

# AUDIT COMMITTEE AGENDA



**Wednesday 21 March 2012**

**at 9.00am**

**in Committee Room C, Civic Centre, Hartlepool**

MEMBERS: AUDIT COMMITTEE:

Councillors C Akers-Belcher, Hall, Hill, J W Marshall, Preece, Rogan 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 25 January 2012

**4. ITEMS FOR DISCUSSION/DECISION**

- 4.1 Internal Audit Plan 2012/13 – *Head of Audit and Governance*
- 4.2 Internal Audit Plan 2011/12 Update – *Head of Audit and Governance*
- 4.3 Audit Committee Member Information - *Head of Audit and Governance*
- 4.4 Audit Commission Report – Certification of Claims and returns – *Chief Finance Officer*
- 4.5 Audit Commission Report – Audit Plan – *Chief Finance Officer*
- 4.6 Audit Commission Report – Audit Committee Update – *Chief Finance Officer*
- 4.7 Key Principles of Audit - Constitution - *Chair of Audit Committee*  
(Verbal Report)

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

# AUDIT COMMITTEE

## MINUTES AND DECISION RECORD

25 January 2012

The meeting commenced at 9.00 am in the Civic Centre, Hartlepool

### **Present:**

Councillor Christopher Akers-Belcher (In the Chair)

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

In accordance with Council Procedure Rule 4 (ii) Councillor Ann Marshall was in attendance at substitute for Councillor J W Marshall

Officers: Chris Little, Chief Finance Officer  
Noel Adamson, Head of Audit and Governance  
Denise Wimpenny, Democratic Services Team

Audit Commission Representatives:  
Diane Harold and Rebecca Deardon

### **25. Apologies for Absence**

Apologies for absence were submitted on behalf of Councillor J W Marshall.

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

None

### **27. Confirmation of the minutes of the meeting held on 1 December 2011**

Confirmed with the addition of Councillor Cath Hill's apologies.

### **28. Treasury Management Strategy 2012/2013** *(Chief Finance Officer)*

#### **Purpose of Report**

To enable the Audit Committee to consider the proposed Treasury Management Strategy for 2012/2013 prior to the strategy being referred to Council in February 2012.

## Issues for Consideration

The Chief Finance Officer presented the report which provided details of the Authority's Treasury Management Strategy for 2012/13. The report included an update in relation to the following areas:-

- Economic Background and Outlook for Interest Rates;
- Prudential Indicators
- Capital Financing Requirement
- Borrowing Strategy
- Investment Strategy
- Treasury Management Limits on Activity
- Treasury Management Advisors

Members were advised that the strategy proposed that the Council continued to net down investments and borrowing as this was expected to provide the lowest cost and minimised risk. It was also proposed that for specific business cases the Council would take out specific loans locking into the current low rates. This would ensure business cases were sustainable and would avoid the risk of affecting the general fund. The strategy considered arrangements should the interest outlook change unexpectedly. Where investments needed to be made the Council would continue to limit the institution the Council would invest with and the period of investment to 100 days or less.

A Member questioned the implications on the medium term financial strategy should funding from projected capital receipts not be achieved. The Chief Finance Officer advised that whilst any shortfall in capital receipts had been identified as a low risk, in the event that capital receipts were not achieved, this would result in a budget pressure for the 2013/14 budget.

In response to a request for clarification as to whether local government borrowing could be substituted by some form of government grant, the Chief Finance Officer outlined the borrowing and allocation process indicating that the financial strategy had been developed on the basis that grants would continue. .

## Decision

Members agreed that the following recommendations be referred to Council for approval:-

- (i) The Prudential Indicators and Limits relating to Capital Expenditure for 2012/13 to 2014/15, as detailed in sections 4 and 5 of the report, be approved
- (ii) The continuation of the netting down of investment and borrowing noting that specific loans would be taken out for schemes approved on the basis of individual business cases, be approved.
- (iii) The Treasury Prudential Indicators and the Minimum Revenue Provision (MRP) Statement, as set out in section 4 of the report, be approved.

- (iv) The Treasury Prudential Indicators, as detailed in section 7 of the report, be approved.
- (v) The Investment Strategy Counterparty Criteria contained in section 7 of the report, be approved and note the operational limits would continue to be further restricted.
- (vi) That the Treasury Management Limits on Activity in section 8 of the report, be approved.

## **29. Update on Proposed New Local Audit Arrangements** (Chief Finance Officer)

### **Purpose of report**

To update members on proposals for new local audit arrangements published by the Department for Communities and Local Government (DCLG).

### **Issue(s) for consideration by the Committee**

In August 2010 the Government had announced plans to disband the Audit Commission as part of a shift in power away from central government to councils and communities. Current arrangements would remain in place until August 2012 at which point a new external auditor would be appointed by the Audit Commission.

On 4 January 2012, the Government published its proposals for the new arrangements for audit of local public bodies. Following the decision to abolish the Audit Commission, the Government sought views on the new arrangements. Attached at Appendix A was the Government's response to the future of local audit consultation. The following key issues, as detailed in the Government response were provided, details of which were set out in the report:-

- Regulation of Local Public Audit
- Registration of Auditors
- Eligibility for Registration
- Monitoring and Enforcement
- Duty to Appoint an Auditor
- Role of the Independent Audit Appointments Panel
- Rotation of Audit Firms and Audit Staff
- Scope of Local Public Audit
- Provision of Non-Audit Services
- Grant Certification
- Implementation and Next Steps

In response to queries regarding the future audit arrangements, Members were advised that a number of uncertainties remained in terms of the new audit arrangements and the impact of the proposed changes on local authorities. A Member referred to the future role of the Audit Committee

and sought clarification as to whether Independent Members would form part of the make-up of future Audit Committees. The Head of Audit and Governance stated that whilst guidelines as to how this would operate in practice were awaited, it was envisaged that the Government were keen to see Audit Committees operating as Independent Panels. However, this would mean that in order to fulfil this role the Audit Committee would need to be independently chaired with a majority of independent members. If this was not the case an authority would need both a traditional Audit Committee as well as an independent audit appointments panel.

Members went on to discuss the potential for local authorities to adopt different approaches for future audit arrangements, the possibility of shared arrangements with other local authorities as well as the independent audit appointment process.

Concerns were expressed that feedback from the consultation process appeared to suggest little deviation from the initial proposals.

### **Decision**

That the contents of the report be noted and Members kept fully apprised of any future developments in relation to the provision of local audit arrangements.

The meeting closed at 9.28 am.

CHAIR

## AUDIT COMMITTEE

21 March 2012



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

**Subject:** INTERNAL AUDIT PLAN 2012/13

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### 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 2012/2013 (**Appendix A**).

### 2. BACKGROUND

- 2.1 Under the Accounts and Audit Regulations 2006 (Amended 2011), 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 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 5 FTE audit staff.

### 3 INTERNAL AUDIT RESOURCES 2012/2013

- 3.1 A total of 54 planned areas of audit coverage will form the basis of the mainstream Internal Audit work for 2012/13. 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 For 2012/13, 100 days of audit work will also be provided to the Cleveland Fire Authority.
- 3.3 Further details are provided in **Appendix A** of the focus of coverage across the council. In order to support members in the process of reviewing proposed audit coverage, the Better Governance Forum guidance on approving Internal Audit plans is also attached for information. This takes the form of a number of questions members may want to consider when reviewing the plan.

### 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, identifying responsibilities and timescales for action;
  - Carry out follow up work to monitor the effectiveness of management in implementing action plans;
  - Ensure action plans 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 minimised.

## **6 RECOMMENDATION**

- 6.1 It is recommended that Members approve the 2012/2013 Internal Audit Plan.



## Appendix A

Department Name		Assistant Director	2012/13
Chief Executives	Agency Worker Regulations	Joanne Machers	5
Chief Executives	Benefits - Housing & Council Tax	Chris Little	20
Chief Executives	Budgetary Control	Chris Little	20
Chief Executives	BVPI's	Andrew Atkin	5
Chief Executives	Capital Accounting	Chris Little	5
Chief Executives	Cash/Bank	Chris Little	5
Chief Executives	Computer Audit	Andrew Atkin	50
Chief Executives	Continuous Audit	Chris Little	75
Chief Executives	Council Tax	Chris Little	15
Chief Executives	CRB	Joanne Machers	10
Chief Executives	Creditors	Chris Little	15
Chief Executives	Debtors	Chris Little	10
Chief Executives	Duplicate Payments	Chris Little	20
Chief Executives	Employees Registers of Interest/Gifts and Hospitality	Andrew Atkin	5
Chief Executives	Fraud Awareness	Chris Little	50
Chief Executives	Free School Meals	John Morton	5
Chief Executives	Information/Data Management Security	Andrew Atkin	30
Chief Executives	Insurances	Chris Little	5
Chief Executives	Journal Review	Chris Little	5
Chief Executives	Loans & Investments	Chris Little	5
Chief Executives	Localism Act	Andrew Atkin	10
Chief Executives	Main Accounting	Chris Little	20
Chief Executives	Members Allowances/Travel/Subsistence	Peter Devlin	5
Chief Executives	NFI	Chris Little	5
Chief Executives	NNDR	Chris Little	10
Chief Executives	Officers Expenses	Chris Little	5
Chief Executives	Partnerships	Andrew Atkin	10
Chief Executives	Performance Management Systems	Andrew Atkin	5
Chief Executives	Petty Cash Review Group	Chris Little	5
Chief Executives	Redundancies	Joanne Machers	5
Chief Executives	Risk Management	Andrew Atkin	10
Chief Executives	Salaries	Chris Little	10
Chief Executives	V.A.T.	Chris Little	5
Chief Executives	Wages	Chris Little	5
Child and Adult Services	Clavering Primary School	Caroline O'Neill	5
Child and Adult Services	Dyke House Secondary School	Caroline O'Neill	6
Child and Adult Services	St Peter's Elwick C Of E Primary School	Caroline O'Neill	5
Child and Adult Services	English Martyrs Secondary School	Caroline O'Neill	6
Child and Adult Services	Fens Primary School	Caroline O'Neill	5
Child and Adult Services	Hart Primary School	Caroline O'Neill	5
Child and Adult Services	High Tunstall Secondary School	Caroline O'Neill	6
Child and Adult Services	Holy Trinity C Of E Primary School	Caroline O'Neill	5
Child and Adult Services	Manor College Of Technology	Caroline O'Neill	6
Child and Adult Services	Owton Manor Primary School	Caroline O'Neill	5
Child and Adult Services	Public Health Act	Louise Wallace	10
Child and Adult Services	Social Care Governance Arrangements	Jill Harrison	10
Child and Adult Services	St. Hilds Secondary School	Caroline O'Neill	6
Regeneration and Neighbourhood Services	Capital Programme Monitoring	Graham Frankland	5

Regeneration and Neighbourhood Services	Car Parking - Income	Alastair Smith	5
Regeneration and Neighbourhood Services	Energy Management	Graham Frankland	5
Regeneration and Neighbourhood Services	Grant Certification	Alastair Smith	5
Regeneration and Neighbourhood Services	Housing Options Centre	Damien Wilson	10
Regeneration and Neighbourhood Services	Integrated Transport Unit - Highways Capital Grant	Alastair Smith	5
Regeneration and Neighbourhood Services	Procurement	Graham Frankland	10
	<b>ADMINISTRATION</b>		
Corporate	Training/Development		45
Corporate	Administration		60
Corporate	Contingency/Advice/Support/Special Investigations		60
	<b>Cleveland Fire Authority</b>		100
	<b>TOTAL</b>		<b>860</b>
	Holidays		157
	Contingency		25
	Bank Holidays		45

## 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

# AUDIT COMMITTEE

21 March 2012



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

**Subject:** INTERNAL AUDIT PLAN 2011/12 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 2011/12.

## 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
Kingsley Primary	Ensure school finance and governance arrangements are in line with best practice.	- Minutes of meetings should contain sufficient details of the budget monitoring process. Copies of budget monitoring reports should be retained with minutes	Y
		- Debts over £25 should be sent to the local authority for a formal invoice to be raised.	Y
		- Staff purchases made on behalf of the school should be kept to a minimum. The school may consider operating procurement cards which ensures that goods purchased belong to the school.	Y
		- Records should be maintained by the school of all software loaded onto desktop machines / laptops etc along with licence numbers. Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines.	Y
		- Annual audited accounts should be presented to the Governing Body.	Y
		- The Governing Body should annually review and approve the schools scale of charges.	Y
		- Back ups of IT systems / data should be tested to ensure that systems can be restored in the event of failure. Records of such testing should be maintained.	Y
HR File Review	Arrangements are in place that ensure all recruitment checks are undertaken and evidence retained on personal files.	- The issues identified in relation to information on files should be examined and arrangements made to ensure that all files meet the required standard.	Y
		- It is important to ensure that all risks within the appointment process are identified and analysed and the process is clearly documented and approved, this should include the processes for dealing with existing employee files and new appointments.	Y
		- The process of not currently renewing volunteer CRBs on a three yearly cycle should be reviewed.	Y
Flu Pandemic Plan	Ensure adequate arrangements are in place to mitigate the risks identified.	- The Strategic Plan should be reviewed annually and / or whenever new national guidance is issued.	Y
		- The HBC Flu Plan should be reviewed at least annually or whenever new national guidance is issued. Lessons learnt as a result of testing /	Y

Audit	Objectives	Recommendations	Agreed
		<p>exercises undertaken on relevant multi agency plans which impact on the HBC plan should also be incorporated into such reviews. Consideration should also be given to presenting the plan to Members for information purposes.</p> <ul style="list-style-type: none"> <li>- Flu Pandemic planning should be incorporated into the overall Business Continuity regime to ensure consistent assessment of critical activities, assignation of roles and responsibilities, standardisation of documentation and reduce the potential of contradictory outcomes.</li> <li>- An analysis of resources required to deliver critical activities in the event of a pandemic i.e. anti-bacterial gel, cleaning materials etc, should be undertaken</li> <li>- The HBC Flu plan should be subject to regular (at least annual) exercises to ensure that all relevant staff are trained in their roles and become familiar with their responsibilities. Amendments to the plan should be considered to reflect the results of such exercises and any staff training needs identified be resolved.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p>
Energy Management	Ensure arrangements are in place for procuring energy (gas, electricity and water) in compliance with Contract and Financial Procedure Rules and value for money is being obtained to ensure that the correct payments are being made as per the contract.	<ul style="list-style-type: none"> <li>- The viability of using the NEPO contract should be assessed on a regular basis to ensure that the arrangements are providing the most effective and efficient method of procuring energy for the authority. The evaluation mentioned in the management response is the type of assessment that we would recommend is undertaken to support the continuation of the process but it would need to be a formal evaluation which was reported to Portfolio Holder.</li> <li>- All procurement of energy should be made through the central contracts.</li> <li>- Managers should receive regular reports of energy consumption to enable them to monitor consumption levels and the effects of any changes made on the levels of consumption.</li> <li>- To enable energy costs to be effectively managed energy budgets need to be accurately calculated based on consumption levels and changes made which will have an impact on the energy usage i.e. services being delivered in a different manner, reduced or extended opening hours of buildings, working from home initiatives etc.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>



Audit	Objectives	Recommendations	Agreed
		<ul style="list-style-type: none"> <li>- The Carbon Reduction Strategy should be reviewed and amended to take into account recent changes which impact directly on this area; this should be reviewed annually thereafter.</li> <li>- Monitoring of energy consumption should be undertaken on a more regular basis and the details loaded onto Covalent to provide an early indication of progress made on achieving the targets and to enable remedial action to be taken if targets are not met.</li> <li>- The proposed process of monitoring energy budgets on a more regular basis will provide greater assurance that any issues are promptly identified, extending this to account for fluctuations in consumption levels as reductions/changes to services are made will ensure that accurate reports are provided.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p>
Asset Management	<p>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 &amp; 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</p>	<ul style="list-style-type: none"> <li>- Formal agreed terms of reference should be in place for the Corporate Capital Funding Team.</li> <li>- Consideration should be given as to whether the Corporate Capital Fund Team requires a subsidiary group to support its work and disband the Corporate Asset Management Group.</li> <li>- Benchmarking exercises should be undertaken to compare the performance of assets with similar organisations.</li> <li>- In order to promote the efficient and effective use of property data, the IPF database should be fully populated with property data.</li> <li>- Consideration should be given to link the two databases to remove the requirement to duplicate input of data on two systems.</li> <li>- Up to date rental agreements should be in place with all tenants.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
	assets contribute to the achievement of corporate and service objectives, including improvement priorities, sustainability objectives and setting challenging targets for improvement.		
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.	<p>- A formal plan should be established for scheduling condition surveys of corporate properties. The plan should take into consideration the frequency with which properties should be subject to surveys, to enable the service to maintain up to date condition data for all corporate properties. Progress against the plan should be monitored.</p> <p>- Formal monitoring of progress against the Revenue Maintenance Programme should be undertaken and action taken in the event schemes are not completed within schedule or cancelled.</p> <p>- A review of arrangements for processing schemes on the job costing system should be undertaken with a view to minimising the value of work in progress and improve integration of costing information/ approvals by the Building Consultancy and the DSO. Consideration should be given within DSO to issuing interim certificates on a regular basis rather than waiting for completion of schemes. Building Consultancy services should also consider the automatic approval of DSO payment requests up to a defined percentage of each schemes budget, with a view to carrying out retrospective checks on supporting documentation at the final account stage. Errors / discrepancies to be resolved at this stage. To be delivered by Building Consultancy/ DSO improved integration of pricing/costing/payment.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
Operators License	The controls in place ensure that the Authority provides a fleet of vehicles fit for purpose and that all associated controls are in place to mitigate any risk of the loss of the O-Licences held.	<p>- Driver inspection log books should be fully completed by staff.</p> <p>- Staff is trained on the Tachodisc Clock Watcher software to a standard to enable them to analyse data downloaded, identify issues and enable these to be addressed and rectified.</p> <p>- A similar requirement as recommendation one in that weekly log books are fully completed, signed off by the appropriate supervisor and white copies submitted to the office</p>	<p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		without exception. - A more robust system is put in place for requesting licences and following up these requests to ensure that drivers required to produce documentation are not missed.	Y
St. Teresa's Primary	Ensure school finance and governance arrangements are in line with best practice.	- The Governing Body should annually review approve the schools scale of charges. - 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. - Records should be maintained by the school of all software loaded onto desktop machines / laptops etc along with licence numbers. Regular software audits should be undertaken by the school to ensure that unauthorised software has not been installed on machines and that the number of software licences retained agrees to the software loaded onto machines.	Y  Y  Y
Planning and Building Control Income	The Authority provides a building and planning control service for Hartlepool in line with statutory obligations. Complete, accurate and reliable evidence is retained and processed in support of planning and building applications. Charges are set and regularly reviewed and are in line with statutory guidance. All income due is collected in full, correctly recorded and banked promptly and intact.	- Staff should sign a declaration of interests to confirm that if an interest arose they <u>must</u> put it in writing to the Building Control Manager or Planning Services Manager. The application should then be given to another member of the team. - As discussed with the Building Control Manager the outstanding invoices are to be built in the monthly budget monitoring process.	Y  Y
Procurement Card	The audit focused on the processes in place regarding policies & procedures, training, application and transaction process as well as reviewing management reports to ensure the Authority is obtaining the best value for money using this means of purchasing.	- Written authorisation from an appropriate officer is received prior to completion/submission of purchase card applications and all documentation relating to applications, is retained by the Corporate Finance Division in all instances. - A more consistent approach to the review of card activity should be implemented and where applicable consideration should be given to disabling cards which are not required. - Under no circumstances should users be able to obtain cash using their purchase card and checks should be in place to ensure the relevant merchant category option is blocked prior to submission. - Where additional/changes to card requirements have been	Y  Y  Y  Y

Audit	Objectives	Recommendations	Agreed
		<p>granted, evidence should been retained by the Integra team to support the request.</p> <p>- It is suggested that a record of attempted and successful fraudulent transactions is maintained and monitored to establish any links between transactions.</p> <p>- Consideration should be given to only releasing purchase cards once the signed employee agreements have been completed and returned.</p> <p>- A review of expenditure is undertaken and explanations sought as to why cardholders are making card purchases where an appointed supplier is in place (i.e. office stationery). Expenditure relating to Hotel &amp; Accommodation and Travel should be the best price available and in line with subsistence level guidelines.</p> <p>Card purchases should only be made for goods and/or services which cannot be purchased via an appointed supplier. This should be monitored over a period of time and consideration given to removing specific categories/cards from individuals who repeatedly use cards inappropriately.</p> <p>- Arrangements should be put in place which ensures that purchase orders are used for goods and services where possible and purchase cards are only used to process low value, high volume transactions.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Cash/Bank	Ensure reliance can be placed on banking procedures in relation to direct debit payments, holding accounts, payroll and creditor payment transactions.	<p>- As the cash office do not maintain a record of the number of cheques received or how many have been input, it is suggested that the current process is reviewed and an alternative method of recording be considered to ensure that the resources are used in a productive manner giving value to the exercise. It is also recommended, that cheques are input on the day of receipt and not carried over to the next input day.</p> <p>- As recommended in the 2011/12 audit report, all daily cashier reconciliations should be signed by the individual cashiers</p> <p>- Due to discrepancy, cash up to be undertaken every day, no-one other than cash office staff are allowed in the cash office, a camera is installed, the safe door is locked rather than just being closed during the day.</p>	<p>Y</p> <p>Y</p> <p>Y</p>
Members	Are paid in accordance with the	- Where applicable, expenditure is	Y

Audit	Objectives	Recommendations	Agreed
Allowances	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 authorities policies and the Data Protection Act.	<p>coded to the correct member code to ensure that the Financial Management System gives a true reflection of individual councillor's expenditure.</p> <ul style="list-style-type: none"> <li>- The issue which is hindering the process to enable the Payments Unit to scan and attach claims to the FMS should be addressed and resolved.</li> <li>- Insurance documents are in place for all Members claiming travel expenditure for vehicle use and cover business use.</li> </ul>	<p>Y</p> <p>Y</p>
Brougham Primary	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- 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.</li> <li>- Adequate income records are maintained for all income including booking forms for room hire and details of the sales invoice and/or recharge when created. Income records for Breakfast Club should be reconciled to amounts banked with the school office. Such checks should be evidenced by signature of the persons carrying out the reconciliation</li> <li>- Records should be maintained demonstrating recovery action the school has taken on outstanding arrears. Debts over £20 should be passed to the LEA for recovery. Staff should not be allowed to run up debts and all outstanding amounts should be paid immediately without exception.</li> <li>- Consideration should be given to stopping the Breakfast Club.</li> <li>- Orders should be raised 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.</li> <li>- Contract Procedure Rules should be followed when acquiring goods/services in excess of £5,000. Records of contract evaluation and decision to award should be signed by officers involved in the process,</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>retained and the decision reported to the Governing Body.</p> <ul style="list-style-type: none"> <li>- All items of equipment costing in excess of £500 or is of a portable and attractive nature should be recorded in an inventory record. A stock check should be undertaken on an annual basis and 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.</li> <li>- The auditor is provided with evidence of the records of software which is loaded onto machines along with the annual audit document.</li> <li>- Annual accounts should be subject to independent examination and then presented to the Governing Body.</li> <li>- In order to demonstrate Best Value in the provision of its services the School should identify areas to review the economic, efficient and effective use of resources, document these areas in a best value statement and submit this statement to the LEA on an annual basis.</li> <li>- CRB clearances should be in place for all staff and reviewed every three years.</li> <li>- The School should not allow its bank account to go overdrawn. It should be managing its cashflow adequately and ensuring that top ups are received prior to going overdrawn.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Business Improvements Districts	Successful development of the BID ensures that an effective partnership is in place with clearly defined objectives which provide benefits to business and the Local Authority. Governance arrangements are formally defined for the BID Partnership. Roles and responsibilities are clearly defined. Effective budgetary control arrangements are in place. The Business levy is collected from all tenants in the scheme. Annual financial returns are submitted to the Secretary of State in a complete and accurate manner. Effective arrangements are in place for monitoring the achievement of BID objectives.	<ul style="list-style-type: none"> <li>- Consideration should be given by the Board to analyse the current budget position to ensure that accumulated balances are not excessive and are required to enable the scheme to continue for the remainder of the agreed BID period. Such consideration should include an analysis of expected costs to maintain the CCTV system for the remainder of the BID period. Should the surplus be deemed excessive, advice should be sought from Legal Services on how best to account for the balance.</li> <li>- Annual financial returns should be submitted to the Secretary of State.</li> </ul>	<p>Y</p> <p>Y</p>

[illegible]

Audit	Objectives	Recommendations	Agreed
		<p>onto the school's financial system prior to receipt of the goods/supplier invoice. Expenditure relating to the school should be via purchase orders or the school's purchasing card.</p> <ul style="list-style-type: none"> <li>- A check is carried out to confirm the location of the item and that it is still held by the school.</li> <li>- A copy of the bank mandate should be made available to the auditor.</li> <li>- Access to SIMS should be restricted to authorised staff only and rights removed for any former staff members.</li> <li>- Where the annual income of the private fund exceeds £5,000, the school should consider registering the fund as a charity with the Charity Commissioner.</li> <li>- The auditor understands that the level of arrears is currently due to resource restraints within the school office. However debts exceeding £20 should be referred to the LEA in order that recovery action can be taken.</li> <li>- The Governing Body should evaluate tender/quotation documentation for items of expenditure larger than £3,000 as set out in the Finance &amp; General Purposes Committee Terms of Reference: "Items of expenditure larger than £3,000 be referred to the Chair of the General Purposes Committee and/or Vice Chair of Governors for their approval."</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>



## Appendix B

<b>Audit</b>	<b>Objectives</b>
Fraud Awareness	Ensure best practice in place in terms of fraud prevention and detection.
Children Centre	Ensure adequate arrangements are in place for adequate financial management and budgetary control; IT and data security; Income; Purchasing and Contracts; SLAs; Security of assets; Day Care.
LSP/ Partnerships	Ensure that the Hartlepool Partnership is undertaking all the statutory duties required (or is preparing to do so once Governmental directives have been finalised in some areas), the Hartlepool Partnership is not undertaking any activities from which it is prohibited, the governance framework (or that proposed) within which the Hartlepool Partnership operates appears to be in line with any requirements and/or best practice.
Main Accounting	Ensure risks are managed with regard to compliance with legislation, regulation, guidance and accounting standards, ensuring the financial ledger provides the data required to meet the accounting standards, the security of the data held in the financial ledger and supporting documents in either electronic or paper form.
Advertising Revenue	Ensure where advertising income is generated it is managed to ensure that the income is received. Review how are charges calculated. Identification of new areas of generating advertising income.
Bribery Act	Ensure adequate arrangements are in place in order to comply with the Bribery Act.
Budgetary Control	Provide assurance that the processes in place for setting, amending, monitoring and reporting of budgets for Hartlepool Borough Council adequately mitigate the risks identified and are operating effectively and efficiently.
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.
Equal Pay	Enable assurance to be provided that the processes currently in place have been evaluated to ensure that they comply with current Equal Pay Legislation and action taken to rectify any areas of non compliance.
Controcc	Processes in place ensure that there is sufficient control over data input (including amendments) to ensure that it is accurate, complete and reliable, access to the CONTROCC system is controlled to allow access to only authorised officers, a system is in place to ensure that the system data can be restored if required, system output is in the required format and made available only to those who are authorised to receive it.
Direct Payments	Ensure adequate arrangements are in place that ensure all payments are valid, accurate and appropriate.
Car Park Income	Procedures in place are consistent with legislation; Income received in respect of car parking is collected on a regular basis and banked in full and prompt manner. Arrangements in place ensure that all income is fully accounted for and accurately processed. Regular reviews of car parking charges are undertaken; Effective arrangements are in place the enforcement of traffic contraventions; Arrangements for allocating parking permits ensures that applicants are aware of the terms and conditions of use of permits. Payments are received in full and at the correct rate for permits issued; Systems / data are safeguarded from loss / harm.
Earl Retirement/ Voluntary Redundancy	Give assurance that policy / procedures in place are in line with legislation and ensure that events relating to early / voluntary retirement can be processed accurately and completely, in a consistent manner that is fair, transparent and within scheme rules/framework set out in the policy. Effective arrangements are in place to identify and keep up to date with changes in legislation / best practice. Operational activities reflect age equality requirements. The council complies with relevant legislation in respect of its retirement practices. Arrangements in place ensure that all criteria for qualifying for early / voluntary retirement as defined in Policy documents are met. Scheme benefits are calculated accurately. Pension entitlements, are correctly calculated in accordance with scheme requirements.

Officers Expenses	An up to date policy / procedures are in place which define procedures for processing and approving claims for reimbursement of employee expenses incurred. Arrangements are in place to ensure that claims are valid, accurate and appropriately authorised. Effective budgetary control arrangements are in place to ensure that claims are not excessive and lead to overspend in expenses incurred. Claims and allowances are paid where there is a clear entitlement and are in line with the policies and procedures set by HBC. Claims submitted are accurately processed and paid in a prompt manner.
St John Vianney Primary	Ensure school finance and governance arrangements are in line with best practice.
St Josephs Primary	Ensure school finance and governance arrangements are in line with best practice.
Community Safety	Procedures in place ensure the Youth Offending Service operates in accordance with legislation; Effective governance arrangements are in place to control and direct the delivery of the Youth Services function. Roles and responsibilities of all parties are clearly defined; Optimal use of resources ensure that the Youth Offending Service delivers services in an efficient, effective and economical manner; The service complies with Contract Procedure Rules when commissioning services; Robust arrangements are in place for developing and achieving strategic priorities; Procedures in place are effective in managing young people who commit crime and help those young people who are in danger of getting involved in it and are consistent with national standards; Arrangements for managing the performance of the service ensures the achievement of strategic objectives.
Benefits	The administration of the service ensures that arrangements in place are performed in accordance with legislation in the most efficient and effective manner. Effective separation of duties ensures that all information received to support benefit claims are promptly verified, processed and held in a secure manner. Claims are promptly and accurately processed in line with legislation and internal procedures. Disputes are managed effectively. Overpayments of benefit are identified promptly and correctly recorded. Effective arrangements are in place to recover overpayments. Write offs are valid and appropriately authorised. Arrangements for administering Discretionary Housing Payments are transparent and fair. Effective monitoring of cash limit ensures that assistance is available to all persons who need it. Payments are accurate, timely and secure. All potential frauds are promptly identified and investigated independently of the assessment section. Procedures in place ensure that fraud investigations are in accordance with legislation and HBC Anti Fraud and Corruption Policy. The Subsidy Claim is subject to external validation and submitted within prescribed deadlines. Data / systems are secure from loss or harm.
Payroll	Data is only processed where authorised post exists. Salary & related expenditure are incurred only in respect of authorised staff and in accordance with employees' contracts of service. Prior to employees leaving all relevant sections and units are notified. All statutory and non statutory deductions are promptly actioned and authorised. Amendments to employees' personal information is only amended by the person when authorised to do so. Adequate security controls have been established to protect information and data from unauthorised access. Regular independent checks and reconciliations are undertaken to ensure that the payroll system is correct and bona fide. All employees receive in full amounts to which they are entitled for each pay period. Payments are correctly calculated and properly authorised. All expected output is produced, appears reasonable and is distributed on time with confidentiality being maintained. The application has appropriate security features activated to discourage and prevent unauthorised people accessing the system. All system users are aware of their responsibilities in relation to application security and access rights are appropriately administered. Transactions are appropriate, valid, authorised and timely. Data Processing routines ensure that the data is complete, accurate, processed only once, timely and secure. Changes to parameter data are effectively controlled. Output is accurate and secure. Arrangements have been put in place to provide system backups and system continuity. An effective audit trail is in place which allows for transactions to be fully traceable.
IT Data Security	Review the Information Security Policy and the arrangements in place regarding asset security focusing on mobile devices and the storage of personal or sensitive information.

Council Tax	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.
Asset Register	Adequate arrangements are in place for the transfer of the data on the council's current Fixed Asset Register to IPF software.
Rossmere Primary	Ensure school finance and governance arrangements are in line with best practice.
VAT	HBC and CFA have registered with HMRC; Effective planning and administration ensures that relevant staff are aware of their responsibilities; there is compliance with VAT legislation; efficient and effective operations maximise cash flow for the organisation. Processes in place ensure that all VAT is correctly categorised and conditions required to reclaim VAT are met. Non-business / exemption values claimed under Section 33 Value Added Tax Act 1994 are monitored closely to ensure that they do not exceed de minimis values. Effective arrangements are in place to ensure that monthly VAT returns are completed fully and accurately and in a timely manner. Reclaimed VAT is received promptly; Relevant documentation is retained in a secure manner; Recommendations from HMRC inspections are implemented fully.
Jesmond Gardens Primary	Ensure school finance and governance arrangements are in line with best practice.
Debtors	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.
Performance Management / BVPI	Ensure adequate management information is produced to enable performance monitoring to be undertaken efficiently and effectively, whilst ensuring that information held is secure from loss or harm.
NNDR	The authority maintains an accurate list of all properties subject to locally collectable non domestic rates, Liability for NNDR is accurately assessed and timely bills for the correct amount are sent to the occupiers of all rateable properties in the authority's area, All NNDR money collected is promptly posted to the correct account, NNDR transactions are recorded in the authority's accounts accurately, Relief given is valid and is in accordance with the regulations and local schemes, Prompt and effective recovery action is taken on all overdue unpaid amounts, All write offs are valid and correctly processed and authorised, N.N.D.R. system parameters have been accurately set on the system and verified, The authority maintains a secure system for recording and monitoring collectable non-domestic rates, Data is secure from loss or harm.

Loans and Investments	<p>All legislative and regulatory requirements have been met. All loans are properly authorised, controlled &amp; recorded in line with current Contract &amp; 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 &amp; recorded in line with current Contract &amp; 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.</p>
Creditors	<p>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.</p>

## AUDIT COMMITTEE

21 March 2012



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

**Subject:** AUDIT COMMITTEE MEMBER INFORMATION

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### 1. PURPOSE OF REPORT

- 1.1 To provide Members of the Audit Committee advice received from the Better Governance Forum in respect of assurance planning, risk outlook for 2012 and the Governments response to the future of public audit consultation.

### 2. BACKGROUND

- 2.1 In order to ensure that the Audit Committee fulfils its requirements in relation to the review of the Councils accounts and Annual Governance Statement as well as keeping abreast of current thinking into the role of Audit Committees, the Better Governance Forum has provided briefing papers for Audit Committee members in public sector bodies.
- 2.2 The latest briefing paper is attached as **Appendix A**, and provides background information and questions relevant to the role of Audit Committee in relation to assurance planning, potential risks for 2012 and the Governments response to the future of public audit.

### 3 RECOMMENDATION

- 3.1 It is recommended that Members review the contents of the briefing paper and consider the issues raised in relation to assurance planning, potential risks for 2012 and the Governments response to the future of public audit.

**Appendix A**

## Introduction

### **Dear Audit Committee Member,**

Welcome to Issue 7 of our briefings 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 issue includes an article explaining the issues around planning assurance and use of 'assurance maps'. As an audit committee you rely on assurances from a number of sources and it makes sense to make sure that you get what you need in the most efficient way possible.

2012 looks set to be another challenging year for the public services and we've highlighted 10 topical risk areas that might be relevant for your organisation. Knowing the risks is one thing, but we've tried to highlight how the audit committee can add value and have impact in these areas.

We have also included an article outlining the Government's proposals for changing local public audit arrangements. Further work will be carried out on the proposals in 2012 and audit committees will want to monitor the likely impact on their authority.

I hope you will find this issue helpful. If you have missed earlier issues they are available directly from our website.

We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes  
Diana Melville  
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## Risk assurance and assurance mapping – make sure you mind the gap!

In August 2011 the CIPFA Better Governance Forum and Audit Panel published a survey on Audit Committee practices in local government. The survey established that each year 99% of Councils looked at Annual Governance Statements (outside of Scotland, where this is not a requirement); and 99% annually reviewed Internal Audit reports. However, only 77% of the audit committee reviewed the risk assessments of (key) strategic risks.

The significant difference in reviewing such risks may simply reflect the context of each council, but it may also suggest that some audit committees need to improve their oversight of such risks. After all, numerous surveys have concluded that the greatest source of major risk surprises derives from the mismanagement of strategic risks.

This article explores the best practices of Risk Assurance, Assurance Frameworks and Assurance Mapping to support audit committee oversight of key risks; building on the CIPFA Audit Committee Update article on strategic risk management in Jan 2011.

### **Starting with the foundations: The Audit Committee role and Risk Assurance**

CIPFA outlines three key areas in relation to the oversight of risks by audit committees, specifically that they should:

- "Consider the effectiveness of the authority's risk management arrangements.."
- "Seek assurances that action is being taken on risk-related issues.."
- "[ensure]... the Statement on Internal Control, properly reflects the risk environment." <sup>1</sup>

Risk assurance addresses how to get a solid and up to date sense of whether risk management processes in general, and specific key risks in particular, are being managed effectively. When we look back at the many risk and governance issues in the past, including the recent financial crisis, the importance of robust risk assurance becomes self-evident. This links to the inevitable fact that whilst organisations try hard to deliver objectives and manage risks, it can be easy for them to underestimate problem areas.

### **Assurances from External Audit**

Independent assurance in relation to financial accounting and reporting principally comes from external audit. That said, even external audit assurances have their limitations (as the Enron collapse and recent financial crisis have revealed) and this, combined with the likely changes to public sector external audit, highlights the importance of obtaining assurance regarding external audit independence, adherence to quality standards, and also being clear about the focus and depth of the work being done. Some organisations use internal audit to carry-out assignments to complement external audit's work, often in order to save costs, but many heads of internal audit have told me that doing this often reduces their ability to work on other areas of risk, where far greater (but sometimes less obvious) threats lie.

<sup>1</sup> Audit Committees, practical guidance for local authorities, CIPFA 2005

### **Assurances from Internal Audit and Internal Audit Quality Assessments**

The next key source of assurance that audit committees rely on comes from internal audit. Audit committees need assurance that internal audit work is of a high standard. In local government it is a statutory requirement that there is an annual review of the effectiveness of internal audit. In addition professional auditing standards require regular quality reviews. Reviewing assurances on the quality and effectiveness of internal audit is a key responsibility of the audit committee.

### **Validating the Internal Audit plan**

Reviewing the internal audit plan is a very important responsibility for audit committees and many heads of internal audit tell me they would like greater audit committee engagement; particularly so there is a greater understanding of what work has and has not underpinned their overall audit opinion, or assurances in support of any Annual Governance Statement.

CIPFA's Audit Committee Update in January 2010 also discusses the importance of the audit plan, and concludes with three important questions, discussed further, below:

- How does the internal audit plan link to the key risk register?
- What audits have been left off the plan and why?
- How does the plan fit with other assurance work?

### **How does the internal audit plan link to the key risk register?**

In 2011 I surveyed over 30 heads of internal audit about the way they generated the "audit universe" upon which their plans were based. 80% said that currently their plans were mostly based on lists of processes, systems, departments and/or locations. Whilst this approach has its merits, it could easily miss key organisational objectives and risks upon which the council's success is likely to depend. In the light of this, around 65% of the heads of internal audit surveyed felt that their future plans needed to be more closely aligned to the organisation's key objectives and risks. Thus audit committees and heads of internal audit would be advised to ask themselves whether internal audit's plans are truly linked to their organisation's key objectives and risks by considering how many of the key risks have been audited over the past 2-3 years, to what depth, and the rationale for those areas not being audited.

### **What audits have been left off the plan and why? How does the plan fit with other assurance work?**

It is common to find that a number of key objectives and risks have not been included on internal audit's plan over a series of years. Possible explanations could be:

- i) these risks have been discussed at the audit committee or board level;
- ii) with resource constraints internal audit is unable to address these areas and
- iii) internal audit probably doesn't have the skills to do these audits either.

Whilst these observations may have some merit, they are increasingly being called into question, for example: audit committee and board discussion may help to clarify the nature of risks facing the organisation, but is unlikely to reveal weaknesses in



specific processes and controls in relation to these risks, in the way that an internal audit would.

Thus when there are gaps in internal audit's coverage of key risks, audit committees should ask internal audit to work with senior management to set out an Assurance Framework, underpinned by an Assurance Map (A-Map) of key risks, setting out:

- How have line management accountabilities for each risk been formally documented;
- Whether key performance indicators (KPIs) have been agreed in relation to the risk area, and establish how often these are reviewed by more senior levels of management to ensure the area is properly under control;
- Whether any oversight functions (e.g. legal, HR, Finance, IT, health & safety or environmental compliance) are already monitoring (or even auditing) the risk and if so, to what level of rigour?
- Has internal audit ever looked at this risk in the past?

Clarifying the assurance framework and preparing an A-Map provides a structured way of deciding what risk assurance is already in place and what additional assurance is needed, which may not always need to be an internal audit. For example, an A-Map for a major project may show that project management accountabilities have been established and KPIs agreed, but also show there is little independent assurance of the project. Where this is the case, the assurance choices range from asking the project manager to update the audit committee on how risks are being managed, to asking for independent assurance from a project management expert (particularly if very technical issues are critical), or to ask for an audit or review by internal audit. The importance of risk assurance in relation to key projects becomes all the more obvious when we reflect on the various studies that have shown that 40+% of major projects failed to deliver either to time, to budget or to the original specification.

In relation to other risk areas such as: regulatory compliance, IT security, or safety, health and environment, there may be specialist functions that have (or could have) a risk oversight role. Consequently, as an alternative to requesting an internal audit of the area, another option could be to invite a representative from the relevant oversight function (e.g. Legal, IT) to present to the board or audit committee how the risk is being managed. Seeking direct assurance from line management, or other oversight functions, allows the audit committee to make the most of existing resources, thereby enabling internal audit's efforts to be focussed on other risk areas. Obtaining direct assurance can also provide valuable information that can be used to focus any subsequent internal audit on the areas of greatest risk.

#### **The benefits of Assurance frameworks and Assurance Mapping**

It should be clear that having an assurance framework and preparing A-Maps can be invaluable when assessing the internal audit plan, and rationalising the areas internal audit should and should not be auditing. In addition A-Maps have the benefit of confirming existing arrangements or revealing gaps or overlaps in assurance: the latter being very helpful in these resource constrained times.

Stepping up requests for direct assurances from specialist functions to the audit committee usually helps to reinforce the importance of the risk assurance role of these functions over and above their role of day-to-day task delivery, helping to reduce the risk of unpleasant surprises.

Heads of internal audit regularly tell me how important it is to make this change: "Some functions think they have done their job by simply developing policies and publishing these on the intranet, leaving the rest of the organisation to get on with it. They need to be more proactive than this if key risks are to be properly managed and audit committees and senior managers can play a key role in highlighting this by requesting direct assurance".

Working on an assurance framework and using A-Maps will typically reveal opportunities for clarifying the accountabilities for risk management and assurance in certain areas. Thus when audit committee members or senior managers hear the response: "It's everyone's job to manage that risk", an A-Map will often demonstrate whether this is in fact the case. It is not at all uncommon to find out that: "it's everyone's job", actually means "it's no one's job".

A-Maps can also provide the means to clarify, rationalise and consolidate multiple assurance inputs (e.g. from IT security, compliance, legal, health & safety, finance, internal and external audit) into a one concise assurance report, something many audit committees and senior managers would like, to reduce the burden of paperwork they need to read.

#### **Assurance Frameworks and Assurance Maps: Practical considerations**

Audit committees should not expect internal audit to develop an assurance framework or A-Map without significant line management support and involvement. This will speed up the information gathering and validation stages, and prove to be invaluable when agreeing and implementing actions needed to deliver benefits (e.g. determining how to address any assurance gaps or overlaps, or how to amend the format, content and frequency of assurance reporting).

Audit committees should not expect A-Maps for all key risks to be prepared in one go in a short timescale, since the typical results from such an exercise tend to be relatively superficial (even flawed in some instances) and also deliver limited benefits. My advice to heads of internal audit and audit committees is to request A-Maps for one or two areas key areas first (e.g. key projects, compliance and finance) and then to extend these based on what emerges, and where the greatest benefit/value is likely to be found.

#### **Conclusion**

My work with public sector heads of internal audit last year has highlighted an increasing sense of internal audit functions being stretched very thinly. The best functions are being proactive about this, exploring ways to be more efficient (through lean techniques and/or shared service arrangements), as well as by starting to engage their key stakeholders regarding the range of assurance sources within the organisation beyond just internal audit and external audit. Hopefully the use of assurance frameworks and A-Maps will increasingly be seen to be a key way to deliver more with less. To sum up the views of numerous heads of internal audit: "we have to try our utmost to manage risks effectively before things go wrong, making it important to have reliable real-time risk assurances. With current resource constraints such assurances need to come from a range of sources, allowing internal audit to focus on the most critical areas".

James Paterson

**About the author:** James Paterson is the Director of Risk & Assurance Insights Ltd. He works as a consultant, facilitator, coach, trainer and author. He specialises in risk management, assurance frameworks, assurance mapping, lean auditing, IA effectiveness and board effectiveness. He was a member of the Council of Directors of the UK IIA and was formerly Chief Internal Auditor of AstraZeneca PLC.

#### Definitions

Assurance framework	Assurance Map (A-Map)
A framework that provides a structure for the evidence to support an Annual Governance Statement.	An assurance map involves mapping assurance coverage against one, or several, key risks in an organization.
It typically involves determining the principal risks to the organisation meeting its principal objectives; clarifying the key controls in place to manage them, and setting out how senior management and the board have gained sufficient assurance about their effectiveness.	Its key focus is the clarification of where risk and assurance roles and accountabilities reside.
Often underpinned by Assurance Maps.	It helps to ensure there is a clear, comprehensive risk and assurance picture with no duplicated effort or gaps.
See: "Building an Assurance framework" - NHS	An A-Map is an important tool in developing an assurance framework

## Planning your assurance needs

Assurance needs to balance the **value** of assurance with the **cost** of assurance

- According to **risk**
- And **statutory requirements**
- And **accountability** demands

## Key questions to ask:

1. Do we have all the assurances we need to meet our responsibilities as an audit committee and to ensure the organisation meets its statutory duties?
2. Do we have assurance across all key areas, not just financial risks and statutory obligations?
3. Are we over-relying on internal and external audit for assurance? Are there other sources of assurance we should be hearing from?
4. What degree of rigour underpins the assurances being received in terms of the breadth and depth of risk assurance coverage?
5. Are we taking steps to improve the efficiency and cost-effectiveness of assurance, for example removing any duplication?

Diana Melville  
Governance Advisor, CIPFA Better Governance Forum

## Risk Outlook for 2012

Last year we identified a top 10 risks for 2011 and we have an updated list for 2012. Each organisation will have its own strategic risk profile and you might find it helpful to compare that with the list below. Whilst risk management is about prevention and preparedness, it is also about seeking opportunities for improvement and meeting your organisation's goals.

	Potential Risk Area	What the audit committee can do
1	<b>Fraud</b>  The National Fraud Authority has estimated that £21.2 billion of fraud is against the public sector. Whilst £15 billion is tax fraud, that still leaves substantial fraud being undertaken against the budgets for public services. For example the NFA estimate procurement fraud against central and local government to be £2.3 billion, payroll & recruitment fraud to be £329 million, and housing tenancy fraud to be £900 million. At the same time there are rising expectations from the government that public sector bodies will act effectively to prevent, detect and investigate fraud. The NFA have published 'Fighting Fraud Together' that sets out their strategy for tackling fraud.	Ask whether fraud risks have been identified, assessed and counter fraud plans are in place.  Review your organisation's counter-fraud capability and resources. Are any changes planned?  Ask if the staff working in 'at risk' areas are aware of the fraud risks and know how to raise concerns.  The Better Governance Forum has a checklist for audit committees to use when reviewing your counter fraud arrangements.
2	<b>Financial Challenges and budget cuts</b>  Public bodies have already made substantial savings in 2011 and more will be planned in 2012.  A recent Audit Commission report 'Tough Times' reported that auditors expected 90% to balance their budgets, but that had involved service cuts in many areas and some planned cuts may not be sustainable.	The audit committee will not play a lead role in developing the budget as this is an executive responsibility. The audit committee may seek assurance that the decision making process includes good governance principles. For example: <ul style="list-style-type: none"> <li>• Has a risk assessment been undertaken?</li> <li>• Is there sound data on service costs?</li> <li>• Are proposals consistent with the longer term financial plan and vision for the organisation?</li> <li>• Has appropriate consultation been undertaken?</li> </ul>
3	<b>Transformation Programmes</b>  As part of their plans to achieve significant savings many public sector bodies are planning transformation programmes. These could involve the establishment of new service delivery bodies or outsourcing.	A major change programme should have its own risk register and arrangements in place to review & manage risks and keep senior managers and board members updated. The audit committee can seek assurance

	<p>Some proposals are very complex and will take place over a long period of time and some include private or public sector partners.</p> <p>Any complex programme poses a number of risks and an organisational change programme is no exception. Possible risk areas include:</p> <ul style="list-style-type: none"> <li>• Legal risk</li> <li>• Financial risk</li> <li>• People risks</li> <li>• Technological risks.</li> </ul>	<p>that risk management arrangements are in place and working effectively.</p> <p>The audit committee should also consider what assurance is available on the programme, for example through the programme board or from an internal audit review.</p> <p>The Better Governance Forum has a list of common risks arising from organisational change which may assist your own risk reviews.</p>
4	<p><b>Achieving Value for Money</b></p> <p>This is a continuing goal for public services and one that is complicated by budget reductions.</p> <p>Some budget reductions mean a reduction in service rather than a true 'efficiency'. Some savings could mean the effectiveness of the service is reduced as well or there could be unintended consequences. Often these risks may not be recognised at the time.</p> <p>The Good Governance Framework for local government includes the following supporting principle: 'ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.'</p>	<p>Consider what assurance is received on your organisation's achievement of value for money.</p> <p>Also consider what arrangements are in place to ensure value for money across the organisation. How well do they work in practice?</p> <p>Does the audit committee review any evidence on value for money as part of the Annual Governance Statement? Does the statement itself clearly show how the governance principle is achieved?</p>
5	<p><b>Preparing for a change in external Auditors</b></p> <p>This may be a particular challenge for local government as result of the outsourcing programme the Audit Commission is organising, but could also impact on other public bodies.</p> <p>The finance and internal audit teams will need to plan early meetings with the new external auditors and understand what their expectations are. The external auditors rely on the work of internal audit and this will need to be planned by the audit team.</p>	<p>The audit committee should ask the current external auditors to brief them on handover arrangements to help ensure a smooth transition.</p> <p>The Audit Commission will commence consultation on the proposed permanent appointment at the end of April 2012.</p> <p>The audit committee will also want to meet the new engagement manager or lead auditor and ensure that external audit have arrangements in place to meet with finance and internal audit.</p>
6	<p><b>Implementing the Localism Act</b></p> <p>Key aspects that are of interest to the audit committee are:</p> <ul style="list-style-type: none"> <li>• New duty to promote and maintain high</li> </ul>	<p>In the 2011/12 Annual Governance Statement authorities will need to highlight any changes they have made or are making to the deliver of the 'Good</p>

	<p>standards of conduct.</p> <ul style="list-style-type: none"> <li>• New arrangements for the investigation of allegations.</li> <li>• Changes to governance will be permitted including elected mayors or return to the committee form.</li> </ul>	<p>Governance' principle relating to the authority's values and upholding standards of conduct and behaviour. Audit committees should be satisfied that the arrangements meet the governance framework and also the requirement of the Localism Act to 'promote and maintain high standards of conduct.'</p>
7	<p><b>IT Security and Cyber Risks</b></p> <p>Public bodies rely on IT services to deliver their services and much sensitive and personal data is held on their databases. Ensuring adequate security from unauthorised access, hacking and resilience to denial of service attacks is a continuing challenge for the organisation.</p> <p>Arrangements should be in place to ensure that all staff and governors understand their own responsibilities for security. Resilience and protection should be regularly tested and evaluated.</p>	<p>The audit committee should seek assurance that risks have been fully identified and mitigation strategies and contingency arrangements are in place.</p> <p>This area is likely to feature in internal audit plans and may require specialist IT audit skills. It is also an area on which external audit will seek assurance to support their opinion and governance work. The audit committee should review the outcomes of the audit and monitor the implementation of priority recommendations.</p>
8	<p><b>Impact of wider economic problems</b></p> <p>The continuing economic gloom in the national and local economy will continue to impact on public services. Examples include:</p> <ul style="list-style-type: none"> <li>• Reduced income from fees &amp; charges</li> <li>• Low returns on investments</li> <li>• Depressed property values</li> <li>• Increased welfare demands</li> <li>• Social unrest</li> </ul> <p>Corporate plans and medium term financial planning will need to be reviewed and revised to reflect the latest forecasts and to take account of emerging risks.</p>	<p>Horizon scanning is a useful risk tool to help organisations plan for the longer term. Audit committee members can support such approaches and bring a governance perspective to the discussion.</p>
9	<p><b>Open public services &amp; transparency</b></p> <p>The white paper was issued in July 2011 and covers a range of issues relating to greater innovation and increasing choice and changing the provision of services by putting power directly in the hands of citizens and communities.</p> <p>One key objective is to increase transparency to the public by increasing the amount of information available on service providers.</p>	<p>As this agenda develops audit committees will want to see that the risks are identified and assessed. Commissioning risks are one area that should receive particular attention.</p>

	Increased local accountability is also promised with scope to challenge the provision of services.	
10	<b>The Olympics</b>  The effectiveness of business continuity arrangements may be challenged by the Olympic Games, particularly for organisations in the London area or other Olympic sites. As well as the potential disruption to transportation or risk of security incidents, organisations need to be aware of whether their key service partners will be impacted.	The audit committee can review the identified risks and mitigations. Business continuity plans and IT disaster recovery plans should be regularly tested and kept up to date.

## Government's response to the consultation on the future of local public audit

The Government published its response to last year's consultation on 4<sup>th</sup> January 2012. The Government is proposing to issue a draft bill for pre-legislative scrutiny in Spring 2012 and CIPFA is assisting in this process.

The following summary of key principles looks at the Government's proposals from the perspective of the audit committee:

- Local authorities will have a statutory duty to appoint their external auditors.
- Appointments will be made by Full Council following the advice of an Independent Audit (or Auditor) Appointment Panel.
- The Independent Audit Appointment Panel would be independently chaired with a majority of independent members.
- Where a body has an independent audit committee (i.e. with a majority of independent committee members), this can be used instead of a separate Panel.
- The Independent Audit Appointment Panel can be shared across local bodies to facilitate joint procurement exercises.
- If the local public body does not follow the advice of the Independent Audit Appointment Panel in making its appointment it will be required to publish its reasons for not choosing to follow that advice.
- The Government is proposing to provide for a limited set of functions of the Panel in legislation around advising on auditor appointment, independence, removal and resignation and public interest reports.
- The Government has acknowledged that where there is an existing audit committee there may be issues about the demarcation of responsibilities between both groups.

It is proposing to work with the sector and develop guidance.

- The consultation response currently says that the Independent Audit Appointment Panel will be required to approve the provision of non-audit services to the audited body. However, CIPFA has provided the view to DCLG that it would be inappropriate for the Panel to have a say on what non-audit services would be appropriate to a public body. It has agreed to revisit this specific area; one option is that the audit committee approves non-audit services, but the Independent Audit is simply notified of additional services in order to monitor the balance of audit versus non-audit services being provided.
- The external auditor and the Independent Audit Appointment Panel will be designated persons under the Public Interest Disclosure Act.
- The scope of the external audit will continue to include a value for money component.
- The government intends local public bodies to have responsibility for providing evidence of securing value for money. The Government will work with the sector to develop guidance on this.

Ian Carruthers, Director of Policy and Technical at CIPFA, commented,

"The Government's response is helpful in providing a firmer outline of the proposed new arrangements for local public audit. However there remain areas for concern and considerable further work is required to develop the detailed practical guidance necessary for individual bodies to implement the Government's proposals consistently and cost-effectively."

The Government has acknowledged that issues around the relationship between the audit committee and the Panel will need further examination and guidance. It has carried out 'engagement events' in January to discuss some of the following issues with local government finance and audit officers as well as audit committee members:

- how the Panel will be appointed,
- how many authorities could share a single Independent Audit Appointment Panel; for example, could regional Panels be created?
- the definition of 'independent'
- responsibilities of the Panel, and
- how auditors will, in future, audit value for money at public bodies.

CIPFA has been in close discussions with DCLG since the proposal that the Audit Commission should be abolished was announced. More recently, CIPFA's policy and technical team has met with DCLG to share its knowledge and expertise in setting audit committee guidance and to offer specialist assistance in drawing up future guidance for the proposed Independent Audit Appointment Panels.

Once the draft bill is published, or further guidance emerges, Audit Committee Members will need to consider how the Panel will impact on its own role. There is nothing in the response to suggest that the audit committee's role in receiving and monitoring external audit reports will change so this will continue to be an important part of the audit committee's function.



Other audit committee functions that could be affected include:

- oversight of cooperation between internal and external audit and impact on external audit fees
- oversight of arrangements to secure value for money, and
- overall assurance framework and the role played by external auditors in the provision of audit and non-audit services.

Keeley Lund

Technical Manager, Professional Standards and Guidance  
CIPFA

## Recent developments you may need to know about:

### **Localism Act**

The Act received Royal Assent on 16<sup>th</sup> November 2011. The act contains a wide range of provisions but the most pertinent areas for audit committees to be aware of are:

- Developments in the ethical framework.
- Pay transparency
- Opportunity to change form of governance including elected mayors and return to committees from the executive model.

A briefing on the main provisions of the act and a list of those parts that are now current is available on our website.

### **Future of Local Public Audit**

The government's response to the CLG Select Committee report was published in October. It is available from the Parliament website. The government's response to the consultation conducted between March and June 2011 was published in January 2012. Key aspects that are of particular interest to audit committees are featured in the main section of this briefing.

### **Outsourcing of external audit providers**

The Audit Commission is currently undertaking a major exercise to outsource external audit contracts. Thirteen potential providers were invited to tender. The Commission will decide on the award of contracts in February and March 2012 and consultation with audited bodies on the proposed awards will commence at the end of April. Audited bodies will have the opportunity to make representations to the Commission on the proposed auditor appointments if they do not agree with the proposals. Auditor appointments will be approved in July to start from September. Details of the shortlisted audit firms and timetable are available on the Audit Commission website. The Audit Commission have published a strategy setting out their approach for auditor appointments for 2012/13 and the process to follow for objecting to the proposed auditor appointment.

### **Scrutiny of Treasury Management**

Audit Committees responsible for undertaking the scrutiny of treasury management should be aware that a new *CIPFA Treasury Management Code of Practice 2011* has just been published. To support the effective scrutiny of treasury management strategy

and policies the Better Governance Forum and Treasury Management Network have developed a self-assessment. It is available to download from the website.

#### **Fighting Fraud Together**

The National Fraud Authority (NFA) launched their national strategy for countering the threat of fraud in October 2011. The document outlines the fraud challenge and sets out the NFA's objectives: Awareness, Prevention and Enforcement. In November the NFA held a conference to launch Fighting Fraud Locally outlining how they will be working with local government to tackle fraud. More details on this are expected shortly.

#### **Protecting the Public Purse**

This report from the Audit Commission highlights the risks of fraud to local government and identifies good practice in fighting fraud. In 2010/11 the Audit Commission's fraud survey reported £185 million of detected fraud across local government. The report includes a short checklist for those responsible for governance so it is an ideal resource for audit committee members. The report focuses on local government but many of the issues apply equally to other public sector organisations.

#### **Social Housing Fraud**

The government has issued a consultation document proposing ways to tackle tenancy fraud. If your organisation is a housing provider then you may wish to respond to the government's consultation.

#### **Responding to the challenging financial climate**

In "Tough Times" the Audit Commission reviewed how well councils have responded to the need to make savings. Commenting on the Audit Commission report Alison Scott, Assistant Director CIPFA said: "Local government has done exceptionally well in managing the job so far. But in the face of further reductions in funding, councils need to ensure that their financial management remains of the highest possible standard."

#### **Good Governance Guidance Note**

CIPFA is commencing an update of the guidance note that supports the good governance framework for local authorities. The revised note will reflect changes to legislation and a range of other developments including the CIPFA Statement on the Role of the Head of Finance and CIPFA Statement on the role of the Head of Internal Audit. Formal consultation will take place in May 2012. The updated guidance note will not affect Annual Governance Statements for 2011/12.

#### **Auditing the accounts 2010/11: Quality and timeliness of local public bodies financial reporting**

The annual report from the Audit Commission reflects the outcomes from the external audit of financial statements, value for money conclusions and review of annual governance statements. Overall the sector performed well in ensuring that accounts were available for audit on time and published by the deadline of 30<sup>th</sup> September. Nearly two-thirds of bodies had to adjust their accounts to correct material misstatements identified during the audit however. Just under a half of bodies followed CIPFA's recommended practice of including a 'comply or explain' statement relating to the role of the Chief Financial Officer as part of their Annual Governance Statement.

To ensure any weaknesses identified by audit reports are addressed and to ensure that the finance team are well placed for the preparation of financial statements for 2011/12, audit committees should monitor the implementation of recommendations and plans.

#### **Improving Board Effectiveness**

The Public Chairs' Forum and the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a joint 'how to' guide for Chairs and Boards of public bodies. Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies offers Chairs and board members indispensable advice on the roles that they perform, in turn helping to make their time with the board as effective and fulfilling as possible. The guide is available from the CIPFA shop.

## **The Audit Committee Cycle**

Each year the audit committee will be responsible for a number of core actions. Here are some snippets on how you might prepare for some of these.

#### **Reviewing the Annual Governance Statement (AGS)**

Although the Statement won't be approved until later in the year it is important to plan assurance needs and to be aware of major changes affecting the governance of the organisation.

Items to consider for the Annual Governance Statement:

- Any impact on governance, risk or internal control arising from budget reductions.
- Role of the Chief Financial Officer, in accordance with CIPFA's guidance.
- Role of the Head of Internal Audit.
- Financial reporting performance, particularly in the light of IFRS.
- Changes to the assurance framework, for example changes to the assurances arising from new shared service arrangements or partnerships.
- Any changes or proposed changes to ethical governance arrangements. For example disbanding the standards committee.

**Better Governance Forum** [www.cipfanetworks.net/governance](http://www.cipfanetworks.net/governance)

## AUDIT COMMITTEE

21 March 2012



**Report of:** Chief Finance Officer

**Subject:** AUDIT COMMISSION REPORT-  
CERTIFICATION OF CLAIMS AND RETURNS.

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions report Certification of Claims and Returns.

### 2. BACKGROUND

- 2.1 This report summarises the findings from the certification of 2010/11 claims. It includes the messages arising from the Audit Commissions assessment of arrangements for preparing claims and returns and information on claims that they have 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 2010/11**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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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 and demonstrate to the auditors that it has met the conditions attached to these grants.**

**This report summarises the findings from the certification of 2010/11 claims. 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

**1** Hartlepool Borough Council (the Council) receives more than £283million<sup>i</sup> funding from various grant paying departments and the government. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

## Significant findings

**1** In 2010/11, we certified six claims and returns with a total value of £93 million. We carried out a limited review of one and full reviews of the other five. We amended all five claims and returns requiring a full review (paragraph 9 explains the difference). Appendix 1 sets out a full summary.

**2** The most significant impact was on the benefits subsidy claim; as in 2010/11, due to overpayment thresholds, our work resulted in an increase of £15,375 in subsidy payable to the Council. We have agreed actions with officers to address the main issue of overpayment misclassification.

**3** For three of the claims and returns, we were unable to fully certify the claim and issued a qualification letter to the grant paying department; at this stage the Council does not anticipate any further issues arising from these.

<sup>i</sup> Source: 2010/11 audited statement of accounts, note 28 - Grant income



## Certification fees

4 2010/11 fees charged for certification work were £57,430. This compares with £44,687 in 2009/10. Fees charged reflect work required on individual claims which varies from year to year.

5 The higher fees for 2010/11 partly relate to specific additional work on:

- the Housing Benefit and Council Tax Benefit Subsidy claim which resulted in an increase in grant payable to the Council, as stated above, of £15,375; and
- the final New Deal for Community project which ended in 2010/11.

# Background

6 £93 million or 33 per cent of the Council's grant income for 2010/11 (see table 1) was subject to auditor certification. It is important that this process is properly managed. In particular, this means:

- a satisfactory control environment over each claim and return; and
- ensuring the Council can evidence that it has met the conditions attached to each claim.

Table 1: **The Council's grant income 2008/09 - 2010/11**

	2008/09 £000s	2009/10 £000s	2010/11 £000s
Grant income	251,434	263,928	282,692
Grant income subject to auditor certification	80,314	92,639	93,409

*Source: 2010/11 audited statement of accounts, Note 28 Grant income*

7 Section 28 of the Audit Commission Act 1998 requires us to certify specified claims and returns for grants or subsidies paid to Hartlepool Borough Council. We charge a fee to cover the full cost of certifying claims which depends on the amount of work required.

8 The Council is responsible for compiling grant claims and returns in accordance with the requirements set by the grant paying departments.

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

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether they can place reliance on it. Where auditors place reliance on the control environment, we undertake limited tests to agree entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where auditors cannot place reliance on the control environment, we undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required.

- For claims spanning over more than one year, the financial limits relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**10** There was inconsistent use of the Council's standard control sheet used to check all claims and returns before sending them to the auditor. In some cases, officers did not use the control sheet at all (Teachers' Pensions, New Deal for Community (NDC) and Disabled Facilities Grant). For Teachers' Pensions and NDC, we returned the claim to finance staff for completion of the control sheet.

**11** All claims and returns should be supported by a completed control sheet. It provides assurance not only for the auditor, but also for the certifying officer for each claim. The certifying officer needs to gain assurance the claim or return is correct and has been subject to checks before signing it. The control sheet, when properly completed, will provide this assurance.

### Recommendation

**R1** Ensure all claims and returns (regardless of value) are supported by a completed control sheet, in particular before being signed by the certifying officer.

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## Specific claims

**12** Appendix 1 sets out details, by claim, of amendments and qualification letters issued.

### Housing Benefit and Council Tax Benefit Subsidy claim

**13** We tested 20 cases for each benefit type (Non-Housing Revenue Account (Non-HRA), rent allowances and council tax benefit). Testing resulted in identification of:

- non-HRA claims - four issues';
- rent allowance eligible overpayments - one issue; and
- council tax benefit overpayment classification - two issues.

**14** Minor amendments were made to the claim for non-HRA claims which resulted in a decrease in subsidy of £858.

**15** For the issues identified with rent allowance and council tax benefit we reported the results of our testing to the Department for Work and Pensions (DWP). DWP used the results of our testing and amended the amount payable to the Council. This increased subsidy due to the Council by a net £15,375. Normally, correcting misclassification of overpayments would lead to a decrease in subsidy. However, there is a threshold formula which applies in cases such as these which led to an increase in subsidy payable to the Council.

**16** We are working closely with officers to develop an action plan for the 2011/12 claim to help reduce the number of errors found, and potentially the time taken to complete our work.

**17** In addition, due to earlier deadlines for the 2011/12 claim and the abolition of the Audit Commission, we are discussing with you carrying out work earlier.

### Recommendation

**R2** Ensure overpayment classification errors identified in the 2010/11 benefits subsidy claim are resolved for the 2011/12 claim.

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### NNDR

**18** Our testing of write-off entries included in the return showed four cases of bankruptcy/liquidation totalling £5,117.62 had not been formally authorised before the period end. As this was not in line with the requirements of the return, the amount was removed from the claim. The 2011/12 return will include these write-offs.

**19** The total effect of audit amendments to the return was to increase the value payable to the pool by £5,403.82 for 2010/11. This will be reversed in the 2011/12 payment to the pool.

### Recommendation

**R3** Ensure NNDR write-offs are only included if they have been formally authorised.

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### Teachers' Pensions

**20** Initially officers had not completed the control sheet for this return; therefore we returned the file to officers.

**21** The return requires entries to be split between payments made through the Council's payroll and external providers. This was not done in the claim submitted to us (in respect of Dyke House School) and was therefore amended before certification.

## **Sure Start**

**22** This was the final year of the Sure Start claim. Testing showed the overall claim of £5,376,855 included £2,537.71 of ineligible expenditure which officers removed from the final claim.

**23** Testing also showed the Council was not maintaining an asset register of the assets funded with Sure Start funds. Arrangements are in place to monitor these assets where they are passed to third parties, and capital spend on assets owned by the Council is included in the Council's main asset register. However, these arrangements do not fulfil the requirements of the scheme and so we reported this to the sponsoring department (Department for Education) in a qualification letter.

## **New Deal for Communities (NDC)**

**24** As 2010/11 was the final year of NDC, it was important for the Council to have arrangements in place to ensure access to supporting records for project delivery. Officers could not initially provide us with access to System K, the system used by the Council for monitoring NDC (and other) projects.

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

**26** In addition, testing found officers had not updated the asset register required for assets funded by NDC.

**27** This claim was certified at the end of January 2012, after the December 2011 deadline due to outstanding information and queries. Additional time was required to certify this claim due to the outstanding issues.

## Appendix 1 Summary of certified claims

Table 2: **Claims and returns above £500,000**

Claim/return	2008/09 £	2009/10 £	2010/11 £	Reliance on control environment	Claim/return amended	Qualification letter
Housing and Council Tax Benefit Subsidy	45,751,351	53,104,232	56,973,286	n/a*	Yes	Yes
National Non-Domestic Rates Return	18,876,036	24,719,591	22,963,133	No	Yes	No
Sure Start	4,429,149	5,004,498	5,376,855	No	Yes	Yes
Teachers' Pensions	6,288,420	6,431,639	6,602,401	No	Yes	No
New Deal for Communities	4,033,001	2,700,000	1,188,000	No	Yes	Yes
ERDF	653,298	n/a	n/a	n/a	n/a	n/a
	<b>80,031,255</b>	<b>91,959,960</b>	<b>93,103,675</b>			

*\*we are not required to assess the control environment for this claim because of specific arrangements with the Department for Work and Pensions.*

Table 3: **Claims between £125,000 and £500,000**

No requirement for assessment of the control environment for these claims

Claim	2008/09 £	2009/10 £	2010/11 £	Amended	Qualified
Land stabilisation	n/a	404,238	n/a	n/a	n/a
Disabled Facilities Grant	283,000	275,000	305,000	No	No

## Appendix 2 Action plan

Recommendations	
<b>Recommendation 1</b>	
Ensure all claims and returns (regardless of value) are supported by a completed control sheet, in particular before being signed by the certifying officer.	
<b>Responsibility</b>	Chief Finance Officer
<b>Priority</b>	High
<b>Date</b>	2011/12 claims and returns
<b>Comments</b>	Agreed
<b>Recommendation 2</b>	
Ensure overpayment classification errors identified in the 2010/11 benefits subsidy claim are resolved for the 2011/12 claim.	
<b>Responsibility</b>	Assistant Chief Finance Officer
<b>Priority</b>	High
<b>Date</b>	2011/12 subsidy claim
<b>Comments</b>	Covered by separate discussion and agreement of actions for the 2011/12 subsidy claim, including extra work planned by officers.
<b>Recommendation 3</b>	
Ensure NNDR write-offs are only included if they have been formally authorised.	
<b>Responsibility</b>	Assistant Chief Finance Officer
<b>Priority</b>	Low
<b>Date</b>	2011/12 return
<b>Comments</b>	Agreed



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



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## **AUDIT COMMITTEE**

**21 March 2012**



**Report of:** Chief Finance Officer

**Subject:** AUDIT COMMISSION REPORT- AUDIT PLAN.

---

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

- 1.1 To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions proposed Audit Plan for 2011/12.

### **2. BACKGROUND**

- 2.1 This report summarises the plan which sets out the work for the Audit Commissions 2011/12 audit which is based on their risk-based approach to audit planning.

### **3. KEY MESSAGE OF THE AUDIT COMMISSION**

- 3.1 Details of the key messages regarding the proposed work to be 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 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit and is based on the Audit Commission's risk-based approach to audit planning.**

## **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 you.

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.

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

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

---

**I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **Materiality**

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

## **Identifying audit risks**

I need to understand the Council to identify any risk of material misstatement (whether because of fraud or error) in the accounting 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 significant risks**

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out overleaf.

---

Table 1: **Significant risks**

Risk	Audit response
<p><b>IAS 19 and Pensions</b></p> <p>The Council must include pension assets at fair value using the revaluation method as described in IAS 19. Pension assets can be subject to significant volatility and require annual valuations. The disclosures in the financial statements involve the use of the scheme Actuary, as the Council's expert, and include significant estimates.</p>	<p>I will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary.</p> <p>I will assess the controls over the estimation uncertainties.</p> <p>I will also agree the pension figures from the Actuary's report to the financial statements and check the narrative disclosures are consistent with requirements.</p>

## Testing strategy

My audit involves:

- review and reperformance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and reperformance, on the work of your internal auditors; and
- maximise work done before you prepare your accounting statements.

The nature and timing of my proposed work is as follows, overleaf.

Table 2: **Proposed work**

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Migration of data to new asset register	Creditors			<p>Year-end feeder system reconciliations.</p> <p>Year-end bank account reconciliations.</p> <p>Related party transactions.</p> <p>Predictive analytical reviews for Council Tax, Business Rates and payroll.</p> <p>Direct confirmation of year-end loans and investments balances.</p>
Final visit			<p>Pensions assets and liabilities – auditor to Teesside Pension Fund</p>	<p>Pensions liabilities and assets – Teesside Pension Fund scheme Actuary and our own consulting Actuary.</p> <p>Valuation of property, plant and equipment – the Council's in-house valuer and our own consulting valuer.</p> <p>Treasury Management – the Council's advisor.</p>	<p>All material account balances and transactions.</p>

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

## Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.



# Value for money

---

**I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's 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.

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

- The refreshed Medium Term Financial Strategy (including quarterly finance and monitoring reports).
- The monitoring and action taken to achieve the planned savings and efficiencies and contributing to continued VFM in the Council's use of its resources.

# Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	May 2012	Interim report (if required)
Opinion: receipt of accounts and supporting working papers	By 30 June 2012	
Opinion: substantive testing	July – September 2012	Final Accounts Report
Value for money work	On-going monitoring	
Progress meetings	As required	
Present Annual Governance Report at the Audit Committee	TBC September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

# The audit team

---

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Mark Kirkham District Auditor	<a href="mailto:m-kirkham@audit-commission.gov.uk">m-kirkham@audit-commission.gov.uk</a> 0844 798 6632	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Diane Harold Audit Manager	<a href="mailto:d-harold@audit-commission.gov.uk">d-harold@audit-commission.gov.uk</a> 0844 798 1641	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer.

# Independence and quality

## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 5: **Threats and safeguards**

Threat	Safeguard
One member of staff on my team has a close relative who also works for one of the Council's schools in a non-finance position.	This member of staff will not undertake or review any work relating to the following systems: payroll and the Schools Information Management System.
Another member of staff, based in the North East, has declared a close personal relationship with a Member at the Council.	I have put in place appropriate safeguards by not using this member of staff on this audit.

## Quality of service

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 – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

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).

# Fees

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**The fee for the audit is £240,300, as set out in my letter of 21 April 2011.**

## **The audit fee**

The Audit Commission has set a scale audit fee of £240,300 which represents a 10 per cent reduction on the original audit fee for 2010/11 of £267,000.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financial Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

## **Assumptions**

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with Chief Finance Officer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take. 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.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: **Fees**

	2011/12 proposed	2010/11 actual	Variance
Audit	£240,300	£271,783*	-£31,483
Certification of claims and returns	£45,000	£57,430	-£12,430
Non-audit work	nil	nil	n/a
<b>Total</b>	<b>£285,300</b>	<b>£329,213</b>	<b>-£43,913</b>

\* £267,000 plus additional fee of £4,783

# Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*



# Appendix 2 – Basis for fee

---

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively;
  - I secure the co-operation of other auditors; and
  - good quality, accurate working papers are available at the start of the financial statements audit.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by the agreed date;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

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

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the council's systems of internal control that supports the achievement of the council's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under 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.

**Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated 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 that contain basic principles and essential procedures with which auditors must 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 for local government bodies issued by the Audit Commission and approved by Parliament.

**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 about independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Group accounts**

Consolidated accounting statements of a council and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, the council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting 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 accounting 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 to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

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 of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the council. This term includes the members of the council and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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



## AUDIT COMMITTEE

21 March 2012



**Report of:** Chief Finance Officer

**Subject:** AUDIT COMMISSION REPORT- AUDIT COMMITTEE UPDATE.

---

### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for representatives from the Audit Commission to be in attendance at this meeting, to present the content of the Audit Commissions Audit Committee Update Report for 2011/12.

### 2. BACKGROUND

- 2.1 This report provides the Audit Committee with an update on progress made by the Audit Commission in delivering its responsibilities as the Councils external auditors. It also includes an update on the externalisation of the Audit Practice.
- 2.2 The report also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The report also includes some questions which the Committee may wish to consider in assessing whether it has received enough assurance on emerging issues.

### 3. KEY MESSAGE OF THE AUDIT COMMISSION

- 3.1 Details of the key messages regarding the update 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 Committee Update

Hartlepool Borough Council

February 2012

Audit 2011/12

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**



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# Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper finishes by asking some questions which the Committee may wish to consider in assessing whether it has received enough assurance on emerging issues.
- 3 If you require any more information on the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your organisation.

Mark Kirkham  
District Auditor

6 March 2012

# Progress Report

## Financial statements

**5** We have revisited our risk assessments for 2011/12 and the Audit Plan is on the agenda for this meeting.

**6** We have also had meetings with the Chief Finance Officer and the Head of Finance - Corporate to discuss the approach to the audit of your financial statements. We will have regular meetings during the period when the statements are being prepared.

**7** We are carrying out walkthroughs and controls testing of those financial systems that support the material figures in your accounts. We will report our findings and conclusions to the Committee in May.

**8** **Appendix A contains a letter to members on compliance with laws and regulations/ fraud.** Auditing standards require me to formally update my understanding of how the Audit Committee gains assurance over management processes and arrangements, including compliance with laws and regulations and any fraud. *I have included a letter at Appendix A and would be grateful for a response before my audit of the financial statements starts in the summer.*

## VFM conclusion

**9** The VFM criteria specified by the Commission focus on two criteria:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**10** Work is on-going and we have no significant issues to report. Our separate Audit Plan sets out more details on our approach.

## Other work - Grants certification report 2010/11

**11** We have issued a separate statutory grants report covering our certification of 2010/11 claims and returns; this is also on today's agenda.

# Update on the externalisation of the Audit Practice

**12** The Audit Commission has announced the proposed award of five-year audit contracts to four private firms starting from 2012/13 - contracts that will contribute to an up to 40 per cent cut in the audit fees paid by local public bodies.

**13** The provisional results of the procurement to outsource the work of its Audit Practice show the extent of the Audit Commission's unique purchasing power. Public bodies are expected to save over £30 million a year for the length of the contracts. Together with additional savings of £19 million a year achieved through the Commission's own internal efficiencies, the result will be an expected £250 million (or 40 per cent) fall in audit fees for most local public bodies over five years.

**14** The procurement will also create a more diverse audit market and safeguard the extensive public sector experience of over 700 auditors who will transfer to the private sector.

**15** Following a process that began with a contract notice issued in September 2011, the Audit Commission is proposing to award the following contracts to:

- Grant Thornton (UK) LLP, a total notional value of £41.3 million a year covering four contract areas in the North West, West Midlands, London (South) Surrey & Kent, and South West;
- KPMG LLP a total notional value of £23.1 million a year covering three contract areas in Humberside & Yorkshire, East Midlands, and London (North);
- Ernst & Young LLP a total notional value of £20 million a year covering two contract areas in Eastern and South East; and
- **DA Partnership Ltd\* a total notional value of £5 million a year covering one contract area in the North East & North Yorkshire (\*DA Partnership Ltd is a wholly-owned subsidiary of Mazars LLP and will be known as "Mazars DA").**

**16** The procurement exercise has diversified the current marketplace by introducing two new suppliers. This will be the first time in the 28 year history of the Commission that all audits of the accounts of public bodies in England will be carried out by private firms.

**17** October 2012 will mark an end to the Commission's own Audit Practice, (formerly known as the District Audit Service), which currently delivers around 70 per cent of the audits for England's local public services.

**18** In August 2010, the Department for Communities and Local Government (DCLG) announced plans to put new arrangements in place for auditing England's local public bodies. The following July, the Commission's Board agreed to a formal request from Ministers to run a procurement to privatise the audits currently delivered by the in-house Audit Practice.

**19** Chairman of the Audit Commission, Michael O'Higgins, says: 'This procurement has been the result of a rigorous assessment of each bidder against published cost and quality criteria, and will mean significant audit fee savings for local councils, NHS trusts and other local bodies. Its outcome will promote a skilled, well-resourced and diverse public audit market. Only the Audit Commission could have delivered this, given its statutory powers and unique audit procurement arrangements.'

**20** 'The procurement process has ensured that the specialised skills and experience of over 700 public sector auditors will be retained in an outsourced market.'

**21** 'I am glad to see the cost benefits of bulk-buying audit services and prices being locked in for at least five years - these £250 million savings will be passed on to local public bodies when we announce the detail of fee reductions in April. We will continue to spread the cost of audit across all local public bodies, ensuring that smaller and geographically remote public bodies enjoy the benefits of the low prices this procurement has secured.'

**22** Auditors transferring to the four successful companies will do so in the autumn of 2012, after they have completed their work on accounts for the 2011/12 financial year. When the Commission's Audit Practice closes, it will leave a much smaller organisation in place to manage the contracts, oversee the public audit market and deliver its other statutory functions.

**23** Ministers have indicated that they intend to publish a draft Bill on the future arrangements for local public audit for legislative scrutiny and consultation in the spring.

**24** Chief Executive, Eugene Sullivan, adds: 'This has been a complex process delivered to a very challenging timetable, and we are pleased with the outcome.'

**25** 'But we should also acknowledge that this is a pivotal point in the history of public service. We will be losing a distinctive, and publicly-owned, local public audit service and its District Auditors who have helped to protect the public purse effectively for over a hundred and fifty years.'

**26** Following the end of the procurement process, there will be a consultation period with audited bodies on the appointment of their new auditors. The appointments will be formally approved by the Commission's Board in July. Appointments for 2012/13 will commence on 1 September, with Audit Commission staff transferring to the new suppliers on 31 October 2012.

**27** We will continue to keep you updated on developments. Against this background, the Audit Practice's focus remains on:

- fulfilling our remaining responsibilities –delivering your 2011/12 audit - to the high standards you expect and deserve; and
- managing a smooth transition to your new audit provider.

# Government response to consultation on the future of local public audit

**28** In August 2010, the government announced its plan to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response.

**29** The Audit Commission has made arrangements to award contracts for the work currently undertaken by the Audit Practice. The Audit Commission will then be a small residuary body until those contracts end. Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members.
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term).
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**30** The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.



# Other Matters of Interest

## Summary of Audit Commission reports, February 2012

**31** In the past the Audit Commission's national studies helped public bodies manage the financial challenges they faced by providing authoritative, unbiased, evidence-based analysis and advice.

**32** Its research focused on financial and other management issues in local public services. It drew on analysis of local and national data and aimed to help councils, NHS bodies and other local agencies review and challenge their arrangements and performance.

**33** The Commission has produced a series of local government briefings on different themes, such as sustainable development, and benefits services. These briefings capture key messages from the Commission's research in these areas, and provide links to relevant national publications, case studies and tools.

**34** The Commission has also produced briefings for other sectors including housing, community safety, fire and rescue, and children and young people. A full A-Z list of local government studies and a list of studies for other sectors are also available.

**35** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/pages/default.aspx>

## 2011/12 Final Accounts Workshops, February 2012

**36** We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

**37** Officers are planning to attend the Sunderland event on 29 February 2012.

## Let's be clear: Making local authority IFRS accounts more accessible and understandable, January 2012

**38** Elected members and local people need reliable information about local authorities' financial performance without needing to be accountants. However, the statutory accounts are difficult for non-accountants to understand.

**39** Our latest briefing, [Let's be clear: Making local authority IFRS accounts more accessible and understandable](#), tackles the issues. It summarises the problem and suggests ways in which information about the financial position and performance of local authorities can be made more accessible and understandable to a wider range of people. While the statutory accounts

give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating information to lay readers.

**40** There are several claims made about why local government accounts are so complex. Some people suggest that CIPFA and the standard setters are to blame for following private sector accounting standards. They say the solution lies in bespoke accounting standards, not tied to private sector practice, but perhaps aligned with other parts of the public sector.

**41** However, it is the regulatory framework that causes much of the complexity, leading to large adjustments to accounts that are difficult to explain or understand. In 2010/11, these adjustments were significant – for example, the reversal of charges for depreciation and impairments alone amounted to £19 billion across local government as a whole.

**42** The statutory accounts of local authorities are long, covering several primary statements and many pages of notes. While this supports transparency, readers can be daunted by this and find it difficult to pick out the information they want. **The briefing identifies possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.**

**43** The Commission believes that the debate on improving the accessibility and clarity of local government accounts is an important one and we will continue to work with CIPFA, practitioners, auditors and other stakeholders to bring about improvements. The briefing supplements the Commission's Auditing the Accounts report for 2011 (as referred to below) which summarises the findings of auditors following their audits of the first accounts of local government bodies prepared under IFRS.

**44** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/Pages/ifrs.aspx>

## **Auditing the Accounts 2010/11, December 2011**

**45** In December 2011 the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11.

**46** The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

47 Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations (328 out of 356 councils) and this performance compares well with the previous year.

48 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a **significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.**

49 Link to the Audit Commission website:

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/auditing-the-accounts/Pages/auditing-the-accounts-1011.aspx>

## Managing Workforce Costs, December 2011

50 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

51 The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

52 As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

53 Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

54 The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and

- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

**55 The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.**

**56** The questions are in two parts:

- the information that should be available to members about the workforce; and
- the savings strategies councils could follow in the light of that information.

**57** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/WorkinProgress.aspx>

## **Joining up health and social care, December 2011**

**58** On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

**59** 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy.

**60** At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

**61 The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.**

**62** The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

**63** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/joininguphealthandsocialcare.aspx>

## CIPFA's Prudential Code for Capital Finance (CIPFA)

**64** CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

**65** Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

**66** To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

**67** The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

**68 The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators.** These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

## 2011/12 Accounts: CIPFA Guidance Notes for Practitioners (CIPFA)

**69** CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

**70** The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshops (see relevant item below).

## For information: Board Governance Essentials (Public Chair's Forum / CIPFA)

**71** The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

**72** 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

**73** This guide may provide interesting reading for all members.

## Local Government Finance Bill, December 2011 (CLG)

**74** In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

**75** The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

**76** The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

## Dealing with the economic downturn, November 2011

**77** On 17 November 2011 the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'.

**78** The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

#### **79 The key findings in the report are:**

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books;
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets;
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years; and
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

**80** The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

**81** Link to Audit Commission website:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes.aspx>

### **Procurement Fraud in the Public Sector, November 2011 (Home Office)**

**82** The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

**83** The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

**84** The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

**85** Link to website:

<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/procurement-fraud-public-sector>

### **Protecting the Public Purse, November 2011**

**86** In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'

**87** This report is based on the Audit Commission's annual fraud survey - which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.



**88** The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

**89** The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts - £22million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

**90** We have therefore developed a single person discount comparator tool that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average and this can be found on our website.

**91** The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

**92** **The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.**

**93** In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

**94** Link to website:

<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/ppp2011.aspx>

## **Localism Act 2011, November 2011 (CLG)**

**95** On 15 November 2011 the Localism Bill received Royal Assent.

**96** **The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Committee.**

**97** Subject to commencement, key measures of the Act include:

- introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything - provided they do not break other laws;
- giving communities the right to approve or veto - by way of a referendum - Council Tax increases higher than a limit determined by the Government.
- opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies;



- abolishing the Standards Board;
- clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge;
- enabling councils to return to the committee system of governance, if they wish, regardless of their size;
- giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs;
- promoting openness regarding the pay of senior officers; and
- allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

**98** Many of the measures in the Localism Act are expected to be in place by April 2012.

**99** Link to website:

<http://www.communities.gov.uk/publications/localgovernment/localismplaineenglishupdate>

## Openness and Accountability in Local Pay, November 2011 (CLG)

**100** The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

**101** On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council.

**102** Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

**103** There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

**104** Link to website:

<http://www.communities.gov.uk/news/corporate/2031772>

## Income Generation (CIPFA)

**105** Income from fees and charges is a key financial area for local authorities with the top ten income streams generating over £7 billion each year.

**106** CIPFA has recently produced an updated guide to income generation and much has happened since the earlier editions were published in 2005 and 2008.

**107** In 2011, organisations are looking at income in its widest sense as a key factor in their funding equation. The economic downturn has demonstrated the risks associated with excessive reliance on income from fees and charges. However, the Spending Review 2010 has motivated local authorities to evaluate robustly every possible funding source.

**108** Rather than just focusing on savings, organisations are increasingly focussing on maximising their income generation opportunities.

**109** This new 2011 edition should enable local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at March 2011, reflecting recent legislation and regulations.

## **Code on Data Transparency (CLG)**

**110** On 29 September 2011 the Department for Communities and Local Government (DCLG) published the Code of Recommended Practice for Local Authorities on Data Transparency.

**111** Subject to consultation, we understand that Ministers are minded to make this Code a legally binding requirement.

**112** The Code requires local authorities to publish public data as soon as possible following production even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time. As a minimum, the public data that should be released are:

- expenditure over £500 (including costs, supplier and transaction information);
- senior employee salaries, names (with the option for individuals to refuse to consent for their name to be published), job descriptions, responsibilities, budgets and numbers of staff;
- an organisational chart of the staff structure of the local authority including salary bands and details of currently vacant posts;
- the 'pay multiple' - the ratio between the highest paid salary and the median average salary of the whole of the authority's workforce;
- councillors' allowances and expenses;
- copies of contracts and tenders to businesses and to the voluntary community and social enterprise sector;
- grants to the voluntary community and social enterprise sector should be clearly itemised and listed;
- policies, performance, external audits and key inspections and key indicators on the authority's fiscal and financial position;
- the location of public land and building assets and key attribute information that is normally recorded on asset registers; and
- data regarding the democratic running of the local authority including the constitution, election results, committee minutes, decision - making processes and records of decisions.

**113** The Code is available for download from the DCLG website.

**114** Link to website:

<http://www.communities.gov.uk/publications/localgovernment/transparencycode>

## **Guides to Local Government Finance (CIPFA)**

**115** CIPFA has recently issued a comprehensive guide to Local Government finance. This guide reflects proposals for academies, HRA self financing, the future of local audit, police and crime commissioners and social care reform.

**116** In addition to the above changes, the guide also looks at the impact the recent cuts have had on local authority finances.

**117** In addition to the comprehensive guide, a shorter guide has also been prepared which is aimed specifically at members. It provides councillors with a brief overview of key facts, figures and requirements in relation to local government finance in a more user friendly and handy reference format.

## **Financial Management in Schools, October 2011 (NAO)**

**118** On 19 October 2011 the National Audit Office (NAO) published a report covering financial management in local authority maintained schools.

**119** Up to 2007/08, schools collectively spent less money each year than they were given, and the sum of unspent primary and secondary school balances peaked at £1.76 billion. As a result, many schools did not need to prioritise efficiency to remain within their budgets.

**120** However, more schools are now facing reductions in their budgets in real terms, at the same time as significant changes to qualifications and curricula are being introduced - alongside continuing pressure for improved performance.

**121** The NAO found that weak financial management and weak academic performance often go hand in hand. A comparison of Ofsted's judgements of the overall effectiveness of schools with school surpluses and deficits showed that schools in deficit generally performed worse than schools in surplus.

**122** The NAO's report continues a number of recommendations for the Department of Education, but nevertheless should prove of interest to local authorities themselves.

**123** In Hartlepool Borough Council, schools had £4.409 million in balances as at 31 March 2011. This represented almost 8% of the Individual Schools Budget deployed to schools in 2010/11 (£55.725 million). Schools balances at the end of 2007/08 were £3.983 million, so there has been a slight increase in the figure since then. Reports to the Schools' Forum during 2011 indicated plans for closer monitoring of schools balances with the potential for clawback arrangements.

**124** Link to website:

[http://www.nao.org.uk/publications/1012/schools\\_financial\\_management.aspx](http://www.nao.org.uk/publications/1012/schools_financial_management.aspx)

## **For information: Fighting Fraud Together, October 2011 (joint report)**

**125** In October 2011, thirty-seven organisations joined forces to launch 'Fighting Fraud Together', a new strategy that aims to reduce fraud - a crime estimated to cost the UK £38 billion every year.

**126** The organisations involved include the NHS, the Charity Commission, the Department for Communities and Local Government, HM Revenues and Customs and the Association of Chief Police Officers. It is the first time that government, industry, voluntary groups and law enforcement agencies have joined together on such a large scale to sign a joint commitment to tackle fraud.

**127** All thirty-seven partners that have signed up to the 'Fighting Fraud Together' strategy which will contribute to and be accountable for its success. The strategy and its accompanying action plan place a strong emphasis on preventing fraud through greater fraud awareness and self protection, combined with stronger government and industry prevention systems and controls.

**128** Examples of the new initiatives include:

- Preventing fraud: Industry and the public sector will develop their intelligence-sharing capabilities to prevent fraud attacks;
- Increasing awareness and reporting: A new research tool will help all sectors provide more targeted prevention advice to the public, particularly vulnerable people, and develop a better understanding of small businesses' vulnerability to fraud and the support they need; and
- A more effective enforcement response: Greater intelligence capabilities of the National Fraud Intelligence Bureau will disrupt fraudsters' activities and rapidly close down the channels through which they operate and launder money.

**129** Link to website:

<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fighting-fraud-tog/fighting-fraud-together#main-nav>

## **For information: Police Reform and Social Responsibility Act 2011, September 2011**

**130** The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011. This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

**131** The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

**132** The first elections of police and crime commissioners will take place on 15 November 2012 (as per initial indications) and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

# Appendix A: Letter to Those Charged with Governance - compliance with laws and regulations / fraud

6 March 2012

Councillor C Akers-Belcher  
Chair of the Audit Committee  
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Dear Councillor Akers-Belcher

## **Audit of Hartlepool Borough Council Financial Statements for the year ending 31 March 2012 Understanding how the Audit Committee gains assurance from management**

I have a good understanding of how the Audit Committee, as 'Those Charged with Governance', gains assurance over management processes and arrangements. This enables me to deliver an efficient audit, reducing the time your staff needs to spend responding to auditor queries.

However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

1) How do you exercise **oversight of management's processes** in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council code of conduct); and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee **management processes for identifying and responding to the risk of fraud and possible breaches of internal control**? Are you aware of any breaches of internal control during 2011-12?

3) How do you gain **assurance that all relevant laws and regulations have been complied with**? Are you aware of any instances of non-compliance during 2011-12?

4) Are you aware of any **actual or potential litigation or claims that would affect the financial statements**?

5) Have you carried out a **preliminary assessment of the going concern assumption** and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern?

#### **Fraud (separate questions in appendix)**

In addition to the above questions about how you gain assurance from management, **I have included in an appendix eight questions about your views on fraud**. Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

I would be grateful if you would provide me with a response before, at the latest, our start of detailed work on the financial statements in late June 2012.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Mark Kirkham  
District Auditor

## Appendix to letter

No	Questions for 'those charged with governance'	'Those charged with governance' response
1	Are you aware of any <b>instances of actual, suspected or alleged fraud</b> during the period 1 April 2011 – 31 March 2012?	
2	Do you suspect <b>fraud</b> may be occurring within the Council? Have you identified any specific fraud risks within the Council? Do you have any concerns that there are areas within your Council that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	
3	Are you satisfied that <b>internal controls, including segregation of duties, exist and work effectively?</b> If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?	
4	How do you <b>encourage staff to report their concerns about fraud?</b> What concerns about fraud are staff expected to report?	
5	From a fraud and corruption perspective, <b>what are considered to be high risk posts within your Council?</b> How are the risks relating to these posts identified, assessed and managed?	
6	Are you aware of any <b>related party relationships or transactions that could give rise to instances of fraud?</b> How do you mitigate the risks associated with fraud related to related party relationships and transactions?	
7	Are you aware of <b>any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?</b> Are there particular balances where fraud is more likely to occur? Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Council? Could a false accounting entry escape detection? If so, how? Are there any external fraud risk factors which are high risk of fraud?	
8	Are you aware of any <b>organisational, or management pressure to meet financial or operating targets?</b> Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	



# Key Considerations

**133** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council considered the Commission's briefing: Let's be clear, and considered how it can make its financial statements more accessible?
- Has the Council reviewed the Audit Commission's report on the 2010/11 accounts and, in particular, considered the key challenges facing bodies for 2011/12?
- Has the Council reviewed its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Council reviewed the Audit Commission / Local Government Association joint report on managing workforce costs and is the Audit Committee satisfied that appropriate use has been made of the supporting materials?
- Has the Council circulated the briefing for elected members on the Audit Commission's workforce report to Members? Is the Audit Committee satisfied that the questions within the briefing have been properly considered by the Council?
- Has the Council reviewed the questions included in the Audit Commission's briefing paper on joining up health and social care?
- Has the Council used the Audit Commission's tool to benchmark the performance of its NHS and social care partnership?
- Has the Council reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Council reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?
- Has the Council considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the fraud briefing to all school governors?  
Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?
- Has the Council reviewed CIPFA's guide on income generation and is the Audit Committee satisfied that all potential income sources have been identified?

- Has the Council adequate arrangements in place to ensure that it complies with the Code of Recommended Practice for Local Authorities on Data Transparency and that all published information is both accurate and complete?
- Have Members been provided with a copy of CIPFA's guide to Local Government finance?
- Has the Council reviewed the NAO's report on financial management in schools and developed an action plan where necessary?

## Contact Details

**134** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**135** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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