

# AUDIT COMMITTEE AGENDA



**Thursday 6<sup>th</sup> July 2006**

**at 10.00am**

**in Committee Room 'C'**

MEMBERS: AUDIT COMMITTEE:

Councillors: Hall, Preece, Turner, Wallace and Wistow

**1. APOLOGIES FOR ABSENCE**

**2. TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**

**3. MINUTES**

3.1 To confirm the minutes of the meeting held on 22<sup>nd</sup> May 2006 (*attached*)

**4. ITEMS FOR DISCUSSION/DECISION**

4.1 Presentation regarding Internal Audit and the Function and Role of an Audit Committee – *Chief Financial Officer*

4.2 Internal Audit Plan 2006/07 Update – *Head of Audit and Governance*

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

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

22<sup>nd</sup> May 2006

### **Present:**

Councillor Gerard Hall (In the Chair)

Councillors Arthur Preece and Gerald Wistow

Councillor Griffin was also in attendance as substitute for Councillor R Waller

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

### **19. Councillor Stanley Fortune**

The Chair addressed the Committee in terms of regret at the very recent death of Councillor Stanley Fortune. All present stood and observed a minute's silence as a mark of respect.

### **20. Apologies for Absence**

Apologies were submitted on behalf of Councillor R Waller.

### **21. Declarations of interest by members**

None.

### **22. Confirmation of the minutes of the meeting held on 18<sup>th</sup> April 2006**

Minutes confirmed.

### **23. Internal Audit Outcome Report 2005/06** (*Chief Internal Auditor*)

#### **Purpose of report**

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

**Issue(s) considered by the Committee**

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

Information for Members on the standards of financial administration and management arrangements operating within the authority was detailed in the report, together with a progress report on the extent of implementation of audit recommendations. The report also detailed the performance of internal audit in 2005/06 on a range of key performance indicators.

Appendix A scheduled all the planned audits completed for 2005/06. Only a minority of systems and arrangements reviewed had required improvement in Hartlepool. Follow up work had been carried out which had revealed that management had taken action, and improvements to controls, processes and procedures had been made. Revisions to arrangements arising from some of the more significant audits undertaken were detailed in the table at Appendix B.

From the work undertaken during the year the Chief Internal Auditor had reached the opinion that key systems were operating soundly and that there was no fundamental breakdown in controls resulting in material discrepancy.

Two of the phrases/sentences used within the report, ie the first sentence in 4.4 and the last sentence used in 5.2 were questioned by a Member of the Committee. The Group Auditor indicated that when recommendations are made then Officers have procedures in place to make sure they are implemented and that they work in practice, with relevant costs etc. audit would go to the appropriate level of management for checking purposes and there is a fairly comprehensive follow-up process in place. The Chief Financial Officer indicated that audits completed in January this year would not be subject to review until June this year. Members accepted that satisfactory follow-up procedure was in place.

**Decision**

Members noted the contents of the report and appendices.

**24. Statement of Internal Control 2005/06** (*Chief Financial Officer*)**Purpose of report**

To provide details of the implications to the Council of the Accounts and Audit Regulations (England) 2003 requirement; that the Council publish a

Statement of Internal Control with the Statement of Accounts and associated financial statements, and the action undertaken by the council to meet its obligations within the scope of the Regulations. Also to provide a copy of the 2005/06 Statement of Internal Control for information and approval.

### **Issue(s) considered by the Committee**

The report gave a detailed explanation of the following:

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

A copy of the draft HBC Statement of Internal Control was attached as an appendix to the report. Members were asked to review and approve the draft 2005/06 Statement of Internal Control (SIC) and were advised that General Purposes Committee on 30<sup>th</sup> June 2006 will give consideration to the finalised SIC.

Members commented that the SIC had been good, thorough and well written for lay people.

During discussion Members raised the following questions, comments:

- In respect of 6.1 of the report - Members felt it would be useful for them to have a note of the additional areas that are to be pursued. The CFO agreed that these were a critical areas of work and the Committee would be kept informed, the partnership issue had already been reflected in the audit plan, previously approved by the Committee.
- In relation to the covering report, at 2.3 of the report (top of page 3) re statement communicating governance arrangements to stakeholders – A Member asked if this was something that Members should have seen and does it cover the effectiveness of the Executive and Council. The CFO indicated that the Statement of Internal Control was not published in its own right but as part of the abstract of accounts and refers to the Council as whole; it makes no distinction between Executive and Council split. The whole process is set up in the control mechanisms; CPA assessment measures.
- A Member referred to the effectiveness of the following:
  - the role of back bench and/or community Councillors;
  - political leadership, Executive arrangements, etc;
  - the Scrutiny process;
  - Council as a whole.
 and whether there was a specific framework for assessment of the effectiveness of these arrangements. This being particularly important given public perception. The Chief Financial Officer stated that from the perspective of the SIC the necessary control

was the Constitution which sets out the relevant roles and responsibilities. The effectiveness was something that was covered in part through the CPA process. It was recognised by Members that this issue would need to be progressed further in the light of the anticipated Code of Practice in relation to Corporate Governance and also the expected white paper on Local Government

- Members recognised that, in terms of assessing the effectiveness of the LA, this is increasingly going to involve assessment of Scrutiny, LSPs, the role of Community Councillors. The Council needs to be in position to have some standards against which to make these assessments.. The CFO agreed to supply a copy of the current standard used as part of the CPA process, in relation to Scrutiny.
- The Chairman summed up by indicating that Audit Committee recognised the validity of the current SIC but recognised that the Council was still in a transitional process and that further work was required. The CFO commented that the anticipated amended guidance may have relevance to the issues raised and accepted members recognition that this was very much in the transitional process and this was very much in mind in those areas highlighted for further work in 6.1..

### **Decision**

- (a) Members approved the 2005/06 Hartlepool Borough Council Statement of Internal Control.
- (b) Members noted that as the areas of Corporate Governance and Partnerships evolve, further changes to internal controls are envisaged to meet any future requirements under the revised Code of Corporate Governance and the Government's white paper on the role and function of Local Government. The development of controls around corporate governance arrangements is a transitional, ongoing process that will build upon existing procedures.

**GERARD HALL**

**CHAIRMAN**

## **Audit Committee**

6<sup>th</sup> July, 2006



**Report of:** Chief Financial Officer

**Subject:** PRESENTATION REGARDING INTERNAL AUDIT  
AND THE FUNCTION AND ROLE OF AN AUDIT  
COMMITTEE

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### **1. PURPOSE OF REPORT**

To inform Members of the direction of Internal Audit activity and the potential role and objectives of the Audit Committee in monitoring the performance of the Internal Audit function.

### **2. BACKGROUND**

This report prepares Members in advance of a presentation by the Chief Financial Officer and Head of Audit and Governance, into the scope and objectives of Internal Audit and the function of an Audit Committee. The presentation will broadly cover:

- Internal Audit's purpose, relationships and role in the Authority and why it is necessary,
- An Audit Committee's responsibilities, why they are necessary and what do they need to do.

### **3. FINANCIAL IMPLICATIONS**

None.

### **4. RECOMMENDATIONS**

That members note the contents of the report and presentation.

## **Audit Committee**

6<sup>th</sup> July 2006

**Report of:** Head of Audit and Governance

**Subject:** INTERNAL AUDIT PLAN 2006/07 UPDATE

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**1. PURPOSE OF REPORT**

To inform Members of the progress made to date completing the internal audit plan for 2006/07.

**2. BACKGROUND**

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

**3. FINANCIAL IMPLICATIONS**

None.

**4. RECOMMENDATIONS**

Members note the contents of this Report.

**Report of:** Head of Audit and Governance

**Subject:** INTERNAL AUDIT PLAN 2006/07 UPDATE

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**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2006/07.

**2. BACKGROUND**

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

**3. AUDITS COMPLETED AND IN PROGRESS**

- 3.1 Appendix A of the report details the pieces of work that have been completed.
- 3.2 As well as completing the aforementioned audits, Internal Audit staff have been involved with the following working groups:
- ISO 17799 Group.
  - Procurement Working Group.
  - Risk Management Group
  - Statement on Internal Control

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

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



**4      AUDIT PLAN PROGRESS**

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

**5      RECOMMENDATION**

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

## Appendix A

Audit	Objectives	Recommendations	Agreed
BVPI 183	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A
Cemeteries and Crematories	The cemeteries and crematorium service is operated in line with statutory requirements; income is collected in full, held securely and banked promptly. Charges made are accurate, authorised and correctly accounted for. Adequate procedures are in place to recover debts.	<ul style="list-style-type: none"> <li>- There should be an independent checking of bankings to income collected on a regular basis.</li> <li>- Checks should be made to ensure that income is received in respect of all grave maintenance.</li> </ul>	Y  Y
BVPI 216	Systems are in place to provide information that is sound and that the final information used is accurate	- The areas of concern identified in the stock transfer report associated with the Dyke House area should be included in the BVPI figure.	Y
BVPI 221	Systems are in place to provide information that is sound and that the final information used is accurate	None	N/A
Owton Manor Primary	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> <li>- A medium term plan be developed which incorporates future predicted resources based upon pupil numbers, estimated staff costs etc for 3 future years.</li> <li>- That the school profile to parents be available on-line.</li> <li>- SIMS access is reviewed and user access that is not required is removed.</li> <li>- Written instructions forbidding use of unauthorised disks/ software are communicated to staff, and forms of undertaking are signed.</li> <li>- The school should be registered under the Data Protection Act.</li> <li>- A person independent of the school should prepare the audit certificate on the Private Fund.</li> <li>- The Private Fund should be registered as a charity in accordance with Charity Commission guidelines.</li> <li>- Neighbourhood Services invoices should be checked before being authorised for payment to ensure they appear reasonable.</li> <li>- Official orders should be raised for the purchase of all goods/services and committed to ensure budgetary control.</li> <li>- An inventory of assets be drawn up and updated regularly (this should include adequate description, serial numbers, etc).</li> </ul>	Y  Y Y Y  Y Y  Y  Y Y
BVPI 109	Systems are in place to provide information that is sound and	- Quarterly returns should be inspected to ensure that any unreconciled differences	Y

	that the final information used is accurate, complete and reliable	are cleared before the figures are submitted to the ODPM	
Hart Primary	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> <li>- A person independent of the school should prepare the audit certificate on the Private Fund.</li> <li>- The Private Fund should be registered as a charity in accordance with Charity Commission guidelines.</li> <li>- A register of governor's business interests should be held for all governors.</li> </ul>	Y  Y  Y
Golden Flatts Primary	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> <li>- A medium term plan be developed which incorporates future predicted resources based upon pupil numbers, estimated staff costs etc.</li> <li>- Minutes of Governing body / Committee meetings, which provide evidence that budget monitoring reports are presented and approved by members of the Governing Body should be retained in a secure manner.</li> <li>- The School should prepare and publish a school profile annually, replacing the previous requirement to publish a governors' annual report. Profiles should be available in hard copy for those with no internet access at the same time as the profile is published online. Versions should be available in alternative formats/languages (e.g. foreign language versions for parents whose first language is not English) if they deem this necessary. Schools should inform parents when the profile will be available online and how to request alternative versions.</li> <li>- Contracts information on SIMS should accurately record staff salaries and grades.</li> <li>- Official orders should be committed onto SIMS to ensure budgetary control; Delivery notes / service sheets should be retained securely.</li> </ul>	Y  Y    Y   Y
Hackney Carriages	Ensure that statutory requirements and the Council's Hackney Carriage and Private Hire Licensing Policy are being complied with; that all information within application packs has been properly completed; that adequate records and documentation exist for licences issued; that all licence fees are being charged correctly and have been paid in full; and that all personal data regarding licence applicants is held securely.	None	N/A

## Appendix B

<b>Audit</b> Car Parks Income	<b>Objectives</b> To determine whether regular reviews of the charges are completed ensuring the Authority does not suffer loss of revenue. Where revenue is being generated through non-staff car parks that adequate procedures, policies and security measures have been implemented to protect the Authority from any potential misappropriation, vandalism or fraudulent activity. Costs of the administration, collection and recovery of funds are taken into account before beginning the recovery process for parking fines. Adequate and regular review of income is carried out to monitor budget and reveal possible fraudulent activity. Relevant and up to date procedures exist for the maintenance of the Authority's Staff Parking Scheme.
Book Fund  BVPI 56	Determine the responsible officers for the book fund. All materials are ordered, received, stored and allocated in accordance with financial procedure rules. Adequate records are maintained of orders, transfers and missing items. A sufficient level of budget monitoring occurs within the department. Ensure adequate security procedures are in place and are operating effectively within the process. Systems are in place to provide information that is sound and that the final information used is accurate
Housing Aid and Asylum Seekers	The Authority has appropriate policies to enable adequate support for homeless people, including asylum seekers in the community. The Authority's policies are in accordance with statutory requirements and the service provided complies with both of these. There are accurate and complete records maintained for all the activities undertaken by the Housing Aid and Asylum Seekers Team. Income and expenditure items are administered in accordance with the Authority's Financial and Contract Procedure Rules, and adequate records are maintained. Information is held securely and in accordance with all relevant legislation and guidance, e.g. Data Protection Act/Human Rights Act.
BVPI 220	Systems are in place to provide information that is sound and that the final information used is accurate
Manor College	Ensure school financial and governance arrangements are in line with best practice
Employees Register of Interest St Josephs Primary	Ensure all relevant guidance is followed and good governance arrangements are in place.  Ensure school financial and governance arrangements are in line with best practice
Members Allowances	Ensure that Members are paid the correct level of allowance and reimbursed for any approved expenditure, payments made are in accordance with Council Policy and Procedure Rules, all payments made are adequately recorded and monitored, the scheme is administered effectively and efficiently and all payments have been adequately supported and payments are in line with current rates.
Education Development Centre	Ensure that data is securely held and procedure/guidance notes are held. That room lettings are effectively and efficiently managed. Ensure that goods and services are ordered and invoices processed in line with Financial Procedure Rules.
BVPI 79b	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable
HSA PI	Systems are in place to provide information that is sound and that the final information used is accurate
Supporting People PI	Systems are in place to provide information that is sound and that the final information used is accurate
Community Grants	Grants are awarded in accordance with current legislation and Council Policies. Adequate records are maintained in support of grants claimed and paid.
St Hilda's Secondary	Ensure school financial and governance arrangements are in line with best practice

Building and Development Control Income	The Authority provides a building and development control service in line with statutory obligations, the Authority's policies & procedures comply with relevant legislation/guidance, complete, accurate and reliable evidence is retained and processed in support of planning and building applications, income received is correctly recorded and paid into the Authority's bank account in a timely manner and cash and documents with a financial/confidential value are held securely and in compliance with any relevant legislation e.g. Data Protection.
Rift House Primary	Ensure school financial and governance arrangements are in line with best practice.
Children's Act	Ensure policies & procedures comply with relevant legislation/guidance.
Holy Trinity Primary	Ensure school financial and governance arrangements are in line with best practice
Brierton Secondary	Ensure school financial and governance arrangements are in line with best practice
Richard Report	Ensure procedures are in place that enables the authority to comply with relevant legislation/guidance.
Elwick Primary	Ensure school financial and governance arrangements are in line with best practice
Dyke House	Ensure school financial and governance arrangements are in line with best practice.
Mill House Leisure Centre	Adequate procedures are in place within the cashiers system to ensure that all income received is processed promptly, recorded in a satisfactory manner and reconciled to system output; income is banked promptly into the Authority's bank account.
Fens Primary	Ensure school financial and governance arrangements are in line with best practice
Abandoned Vehicles	That procedures in place for administering the abandoned vehicles function are operating effectively and efficiently, statutory guidelines and Contract and Financial Procedure Rules are adhered to and Data and cash are securely held.