhood Services	Market Rents	
Child and Adult Services	Meals On Wheels	
Chief Executives	Members Allowances/Travel/Subsistence	5
Chief Executives	Members Code of Conduct	
Chief Executives	Middleton Grange Shopping Centre	
Regeneration and Neighbourhood Services	Milk Grant	
Child and Adult Services	Millhouse Leisure Centre/Headland Sports Centre	
Chief Executives	Mortgages	
Child and Adult Services	Music Service (Joint Arrangement)	
Regeneration and Neighbourhood Services	Neighbourhood Renewal	
Chief Executives	NFI	5
Chief Executives	NNDR	10
Child and Adult Services	Nursing & Residential Accommodation Charges	
Chief Executives	Officers Expenses	5
Child and Adult Services	Open Spaces	
Childrens	Owton Manor Primary School	
Child and Adult Services	Parks Income	
Chief Executives	Partnerships	10

Child and Adult Services	Pensions, Allowances & Client Property	
Chief Executives	Performance Management Systems	10
Regeneration and Neighbourhood Services	Pest Control, Licences, Public Health Income	
Chief Executives	Petty Cash Review Group	10
Chief Executives	PIDA	
Child and Adult Services	Placements	
Child and Adult Services	Playing Fields & Lettings	
Child and Adult Services	Playschemes (Easter & Summer)	
Chief Executives	PoCA	
Regeneration and Neighbourhood Services	Prevention Services	
Regeneration and Neighbourhood Services	Procurement	15
Chief Executives	Public Relations	
Child and Adult Services	Pupil Referral Unit (P.R.U.)	
Child and Adult Services	Pupil Support/Admissions	
Chief Executives	Recruitment, Selection and Retention	15
Regeneration and Neighbourhood Services	Recycling/Landfill	
Chief Executives	Redundancies	
Child and Adult Services	Registrars	
Child and Adult Services	Resource Centres	
Child and Adult Services	Rift House Primary School	8
Chief Executives	RIPA	
Chief Executives	Risk Management	10
Child and Adult Services	Rossmere Primary School	8
Child and Adult Services	S.E.N. Support	
Child and Adult Services	Sacred Heart Primary School	
Child and Adult Services	Safeguarding	
Chief Executives	Salaries	10
Chief Executives	Salary Sacrifice Schemes	5
Chief Executives	Scheme of Delegation	
Regeneration and Neighbourhood Services	School Catering Recharges	
Child and Adult Services	School Improvement	
Child and Adult Services	Seaton Carew Nursery	8
Child and Adult Services	Section 17 Payments	
Child and Adult Services	SIMS System	
Child and Adult Services	Social Care Governance Arrangements	10
Child and Adult Services	Springwell Special School	
Child and Adult Services	St. Aidans Primary School	
Child and Adult Services	St. Begas Primary School	
Child and Adult Services	St. Cuthberts Primary School	8
Child and Adult Services	St. Helens Primary School	8
Child and Adult Services	St. Hilda's Secondary School	
Child and Adult Services	St. John Vianney Primary School	8
Child and Adult Services	St. Josephs Primary School	8
Child and Adult Services	St. Teresas Primary School	8
Regeneration and Neighbourhood Services	Stores	
Child and Adult Services	Stranton Centre	5
Child and Adult Services	Stranton Primary School	
Child and Adult Services	Summerhill	
Child and Adult Services	Supporting People	
Regeneration and Neighbourhood Services	Sustainability	5
Regeneration and Neighbourhood Services	Tanfield Road Nursery	
Chief Executives	Tees Valley LEP	

Child and Adult Services	Throston Primary School	
Child and Adult Services	Tourism - Historic Quay/Museum/TIC	
Child and Adult Services	Tourism - Maritime Festival	
Child and Adult Services	Tourism - Strategic Arts and Events	
Child and Adult Services	Tourism - Town Hall Theatre/Borough Hall	
Regeneration and Neighbourhood Services	Trade Refuse/Special Collections	
Regeneration and Neighbourhood Services	Trading Standards	
Chief Executives	Training	
Chief Executives	Transparency Code of Practice	5
Regeneration and Neighbourhood Services	Transport Plan	
Chief Executives	V.A.T.	5
Chief Executives	Wages	5
Child and Adult Services	Ward Jackson Primary School	
Child and Adult Services	Warren Road	
Child and Adult Services	West Park Primary School	
Child and Adult Services	West View Primary School	
Child and Adult Services	Wrap Around/After School Provision	
	ADMINISTRATION	
Corporate	Training/Development	60
Corporate	Administration	60
Corporate	Contingency/Advice/Support/Special Investigations	70
	CFA	100
	TOTAL	1038
	Holidays	206
	Sickness	40
	Bank Holidays	64