

AUDIT COMMITTEE AGENDA



14 December 2012

at 9.00 am

in Committee Room C, Civic Centre, Hartlepool

MEMBERS: AUDIT COMMITTEE:

Councillors Ainslie, C Akers-Belcher, Dawkins, Hall, Shields 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 9 November 2012

4. MINUTES OF THE AUDIT SUB-COMMITTEE

4.1 To receive the minutes of the Sub-Committee meeting held on 5 November 2012

5. ITEMS FOR DISCUSSION/DECISION

5.1 Audit Commission Report – Annual Audit Letter – *Chief Finance Officer*

5.2 Mazars Report – Audit Update – *Chief Finance Officer*

5.3 Draft Local Audit Bill – Summary of Consultation Replies – *Chief Finance Officer*

5.4 Internal Audit Plan 2012/13 Update – *Head of Audit and Governance*

6. ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT



AUDIT COMMITTEE

MINUTES AND DECISION RECORD

9th November 2012

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

Present:

Councillor: Christopher Akers-Belcher (In the Chair)

Councillors: Jim Ainslie, Ged Hall, Linda Shields and Ray Wells

Officers: Chris Little, Chief Finance Officer
Jo Stubbs, Democratic Services Officer

22. Apologies for Absence

None

23. Declarations of interest by Members

None

24. Confirmation of the minutes of the meeting held on 21st September 2012

Confirmed

25. Receipt of the minutes of the Audit Sub-Committee meeting held on 10th September 2012

Noted

26. Receipt of the minutes of the Audit Sub-Committee meeting held on 24th September 2012

Noted

27. Receipt of the minutes of the Audit Sub-Committee meeting held on 8th October 2012

Noted

28. Receipt of the minutes of the Audit Sub-Committee meeting held on 22nd October 2012

Noted

29. Treasury Management Outturn 2011-12 (*Chief Finance Officer*)

The Chief Finance Officer presented the report which included a summary of the following key issues for the financial year 2011/2012

- The economic background for the year;
- The Council's capital expenditure and financing in 2011/2012
- The Council's treasury position at 31st March 2012
- The regulatory framework, risk and performance

No significant changes were reported. Members referred to the 1% increase made by the coalition government in the Public Works Loan Board (PWLB) interest rate. The Chief Finance Officer advised that so far this had not impacted upon Hartlepool as officers had avoided taking on new long term borrowings and used surplus cash, although it may impact in future years. The Chief Finance Officer also advised Members that the Government has since introduced measures which enable authorities to access loans which limit this increase to 0.8%. The relevant information to enable the Council to access these loans has been submitted to the PWLB

Decision

That the report be referred to Council

30. Treasury Management Strategy Review (*Chief Finance Officer*)

The Chief Finance Officer presented a detailed report which provided information on the Authority's proposed Treasury Management Strategy for 2013/14 onward. For the last 3 years the strategy had remained unchanged however it was felt prudent to review it at this time. For that reason the report had been brought to members earlier than usual in order to factor in time to enable members to fully consider the proposed strategy, covering:

- Future Capital Financial Requirement (CFR)
- Strategy for funding CFR
- Managing the Capital Funding Reserve
- Prudential Code mid-year review 2012/13
-

The Chief Finance Officer advised Members that a comprehensive review

of the Treasury Management strategy has been undertaken to reflect current and forecast interest rates. This analysis has included preparing a 15 year forecast of the Capital Financial Requirement (CFR) to reflect the impact of changing Government arrangements for funding local authority capital expenditure and the repayment of the existing CFR. The Chief Finance Officer emphasised the importance of the change in the Government arrangements for funding local authority capital expenditure on the proposed strategy and the potential impact if these changes are reversed in the future. The report detailed alternative strategies for funding the CFR and managing future interest rate risks. The Chief Finance Officer advised Members that the recommended option would enable the Council to make a £1m savings towards the 2014/15 budget deficit and interest rate risk could be managed by allocating the forecast 2013/14 underspend of £0.87m as a risk reserve, which would be reviewed on an annual basis.

Details of an option for managing the Capital Funding Reserve to potentially increase future financial flexibility were also provided.

The Chair referred to the proposed changes to management of the capital funding reserve, saying he would prefer to have a £0.26 million budget pressure than have to make cut to frontline services. The Chief Finance Officer advised Members that the changes would give the Council the money to offset any additional Government grant cuts. By taking such action sooner rather than later there would also be time to respond to any late notification from government of grant amounts as had happened the previous year.

Members noted recent government accusations that nationally councils were hoarding money unnecessarily. The Chief Finance Officer commented that councils had to make decisions to reflect local circumstances and to manage the unprecedented financial uncertainty, particularly in relation to the impact of continuing funding reductions and additional financial risks transferring to councils in April 2013, including the impact of Council Tax Benefit reform and the re-localisation of Business Rates. As independent organisations individual councils need robust multi-year financial strategies as they do not have recourse to additional Government funding if they experience financial difficulties.

Members were happy to approve all the recommendations. The Chair asked that member briefings be arranged prior to the report being considered by Council to ensure members were fully informed.

Decision

- I. That the report be noted
- II. That the adoption of Option 1 for the Council's borrowing strategy be approved – this would delay long term borrowing and continue the existing strategy of netting down investments and borrowings until

there is a significant forecast change in current interest rates

- III. That it be noted and approved that if recommendation (ii) is approved that a permanent interest and MRP saving of £1 million can be built into the 2014/15 base budget forecast
- IV. That it be noted that if recommendation (iii) is approved the current forecast 2014/15 net budget deficit of £1.4 million will be reduced from £1 million to £0.4 million assuming the savings plan is achieved
- V. That it be noted and approved that the saving detailed in recommendation (iii) can only be achieved if the forecast 2013/14 Treasury Management saving of £0.870 million is earmarked to establish a 'Treasury Management risk reserve' to manage the risk of interest rates increasing over the period of the MTFS and therefore costs exceeding the reduced ongoing revenue budget
- VI. That an annual review of the 'Treasury Management risk reserve' be reported to Members as part of the annual Treasury Management review
- VII. That the continuation of the existing investment strategy and counterparty list be approved
- VIII. That the proposal for managing the Capital Funding Reserve and the resulting increase in Prudential Borrowing Limits be approved and that an annual update be reported to Members
- IX. That the prudential code mid-year review be noted
- X. That the above proposals be referred to full Council for approval
- XI. That Member briefing sessions be arranged on the above proposals prior to consideration by full Council

The meeting concluded at 10.00 am

CHAIR

AUDIT SUB-COMMITTEE

MINUTES AND DECISION RECORD

5 November 2012

The meeting commenced at 4.15 p.m. in the Civic Centre, Hartlepool

PRESENT: Councillor Jim Ainslie (Chair);
Councillors Linda Shields and Geoff Lilley as substitute for
Councillor Keith Dawkins

OFFICERS: Craig Thelwell, Waste & Environmental Services Manager
David Hart, Strategic Procurement Manager
Denise Ogden, Assistant Director (Neighbourhood Services)
Graham Frankland, Assistant Director (Resources)
Kate McCusker, Commercial Solicitor
Rachael White, Democratic Services Officer

56. Apologies for Absence

Apologies were submitted for Councillor Keith Dawkins.

57. Declarations of Interest

None.

58. Minutes of the meeting held on 22 October 2012

Confirmed.

59. Items for Information

Contract Procedure Rule Changes (verbal report) – Assistant Director (Resources)

The Assistant Director (Resources) informed the Committee that following the changes approved by Council on the 18th October 2012, the Sub-Committee would no longer be opening electronic tenders. The deadline for tender applications to be submitted was 12noon on a Friday. The Procurement team had identified that they would prefer to open the tenders as soon as possible. This would allow tenders to be progressed a lot sooner. No meetings or arrangements had been made but the Chair would be notified when a process had been put in place and noon on Fridays was generally satisfactory for him.

Electronic tenders were to be opened in the presence of the following:

- A representative of the Corporate Procurement Team
- A representative of the Service area involved in the procurement
- The Chair of the Audit Sub-Committee or a nominee of the Chair, at the Chair's discretion

Following the opening, a report detailing the outcome of the tender opening would be produced and presented to the Audit Sub-Committee for formal receipt.

Written tenders were still to be opened by the Sub-Committee however the department were trying to move away from this method of receiving tender applications. If there was to be an e-auction, the Audit Sub-Committee would be advised of the e-auction event dates and times with arrangements made to accommodate any or all Members of the Sub-Committee at the live auction event. A summary report would be compiled and presented at the next meeting of the Audit Sub-Committee to ensure the Sub-Committee would formally receive and record the outcome of the e-auction process.

The Chair welcomed the changes to the Sub-Committee.

Decision

That the changes to the Audit Sub-Committee be noted.

60. Any Other Items which the Chairman Considers are Urgent

None.

61. Local Government (Access to Information)

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

Minute 62 Kerbside Dry Recycling Collection Service Report – *Assistant Director (Neighbourhood Services)* - This item contains exempt information under Schedule 12A Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006 namely information relating to the financial or business affairs of any particular person (including the authority holding that information) – Para 3.

62. Kerbside Dry Recycling Collection Service –

Assistant Director (Neighbourhood Services) - This item contains exempt information under Schedule 12A Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006 namely information relating to the financial or business affairs of any particular person (including the authority holding that

information) – Para 3.

Decision

The outcome of this report is detailed in the exempt section of the minutes.

63. Any Other Confidential Items which the Chairman Considers are Urgent

None.

The meeting concluded at 4.38pm.

CHAIR

AUDIT COMMITTEE

14.12.12



Report of: Chief Finance Officer

Subject: AUDIT COMMISSION REPORT- ANNUAL
AUDIT LETTER.

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 Annual Audit Letter.

2. BACKGROUND

- 2.1 This report summarises the findings from the 2011/12 audit. It includes messages arising from the audit of financial statements and the results of the work undertaken to assess arrangements to secure value for money in the use of resources.

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



27 September 2012

Members
Hartlepool Borough Council
Civic Centre
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Hartlepool
TS24 8AY

Direct line 0844 798 6632
Email m-kirkham@audit-commission.gov.uk

— Dear Member

Hartlepool Borough Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Hartlepool Borough Council.

Financial statements

On 21 September I presented my Annual Governance Report (AGR) to the Audit Committee outlining the findings of my audit of the Council's 2011/12 financial statements. I will not replicate those findings in this letter, but would take this opportunity to highlight the production of the accounts by the deadline and to a good standard.

Following the Audit Committee on 21 September I:

- issued an unqualified opinion on the Council's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- certified completion of the audit on 21 September.

Value for Money Conclusion (VFM)

Overall, the Council has again managed the significant financial challenges it has faced and has successfully delivered planned savings and efficiencies. In the short-term, the Council is facing added potential changes to governance arrangements. Other issues include welfare reform, business rates localisation, new public health responsibilities and the need to deliver further savings and efficiencies.

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It is more important than ever that Members and officers work together effectively to ensure:

- the day-to-day business does not suffer;
- governance arrangements, in particular financial governance arrangements, work effectively and efficiently; and
- maintaining the momentum on achieving the wider-reaching changes needed to address the projected budget deficit.

The Council is aware that achieving sustainable efficiencies will become harder and require some difficult decisions.

Closing remarks

I have discussed and agreed this letter with the Acting Chief Executive and Chief Finance Officer. While this has been another challenging year for the Council, I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Yours sincerely

Mark Kirkham
District Auditor

AUDIT COMMITTEE

14.12.12



Report of: Chief Finance Officer

Subject: MAZARS REPORT- AUDIT UPDATE.

1. PURPOSE OF REPORT

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

2. BACKGROUND

- 2.1 The purpose of this paper is to provide the Audit Committee with a report from Mazars detailing progress in delivering their responsibilities as the Councils external auditors.
- 2.2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee.

3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Details of key messages 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 Mazars.

Hartlepool Borough Council

Audit Progress report

December 2012

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This document is to be regarded as confidential to Hartlepool Borough Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this document, or any part of it, is disclosed to a third party, our written consent must first be obtained.

1. Introduction

The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee.

If you require any additional information regarding the issues included within this briefing, please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector – including Academies, Universities, Sixth Form Colleges and Housing Associations (both Internal and External Audit).

2. Transition from the Audit Commission

As from 1st November 2012 former Audit Commission staff transferred to Mazars. Your audit team remains unchanged and we are committed to continuing to provide a high quality audit.

3. Progress on the audit

We have held initial planning meetings for the 2012/13 audit year with the Chief Finance Officer, the Head of Internal Audit and Governance and other senior officers.

We are also starting our walkthroughs of the key financial systems, in conjunction with Internal Audit officers.

We will bring our Audit Strategy Memorandum to the next Audit Committee; this is a comprehensive report, required by auditing standards, setting out our audit approach as well as any key risks we have identified for the audit; this is in respect of both the opinion on the financial statements as well as the Value for Money conclusion.

In the interim, Appendix 1 includes our 2012/13 fee planning letter.

4. Mazars updates

Forthcoming events

Mazars is planning to run its own workshops for public sector clients on key 2012/13 accounting issues in the New Year as part of its commitment to ensuring a successful and smooth audit.

Insight out (Mazars, November 2012)

Insight Out is a digital magazine published by Mazars LLP ten times a year to keep you up to speed with the key issues, challenges and opportunities facing business today. It contains a wide range of articles, relevant to both the private and public sector. Members can sign-up to the newsletter online at the following address: <http://www.insightoutmagazine.com/november2012/charities>.

In this month's issue, some articles to note include:

- **Charities need strategy and vision as much as sound operations if they want to survive.** The article highlights “at times of austerity it’s easy for charities to get bogged down in the practicalities of operations. But the role that charities play in improving peoples’ lives means that more than ever they have to look beyond the operational side and focus on the wider issue of how best to deliver a positive change in society”.
- **Ever wondered what a day in the life of a social entrepreneur is like?**
- And an **interview with the ex-head of HMRC** amongst others.

5. National publications and other updates

CLG moves website (November 2012)

Members may be aware that the Department for Communities and Local Government (DCLG) has changed its website recently. Along with the Department for Transport, DCLG along with three of their public bodies, have from mid-November become the first central government organisations to move their corporate and policy content onto the new GOV.UK website - the new single home for all government services and information.

Localisation of business rates publication (CLG, November 2012)

The Department for Communities and Local Government (CLG) published details of the localisation of business rates following on from its consultation. Local government will retain a 50% local share of business rates and then keep a 50% share of any growth they generate, subject to a levy – which will be a maximum of 50p in the pound. The document also confirms the safety net for when councils experience unexpected drops in revenue will guarantee a real terms income from business rates of 92.5%. This means council income will never fall below 7.5% of its baseline funding level ensuring no area gets left behind. There is a plain English guide available in addition to the policy statement itself.

The Chief Finance Officer of the Council has highlighted the potential disproportionate impact of these changes upon the Council in various reports, in particular the impact of any changes in the operation of the power station.

<https://www.gov.uk/government/news/greater-rewards-for-local-growth-under-new-scheme>

Tough times report (Audit Commission, November 2012)

These are challenging and uncertain times for councils as they cope with the second year of the four-year Spending Review. The savings needed are lower in 2012/13 than in 2011/12, but the cumulative effect is significant for many. The report finds that in 2011/12, councils largely delivered their planned savings and in

many cases added to reserves. However, auditors reported that signs of financial stress were visible. A sizeable minority of councils had to make additional in-year cuts, seek additional funding, or restructure efficiency programmes in order to deliver their budgets.

The report says that auditors are concerned that 12 per cent of councils are not well-placed to deliver their 2012/13 budgets. They feel that a further 25 per cent will cope in 2012/13, but may struggle in the remaining years of the Spending Review period. The report is the second in the Commission's Tough Times series.

As highlighted in the previous auditor's 2011/12 Annual Governance Report, overall the Council has again managed the significant financial challenges it has faced and has successfully delivered planned savings and efficiencies with some savings achieved ahead of target.

The Council is well aware that continuing to deliver the required savings required will become harder and have a wider impact on services. This is in particular because of the governance changes the Council is facing on top of changes to business rates and welfare reform. The Council's quarter 2 budget monitoring report and most recent update of its Medium Term Financial Strategy provides a comprehensive analysis of the position to date and highlights some of the difficult decisions ahead.

The 'Tough Times' report also details that some councils appear to hold more reserves than might be necessary, but that there are arguably valid reasons for this which include:

- **councils over-achieving against savings plans and robust budget management;**
- **one-off funding received during the year resulting in increased contributions to reserves (this is a point highlighted by the Council in its quarter 2 budget monitoring report); and**
- **councils looking to mitigate the upcoming risks associated with changes to local government funding.**

The issues above were all relevant to Hartlepool Borough Council for the 2011/12 financial year and the outturn. Note that the Commission has indicated it plans to issue a follow-up report on council reserves.

Link to Audit Commission website: <http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes2012.aspx>

Protecting the Public Purse (Audit Commission, November 2012)

This report finds that councils are targeting their investigative resources more efficiently and effectively, detecting more than 124,000 cases of fraud in 2011/12 totalling £179 million. But it urges them not to drop their guard, as new frauds are emerging in areas such as business rates, Right to Buy housing discounts and schools.

The report gives the results of the Audit Commission's annual survey of English councils. It says that, despite these detection rates, more can still be done. The National Fraud Authority (NFA) estimates that the total amount of fraud in the UK costs every adult in the country about £1,460 a year. Fraud targeting just local government exceeds £2.2 billion per year.

The report contains an updated checklist which also gives organisations an opportunity to consider how effective they are at responding to the risk of fraud.

We are aware that the Head of Internal Audit and Governance is already considering the Council's arrangements to combat fraud and corruption, including assessing arrangements against a CIPFA model and possible internal training to enhance awareness.

<http://www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/protecting-the-public-purse-2012.aspx>

NHS financial year 2011/12 (Audit Commission, September 2012)

This report, whilst focusing on the NHS, is still naturally of interest to local government bodies, given the close working between the two sectors – as well the forthcoming new public health responsibilities. In addition, some of the ways productivity challenges have been addressed in the NHS may be of interest to local government bodies.

'NHS financial year 2011/12' summarises the findings from the 2011/12 audit of primary care trust (PCT), NHS trust and strategic health authority (SHA) accounts. It also examines some of the productivity challenges in the NHS, concluding the Audit Commission's 'More for Less' series of reports.

The report finds that PCTs, SHAs and NHS trusts reported a combined under-spend and surplus of £1.6 billion in 2011/12. Most NHS trusts reported an improved financial position in 2011/12. Thirty two NHS trusts reported a reduced surplus compared to 2010/11 and a further seven deteriorated to the point of reporting a deficit.

The report shows stark differences in health finances around the country, with the majority of NHS trusts in deficit located in London and the south-east. Within London there are substantial differences in the fortunes of trusts. As a region, London reported the highest surplus nationally, but it was home to the NHS trust with the highest deficit. Overall, healthcare organisations in inner London fared better financially than those in outer London.

The report also considers how PCTs have made savings and the impact on trusts' income and services. Overall, the savings programmes have had no material affect on the numbers of front-line staff, although the number of managerial and administrative staff has fallen significantly. But, the productivity of acute and specialist trusts does not appear to have increased and there is also little sign of services moving out of hospitals and into the community. These changes are both considered key to achieving the longer term financial sustainability of the NHS.

<http://www.audit-commission.gov.uk/nationalstudies/health/financialmanagement/Pages/nhsfinancialyear1112.aspx>

Reducing the costs of assessments and reviews (Audit Commission, August 2012)

'Reducing the cost of assessments and reviews' is the third in a series of Audit Commission briefings looking at how councils and their partners can achieve better value for money in adult social care.

This briefing focuses on social care assessments and reviews. It considers changes in councils' expenditure on assessments and reviews over time, and examines how some councils have managed to keep their costs low while continuing to meet vulnerable people's needs.

The Commission has published a benchmarking tool to allow councils to assess and compare their costs, staffing and activity levels against others of similar type, geographic area, markets and scale of operation. Where costs are high, councils should investigate the reasons, assess how local circumstances affect their costs, and identify the scope for making savings. But all councils, including those with relatively low costs, can use this tool to identify the scope for further savings.

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

Appendix 1 – 2012/13 fee letter

Mr Dave Stubbs
Chief Executive
Hartlepool Borough Council
Civic Centre
Victoria Road
Hartlepool
TS24 8AY

28 November 2012

Dear Dave

Hartlepool Borough Council External audit 2012/13 fee planning

I am pleased to confirm that on 1 November 2012 I began my appointment as your external audit engagement lead for 2012/13. This will be my second year fulfilling this role for you, although the first as a Director with Mazars LLP. I will work closely with you, your staff and members to ensure that my team continues to provide you with the highest quality service.

On 5 October Gareth Davies, Mazars' Public Services Partner, wrote to the Chief Finance Officer with regard to the fee for your external audit and the proposed approach for billing. I am writing to you now to provide further details of your fee and my programme of work. I will provide you with a comprehensive Audit Strategy Memorandum in the New Year.

Fees

The table below includes my proposed fees. I confirm that the audit fee is in line with the Audit Commission's scale fee.

Audit area	Proposed fee (2012/13)	Final fee (2011/12)
Audit	£144,180	£240,300*
Certification work	£24,500	£45,000**

*excluding the one-off rebate issued of £19,224

** 2011/12 grants fees not yet finalised

At this stage I am not proposing any non-audit work.

The Audit Commission's scale fee assumes that you are able to provide me with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

Outline of work programme

My proposed audit fee covers:

- The audit of your statement of accounts;
- My work to conclude on your arrangements for value for money; and
- The assurance I am required to provide to the National Audit Office on the consistency of your Whole of Government Accounts return with the audited financial statements.

My work programme also includes certifying three grant claims and returns, including your Housing Subsidy and Council Tax Benefit claim.

In addition, I will address any legal challenge work prompted by local electors at the rate prescribed by the Audit Commission.

At this stage I have yet to complete my risk assessment of the Council. I will issue my Audit Strategy Memorandum in the New Year. This will communicate to you the risks that I identify in relation to this work programme and the action I plan to take in response.

I look forward to meeting you in December.

Yours sincerely

Mark Kirkham

Director

Contact details

If you would like further information on any items in this briefing, please contact me or the Senior Manager.

www.mazars.co.uk

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AUDIT COMMITTEE

14.12.12



Report of: Chief Finance Officer

Subject: DRAFT LOCAL AUDIT BILL – SUMMARY OF
CONSULTATION REPLIES

1. PURPOSE OF REPORT

- 1.1 To update Members on consultation replies received by the Government in respect of its Draft Local Audit Bill Consultation. At the Audit Committee meeting of 21.09.12 it was agreed that members would be kept fully apprised of any future developments in relation to the provision of local audit arrangements.

2. BACKGROUND

- 2.1 In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market.
- 2.2 The draft Local Audit Bill abolishes the existing regime and sets out the proposed new audit framework for local public bodies which were previously covered by the Audit Commission regime. It sets out the process for the appointment of auditors, and the regulatory framework for local public audit. The draft Bill sets out the Government's vision for this new local audit framework, where bodies will be able to appoint their own auditors from an open and competitive market, on the advice of an independent auditor appointment panel. The Bill gives new responsibilities to the Financial Reporting Council, which will act as the overall regulator for auditors; the National Audit Office, which will set the code of audit practice; and the professional audit bodies will also have a role in regulating and monitoring auditors.
- 2.3 The draft Bill also posed a number of questions, to which the Government indicated it would welcome responses from any interested parties during the process of prelegislative scrutiny. The Chair of the Audit Committee responded to the consultation on behalf of the Committee, the contents of the response being agreed by the Audit Committee meeting of 21.09.12.

3. SUMMARY OF CONSULTATION REPLIES

- 3.1 The responses the Government received to the consultation are attached as Appendix A. The Government has stated that for fourteen of the fifteen questions asked a clear majority of respondents endorsed the proposals set out in the draft Bill. The one exception to this was in relation to proposed requirements for local bodies to take advice from a majority independent auditor panel when appointing their external auditor. This mirrors the concerns that the Audit Committee have consistently raised regarding the role, relationship and cost of setting up an independent auditor appointment panel.
- 3.2 The Government have stated that they are considering how else they can streamline the auditor appointment process, while ensuring that the independence of local audit is not compromised. The Government have reaffirmed that the draft bill allows the Secretary of State to issue guidance on how panels will operate in practice, and that they will be working with the sector to develop this and address the issues raised in responses.

4. RECOMMENDATION

- 4.1 It is recommended that Members note the contents of the Local Audit Bill Summary of Responses attached as Appendix A to the report and that members kept fully apprised of any future developments in relation to the provision of local audit arrangements.

5. BACKGROUND PAPERS

- 5.1 Local Audit Bill Summary of Responses.

6. CONTACT OFFICER

- 6.1 Chris Little
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Department for
Communities and
Local Government

Draft Local Audit Bill

Summary of Consultation Responses

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Section 1

Introduction

- 1.1 The draft Local Audit Bill consultation paper was published on 6 July 2012. It invited comments on the draft Bill, the consultation stage impact assessment of the reforms to local audit and the proposals for the audit of smaller public bodies (those with an annual turnover of less than £6.5m).
- 1.2 The consultation closed on 31 August 2012. One hundred and sixty-two responses to the consultation were received. The majority (74%) were from local authorities, parish and town councils or other audited bodies. A breakdown of the number of responses by sector is included at Annex A, and a full list of respondents at Annex C.

Section 2

Overview of Responses

- 2.1 The consultation paper invited general comments on draft Bill clauses, specific comments on major audits, the National Fraud Initiative, and powers for the Comptroller and Auditor General to undertake value for money studies, and asked fifteen direct questions on whether respondents agreed with specific provisions/policy proposals as set out in the clauses of the draft Bill. For fourteen of the fifteen direct questions a clear majority of respondents endorsed the proposals set out in the draft Bill (see Appendix B). The only exception was in relation to proposed requirements for local bodies to take advice from a majority independent auditor panel when appointing their external auditor. More detail on this is set out in paragraph 2.4 below.

Part 1: Abolition of Existing Audit Regime

- 2.2 Respondents expressed their general support for proposals to close the Audit Commission and put in place a new audit regime. Some highlighted the importance of a well-managed transition to the new audit arrangements, for example ensuring that whoever manages the remainder of the existing audit contracts once the Commission closes has the skills and resources to do this effectively. Our aim is to close the Commission by 2015, and we are working with them and other key partners (such as the National Audit Office, Local Government Association and Financial Reporting Council) to plan for a smooth transition to the new framework, including developing more detailed proposals for the handover of contracts in 2015.

Part 2: Basic Requirements and Concepts

- 2.3 The majority of responses received on Part 2 of the draft Bill were detailed drafting or technical points. Respondents welcomed the proposed clarification on the distinction between accounting records and the annual statements of accounts. We will be considering the detailed points on draft clauses in finalising the Bill.

Part 3: Auditor Appointment

- 2.4 Although generally supportive of the need for safeguards around independence, some respondents disagreed with the requirement for independent auditor panels, arguing that there were enough checks and balances already in place to ensure auditors were independent and/or that it would be difficult to establish panels. However, respondents welcomed the provision to allow joint panels, and recognised that this would make it easier to source independent panellists and enable groups of bodies to undertake

joint procurement. A clear majority agreed that the draft Bill provided sufficient flexibility to local bodies to set up joint panel arrangements and/or put in place other arrangements to suit local circumstances. Some respondents suggested that detailed guidance on how joint panels would work in practice would be helpful.

- 2.5 The Government is keen to safeguard auditor independence in a way which imposes the least additional burden on local bodies, and the draft Bill already allows bodies to share panels or use existing audit committees if they meet independence requirements. We are considering how else we can streamline the auditor appointment process, while ensuring that the independence of local audit is not compromised. The draft Bill includes a provision for the Secretary of State to issue guidance on how panels will operate in practice, and we will be working with the sector to develop this and address the issues raised in responses.

Part 4: Eligibility and Regulation of Auditors

- 2.6 There was general support for the approach of building on the Companies Act 2006 to develop the framework for auditor regulation and eligibility. Respondents highlighted the need to get the balance right on the latter, to ensure auditors have the specific skills and experience to meet the wider scope of public audit while avoiding unintended barriers to new providers entering the market.
- 2.7 We are keen to encourage greater diversity in the local public audit market. The outsourcing of the work of the Commission's in-house practice was an important step towards this, and has already led to two new entrants to the market. We are working closely with the key regulatory bodies and the sector to ensure the quality of audit is maintained, without imposing undue burdens on providers.

Definition of Major Audits

- 2.8 There were a range of suggestions about how major audits, which will be subject to monitoring by the Financial Reporting Council rather than recognised supervisory bodies, should be defined. The most popular proposals were for the use of a financial threshold or a definition based on types of bodies (e.g. upper-tier local authorities). Respondents were keen that the definition enables a proportionate and risk-based approach to monitoring.
- 2.9 As set out in the consultation paper accompanying the draft Bill, we intend to specify a small number of major audits in regulations, and enable the Financial Reporting Council to decide on annual basis if any other bodies should be included. This provides a helpful degree of flexibility, and mirrors the Companies Act in enabling the Financial Reporting Council to adopt a risk-based approach. We are working closely with the Financial Reporting Council to finalise the detailed definition.

Part 5: Conduct of Audit

- 2.10 Respondents were supportive of the proposed arrangements for the conduct of audit. The proposals which received most comments were for the Comptroller and Auditor General to prepare the code of audit practice and the refinements to the right to object, both of which were supported. The vast majority of respondents agreed that public interest reports on connected entities should be considered by their parent body.

Part 6: Data Matching

- 2.11 The draft Bill transfers the Audit Commission's data matching powers to Government, to enable the National Fraud Initiative to continue after the Commission's closure. This approach has been widely welcomed, and respondents to the consultation recognised the National Fraud Initiative's success in helping councils to combat fraud. The consultation sought suggestions on which Department should host the National Fraud Initiative in the future.
- 2.12 The most popular suggestion was for ownership to pass to the National Fraud Authority within the Home Office. In addition to the two other Departments mentioned in the consultation paper (the Department for Work and Pensions and the Cabinet Office), some respondents suggested the National Audit Office could take on the National Fraud Initiative, independent of Government. Some respondents made the general point that new owner of the National Fraud Initiative would need to maintain a broad outlook on fraud and have the ability to work across the public and private sectors.
- 2.13 The decision about future ownership will be taken following full consideration of all the options and further discussions with potential host Departments. The criteria set out in responses received will form part of Government's considerations. We are keen to work with the Local Government Association to ensure that the National Fraud Initiative continues to meet local government's current and future needs.

Part 7: Inspections, Studies and Information

- 2.14 Respondents were generally supportive of the proposal to enable the Comptroller and Auditor General to undertake local value for money studies (clause 94), and for this power to be extended beyond local government to other sectors. However, a large number of those respondents (mainly from the local government sector) wanted the power to be more limited in scope, for the Comptroller and Auditor General to be required to consult with the sector on proposed studies, and to place a maximum limit on the number of studies undertaken.
- 2.15 Clause 94 supports the National Audit Office's role in holding central government to account for the money it provides to local bodies by enabling it to undertake studies that support a more end-to-end assessment of policies and services delivered locally. The Government is discussing the

detailed approach further to ensure that powers are of the appropriate scope for the studies to add the most value.

Impact Assessment

- 2.16 A large majority of respondents agreed that the impact assessment had identified the key components of audit fees in the new framework. Some suggested that there might be some additional drivers on fees, such as the potential impact of changes to the regulatory framework. Some respondents commented that it was difficult to estimate precisely the costs and benefits of the new framework, but out of those who answered 'yes' or 'no' to Questions 19 and 20, most thought that the impact assessment correctly estimated the costs to businesses and compliance costs to local bodies.
- 2.17 By ending routine inspection and assessment, closing the Audit Commission and introducing a new local audit framework, the Government will be making savings of £650m over the next five years, most of which fall to local bodies. The potential costs of the new regulatory framework would be very small compared to these overall savings. We will be working with the regulatory and supervisory bodies to ensure that any costs associated with the new framework are minimised.

Audit of Smaller Bodies

- 2.18 There was strong support for the proposed audit arrangements for smaller bodies. Respondents were supportive of the continuation of the limited assurance regime and welcomed the proposal to establish a sector-led body to appoint auditors to smaller bodies. The majority of respondents supported the proposed external audit threshold of £25,000 and agreed with the proposals for increased transparency for those bodies not subject to external audit. A small minority thought the threshold should be pitched either higher or lower than £25,000.
- 2.19 Responses suggested that the approach outlined has been broadly accepted as proportionate and risk-based, and that a threshold of £25,000 struck the right balance between the need for assurance and the small amounts of public money handled by these bodies. We are continuing to work through the specific details of the new framework (which will be set out in regulations) with partners.

Section 3

Next Steps

- 3.1 As well as providing general comments on the key provisions in the draft Bill, we received a number of more detailed and technical points on specific clauses and Bill drafting. In finalising the Bill, the Government will consider both these detailed points and the general comments made, together with the report of the ad-hoc Committee undertaking pre-legislative scrutiny. An updated impact assessment will be published when the final Bill is introduced.

ANNEX A
Respondents by Sector

Type of respondent	Number of responses	%
Upper tier local authorities	49	30.2
Lower tier local authorities	27	16.7
Parish and town councils	26	16.0
Audit and accountancy firms	10	6.2
Professional bodies	4	2.5
Other audited bodies	18	11.1
Other bodies	14	8.6
Personal responses	14	8.6
Total	162	100%

ANNEX B

Responses to Consultation Questions

	Q4 Do the clauses in Part 3 strike the right balance between ensuring independence in the audit process and minimising any burden on local bodies?		Q5 Does Clause 11 provide sufficient flexibility to local bodies to set up joint panel arrangements and/or put in place other arrangements to suit local circumstances?		Q6 Does the draft Bill strike the right balance in terms of prescription and guidance on the role of auditor panels?		Q9 Do you agree with the proposed definition of connected entities in clause 20?		Q12 Do you agree that public interest reports issued on connected entities should be considered by their 'parent' local body?		Q16 Do you think that the National Audit Office should be able to undertake thematic value for money studies regarding all sectors whose bodies are subject to audit under this draft Bill?		Q18 Does the impact assessment identify the main drivers on fees?		Q19 Are the estimates of local bodies' compliance costs realistic?	
Type of respondent	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Upper tier local authorities	10	29	33	7	23	16	36	1	35	2	28	8	28	7	17	11
Lower tier local authorities	6	13	14	6	12	8	18	1	18	-	13	8	14	4	7	7
Parish and town councils	7	1	5	2	6	1	5	-	6	-	6	1	4	1	3	-
Audit and accountancy firms	3	4	6	2	3	4	5	3	7	2	8	-	6	2	2	2
Professional audit and accountancy bodies	1	1	2	-	-	2	2	-	2	-	3	-	2	-	-	2
Other audited public bodies	3	11	13	1	7	7	14	-	14	-	8	2	11	3	6	2
Other bodies	1	2	4	-	2	3	3	2	4	-	2	1	2	1	2	1
Personal responses	3	4	6	1	2	5	7	1	6	-	6	2	4	1	2	1
Totals	34	65	83	19	55	46	90	8	92	4	74	22	71	19	39	26

ANNEX B

Responses to Consultation Questions

	Q20 Are the estimates of the costs and benefits to businesses realistic?		Q21 Do you agree that the threshold below which smaller local public bodies should not be subject to automatic external audit should be £25,000?		Q22 Are the additional transparency requirements we have proposed for those bodies who will not be subject to external audit robust enough to ensure that they will be accountable to the electorate?		Q23 Are these transparency requirements proportionate to the low levels of public money these bodies are responsible for?		Q24 Do you agree that our proposals for the eligibility of auditors of smaller local public bodies will ensure that they have the requisite expertise to undertake limited assurance audits?		Q25 Are our proposals for the regulatory framework for the audit of smaller bodies proportionate?		Q26 Do these proposals provide a proportionate and sufficiently flexible mechanism for procuring and appointing audit services to smaller local public bodies?	
Type of respondent	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Upper tier local authorities	15	5	23	3	24	2	19	5	23	1	22	1	21	1
Lower tier local authorities	8	3	11	2	10	3	9	2	12	1	12	1	12	1
Parish and town councils	3	1	12	7	13	3	12	3	12	3	14	2	14	2
Audit and accountancy firms	1	3	5	3	2	5	5	1	5	2	2	2	4	2
Professional audit and accountancy bodies	-	-	1	1	1	1	2	-	2	-	2	-	2	-
Other audited public bodies	5	1	3	1	3	1	3	1	4	1	5	-	4	1
Other bodies	3	-	3	2	2	2	4	1	3	1	3	1	4	1
Personal responses	2	1	8	2	6	3	6	2	8	2	6	2	6	1
Totals	37	14	66	21	61	20	60	15	69	11	66	9	67	9

ANNEX C
List of Respondents

1. Association of Chartered Certified Accountants
2. Alton Town Council
3. Arun District Council
4. Ashfield District Council
5. Ashford Borough Council
6. Association of North East Councils
7. Audit Commission
8. Audit Scotland
9. BDO LLP
10. Bedford Borough Council
11. Bedfordshire Fire & Rescue Service
12. Birmingham City Council
13. Blackpool Council
14. Bodmin Town Council
15. Boston Borough Council
16. Bourton on the Water Parish Council
17. Bradford Metropolitan District Council (City of)
18. Breckland Council
19. Bristol City Council
20. Broads Authority / South Norfolk Council
21. Buckinghamshire and Milton Keynes Fire Authority
22. Buckinghamshire County Council
23. Bury Council
24. Bymhill and Weston under Lizard Parish Council
25. Charminster Parish Council
26. Cherwell District Council
27. Cheshire Fire Authority
28. Chief Fire Officers Association
29. Chippenham Town Council
30. CIFAS
31. Chartered Institute of Public Finance and Accountancy
32. City of London Corporation
33. Clayton Parish Council
34. Cleveland Fire Authority
35. County Councils Network
36. Cumbria County Council
37. Cumbria County Council (on behalf of Copeland Borough Council, Carlisle City Council, Cumbria Police Authority)
38. Dartmoor National Park Authority
39. Deloitte LLP
40. Devon and Somerset Fire and Rescue Authority
41. Devon County Council

ANNEX C
List of Respondents

42. Do the Numbers Ltd
43. Dorset Association of Parish and Town Councils
44. Dorset County Council
45. East Riding of Yorkshire Council
46. East Sussex County Council
47. East Sussex Fire Authority
48. Eastleigh Borough Council
49. Ernst & Young
50. Essex Association of Local Councils
51. Gloucestershire Association of Parish & Town Councils
52. Grant Thornton UK LLP
53. Gravesham Borough Council
54. Grayshott Parish Council
55. Great Dunmow Town Council
56. Hampshire County Council / Southampton City Council
57. Harpenden Town Council
58. Hartlepool Borough Council
59. Haughton Parish Council
60. Hereford & Worcester Fire & Rescue Service
61. Hertfordshire County Council
62. Huntingdonshire District Council
63. Hythe and Dibden Parish Council
64. The Institute of Chartered Accountants in England and Wales
65. Ichabod's Industries Ltd
66. Information Commissioner's Office
67. Institute of Chartered Accountants of Scotland (ICAS)
68. Ivybridge Town Council
69. Kent Association of Local Councils
70. Kent County Council
71. Kent Fire and Rescue Service
72. King's Lynn & West Norfolk Borough Council
73. Knowsley Metropolitan Borough Council
74. KPMG
75. Lancashire & Merseyside Association of Local Councils
76. Lancashire Combined Fire Authority
77. Leicestershire Fire & Rescue
78. Lincolnshire Association of Local Councils
79. Liverpool City Council
80. Local Government Association (LGA)
81. London Audit Group
82. London Borough of Camden
83. London Borough of Enfield

ANNEX C
List of Respondents

84. London Borough of Merton
85. London Borough of Redbridge
86. London Borough of Richmond upon Thames
87. London Borough of Southwark
88. London Borough of Waltham Forest
89. London Borough of Wandsworth
90. Maldon District Council
91. Manchester City Council and Greater Manchester Combined Authority and Greater Manchester Heads of Internal Audit (on behalf of the Heads of Internal Audit for the ten Greater Manchester Councils)
92. Mazars LLP
93. Merseyside Fire and Rescue Authority
94. National Anti-Fraud Network Data & Intelligence Services
95. Newbury Town Council
96. Norfolk County Council
97. North Lincolnshire Council
98. North Tyneside Council
99. North Yorkshire Fire
100. Northampton Borough Council
101. Northamptonshire County Association of Local Councils
102. Nottinghamshire County Council
103. Nottinghamshire Fire and Rescue Authority
104. Nuneaton & Bedworth Borough Council
105. On Behalf of Northamptonshire and Cambridgeshire County Councils
106. Oxfordshire County Council
107. PKF (UK) LLP
108. Reading Borough Council
109. Rossendale Borough Council
110. Royal Borough of Kensington & Chelsea
111. RSM Tenon
112. Rushmoor Borough Council
113. Sandwell MBC
114. Sevenoaks District Council
115. Shropshire Council
116. Sixpenny Handley with Pentridge Parish Council
117. Society of Local Council Clerks
118. Society of London Treasurers
119. Solihull Metropolitan Borough Council
120. Sopley Parish Council
121. South Hams District Council and West Devon Borough Council
122. South Norfolk Council / Broadland District Council

ANNEX C
List of Respondents

123. South Northamptonshire Council
124. South Somerset District Council
125. South Tyneside Council
126. Staffordshire County Council
127. Stockton on Tees Borough Council
128. Stourpaine Parish Council
129. Sunderland City Council
130. Surrey County Council
131. Surrey Heath Borough Council
132. Tameside Metropolitan Borough Council
133. Tamworth Borough Council
134. Telford & Wrekin Council
135. Thanet District Council
136. The National Association of Local Councils (NALC)
137. The Newspaper Society
138. Tonbridge & Malling Borough Council
139. Transport for London (TfL)
140. United Kingdom Without Incineration Network (UKWIN)
141. Walsall Council
142. Warrington Borough Council
143. Waverley Borough Council
144. West Moors Parish Council
145. West Oxfordshire District Council
146. West Yorkshire Passenger Transport Executive / West Yorkshire Integrated Transport Authority (WYITA)
147. Wolverhampton City Council
148. Woodhouse Parish Council
149. Yorkshire Local Councils Association
150. Personal response
151. Personal response
152. Personal response
153. Personal response
154. Personal response
155. Personal response
156. Personal response
157. Personal response
158. Personal response
159. Personal response
160. Personal response
161. Personal response
162. Personal response

AUDIT COMMITTEE

14.12.12



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2012/13 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2012/13.

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. PROPOSALS

- 3.1 That members consider the issues within the report in relation to their role in respect of the Councils governance arrangements. Table 1 of the report detailed below, sets out the pieces of work that have been completed and the recommendations made.

Table 1

Audit	Objectives	Recommendations	Agreed
Manor College	Ensure school finance and governance arrangements are in line with best practice.	- Evidence of a recent staffing structure review should be provided to demonstrate that staffing expenditure has been reviewed.	Y
		- The remaining Governor business interest forms should be obtained and arrangements made for staff to complete forms where appropriate.	Y
		- Staff should be reminded of the requirement for requisitions and orders	Y

Audit	Objectives	Recommendations	Agreed
		<p>to be raised for items that are required. Consideration should be given to monitor this at the school.</p> <ul style="list-style-type: none"> - Consideration should be given to the use of a purchase card or orders to minimise the value and volume of staff payments. - The scale of charges should be taken to Governors for approval. - The process for managing income totals for the Greatham Bus should be examined and appropriate checks put in place. - Back ups should not be stored off site. - The inventory should be fully completed. - The Policies in place should be reviewed to ensure that they cover all aspects of Information Security and ensure that the risks to the school have been clearly evaluated. These should be agreed by Governors and distributed to all staff. - The bank mandate should be provided. The accounts should be presented to governors and made available to parents. The division of duties should be maintained through the account administrators who will ensure that both parties do not sign the same cheque. - Contract Procedure Rules should be adhered to with quotations and tenders being obtained where necessary and the appropriate reports made to Governors. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Rossmere Primary	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - A copy of the SFVS Questionnaire should be provided to Children's Finance. - An adequate income record should be used to record all income received by the school, the date on which it was banked and entered on to the school's financial system. Attendance registers which record, attendance and payment of fees should be signed and verified by a second person. - Once IT requirements and resources are known the school should draw up an ICT Strategy which is approved by the Governors. It should contain appropriate objectives, reflecting local and national priorities, covering all aspects of ICT in the school, detail clear monitoring arrangements for its implementation and should clearly link to the schools budget and forward planning. - Records should be maintained by the school of all software loaded onto desktop machines / laptops etc. Regular software audits should be undertaken by 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>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.</p> <ul style="list-style-type: none"> - Rossmere should utilise the HCSS software to enable budget forward planning, this should be reflected in the schools development plan. - The school bank account should not be allowed to go overdrawn. - The school should discourage purchases made by staff as it may affect VAT and warranties for goods purchased as well as bypass budgetary controls. Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending. The school may consider the use of a purchase card which may eliminate staff reimbursements. - All items of equipment costing in excess of £500 or of a portable and attractive nature should be recorded in the inventory record. 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. - The school should consider registering the private fund with the Charity Commissioner. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
St Peters Elwick School	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - All governors should complete business interest declarations. - The school should ensure that orders are raised where ever possible and consider using annual orders. - Formal arrangements need to be put in place for the recovery of dinner monies and large debt should be referred to the Local Authority for recovery. - An inventory of all assets over £500 and portable 'desirable' items should be maintained, recording the date that the item was purchased, value, description and location. Details of checks undertaken should also be retained. The inventory should be securely held to ensure that it is accessible. - The previous Head Teachers access to IT systems should be removed. - The school private fund bank mandate should be updated. - The Information Security Policy should be agreed by governors and distributed to all staff. Consideration should be 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>given to including a clause in the policy regarding the use of unauthorised software.</p> <ul style="list-style-type: none"> - All budget monitoring reports to Governors should be able to be reconciled back to the SIMs system and minutes of meetings should reflect the information provided. Governors should be provided with projected out-turn figures during the year. - The School Development Plan should be approved by governors and monitored at regular intervals during the year. The ICT Strategy should either be included within the school development plan or a separate strategy should be created. - The school ensure that forward financial planning is undertaken and formally reported. - A recruitment checklist should be in place to ensure that all appropriate documentation is obtained and checks undertaken. All selection process documentation should be retained including summaries to ensure that decisions can be supported. - A software inventory should be maintained and checked on an annual basis. This check should be evidenced. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Owton Manor Primary School	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - Contract procedure rules should be followed when acquiring goods/services in excess of £5,000 which includes obtaining at least 3 quotations which should be retained and the decision reported to the Governing Body for ratification. - An inventory check should be undertaken on an annual basis. The person undertaking the check should be independent of the day to day maintenance of the inventory and should sign and date the inventory. All items of equipment costing in excess of £500 or of a portable and attractive nature should be recorded on the inventory record. - A review of the ICT Policy is undertaken and records updated to reflect this. - Annual accounts should be presented to the Governing Body. - The school should seek advice of the LEA when paying for construction type work. - Checks should be undertaken to ensure that salary costs recorded on the Salary Information on SIMS agrees with actual salaries paid. Consideration 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		should be given as to how to address the incorrect payments made. - Records are maintained demonstrating that back ups are tested.	Y
High Tunstall School	Ensure school finance and governance arrangements are in line with best practice.	- The Whistleblowing Policy should be communicated to staff and displayed in prominent places throughout the school. - Progress of actions defined in the college development plan should be formally monitored and evidenced. - The school should carry out annual benchmarking exercises and present results to Governors for consideration. - A register of business interests (including 'nil' returns) should be maintained for all governors. The College should also consider extending the requirement to complete a declaration to those staff who can influence purchasing decisions, i.e. budget holders / cheque signatories. The register should be updated at least annually. - 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. - Access to SIMS should be restricted to current employees only. - Records of payments received should detail the dates on which payments are received. Payments should be held within the school safe and not be retained until the end of term. - Annual accounts of the private fund should be presented to the Governing Body.	Y Y Y Y Y Y Y
LSP/ Partnerships	Ensure that the Hartlepool Partnership is undertaking all the statutory duties required and operates in line with any requirements and/or best practice.	- Officers are referred to page 102 of the Home Office document where the suggested practice states that reviewing the overall partnership plan which will include taking into account the results of the individual projects and programmes along with other data is an effective way of operating. Consideration should be given to collating the separate activity assessments and producing a holistic picture of the value for money obtained from the partnership activities for discussion at the Safer Hartlepool Partnership. - That the terms of reference and constitution should be updated where appropriate to reflect the requirements of the Health and Social Care Bill 2011. It is understood that at present the board is a shadow board as the legislation has	Y Y

Audit	Objectives	Recommendations	Agreed
		not yet been passed and that further changes may be required at a later date. - The meeting dates, agendas and minutes should be accessible on at least one of the websites with links from the other websites directing readers to the location. The reporting arrangements for the newly formed Strategic Partners Group should be developed and implemented as soon as is practicable.	Y
Social Care Governance Arrangements	Develop the internal audit programme of work ensuring that key areas are covered and also review the arrangements in place for the authorisation of direct payments.	- The following areas be covered as part of a cyclical review: - Social Care Arrangements Audit; Resource Allocation System (RAS), Reviews, Monitoring of Personal Budgets. - Direct Payments. - Financial Assessments; Contributions, deferred payments (to include nursing and residential care) - Contracts and Commissioning; Tender process is central procurement and should be examined during central audit. Quality Reviews. Payments. - Strategic audit. - CONTROCC / IT Arrangements. - Day Centres; - Voluntary Appointeeship; amalgamates Court of Protection and Pensions, allowances and client property. - Safeguarding.	Y

3.2 In order to continually improve the Internal Audit Service a review of the current process of reporting was carried out. In order to address areas for improvement the following changes to current reporting arrangements have been undertaken:

- Instead of Internal Audit providing recommendations to be agreed, the draft report will include a list of risks currently faced by the client in the area audited. It will be the responsibility of the client to complete an action plan with details of the actions proposed to mitigate those risks identified.
- Once the action plan has been provided to Internal Audit, it will be the responsibility of the client to provide Internal Audit with evidence that any action has been implemented by an agreed date. The level of outstanding risk in each area audited will be reported to the Audit Committee.

3.3 The benefits of the new arrangements are that:

- Ownership of both the internal audit report and any resulting actions lie with the client. This reflects the fact that it is the responsibility of management to ensure adequate procedures are in place to manage risk within their areas of operation. The new approach is much more

focussed on risk and will make managers more risk aware in the performance of their duties.

- Greater assurance is gained that actions necessary to mitigate risk are implemented. Less time is spent by both Internal Audit and management in ensuring audit reports are agreed. Greater breadth of assurance is given to management with the same Internal Audit resource. The approach to risk assessment mirrors the corporate approach to risk classification as recorded in covalent.

- 3.4 All audits for 2012/13, other than schools, have been undertaken using the new process with management embracing the changes and compiling their own action plans to mitigate risks identified. Table 2 below summarises the assurance placed on those audits completed using the new process. More detail regarding each audit and the risks identified and action plans agreed is provided in Appendix A.

Table 2

Audit	Assurance Level
Insurances	Reasonable
Information Security Policy	Reasonable
Computer Audit – Environmental Controls	Reasonable
Building Maintenance Protocols	Limited
Risk Management	Reasonable
Redundancies	Reasonable
Members Allowances	Reasonable

- 3.5 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.

- 3.6 The section has overseen the upload of all relevant information to the Audit Commission secure website in relation to the National Fraud Initiative (NFI) for 2012/13. The Council will be notified of all data matches in early 2013 for investigation.

- 3.7 Table 3 below details the audits that were ongoing at the time of compiling the report.

Table 3

Audit	Objectives
Procurement	Ensure adequate procedures are in place to deliver the procurement function.
Continuous Audit	Ongoing testing of fundamental systems.
Localism Act	Arrangements are in place to ensure compliance with requirements.
Hart Primary School	Ensure school finance and governance arrangements are in line with best practice.

Troubled Families	Audit testing focussed on governance arrangements established to deliver the programme and manage performance, the analysis of data and compilation of lists of troubled families, data security, and the development of procedures to deliver services and report outcomes.
Fraud Awareness Training	Investigate the provision of corporate fraud awareness training.
Dyke House School	Ensure school finance and governance arrangements are in line with best practice.
Public Health Act	Review the planning and processes behind the transition of public health services from PCT to Local Authority.
St Hilds	Ensure school finance and governance arrangements are in line with best practice.
Debtors	Review the following areas; system security, debtor records, charging framework, debt collection, debt recovery, performance management.
Creditors	Review the following areas; Supplier accounts are raised promptly and accurately. 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. The publishing process for all spends over £500.
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.
Disabled Facilities Grant	Gain assurance that: The Authority complies with legislative and statutory requirements in respect of its DFG grant award practices; Applications are correctly processed and there is adequate evidence of means testing; Grant award payments are correctly calculated and processed; and A fair system is in place for allocating work to contractors and the processing of contractor payments for work undertaken.
Employees Gifts and Hospitalities Register	Ensure that all employees of the Council are aware of any relevant legislation such as National Codes of Local Government Conduct and the Council's Procedure Rules relating to the disclosure of all pecuniary and other interests, including gifts and hospitality. Suitable procedures are in place to record all such disclosures in a statutory register kept for this purpose, in accordance with legislation. The Council has a system in place that allows officers to register and declare any interests in line with good practice.
Payroll	Review system access data and security, standing data, starters and leavers processes, variations to pay, Integra reconciliation.
VAT	Ensure that: HBC, CFA, RCC & CIC (CFA) have registered with HMRC. Effective planning and administration procedures ensure that relevant staff are aware of their responsibilities, there is compliance with VAT legislation and efficient & 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 of the 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 and that reclaimed VAT is received promptly. Relevant documentation is retained in a secure manner and recommendations from HMRC inspections are implemented fully.

3.8 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.

4. RECOMMENDATIONS

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

5. BACKGROUND PAPERS

- 5.1 Internal Audit Reports.

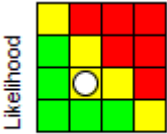
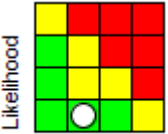
6. CONTACT OFFICER

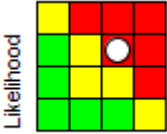
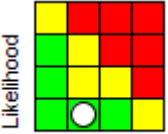
- 6.1 Noel Adamson
Head of Audit and Governance
Civic Centre
Victoria Road
Hartlepool
T24 8AY




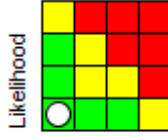

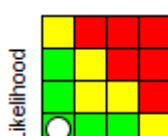
Tel: 01429 523173

Email: noel.adamson@hartlepool.gov.uk

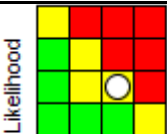
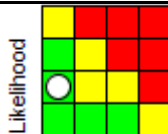
Appendix A





Audit	Objective			Assurance Level
Insurances	Ensure adequate cover is provided efficiently and effectively.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Inadequate reporting and monitoring of the number and costs of claims may mean that lessons cannot be learnt and appropriate action taken to reduce future potential daims.		 <p>Likelihood</p> <p>Impact</p>	Reports have been agreed with Corporate Finance management team, which will be distributed to Assistant Directors and discussed as a standard item on future Finance Liaison meeting. These reports quantify the various categories of daims and the number and values of daims received, settled and repudiated by period. This information will be used to monitor against the overall Fund balance and daims trends. In addition information of existing daims (numbers and reserve values) and settled daims have been included within the Health of the Borough monitoring information held on Covalent.	 <p>Likelihood</p> <p>Impact</p>

Audit	Objective			Assurance Level
Information Security Policy	Assess the risks faced by the Council of breaches of security, particularly losing data and ensuring that appropriate mitigating strategies are in place to minimise those risks.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Organisational security arrangements may not be effective in identifying information security risks and developing appropriate strategies to manage such risks at an acceptable level.		 <p>Likelihood</p> <p>Impact</p>	There is an existing classification scheme in place e.g. confidential and non confidential. The new policy reinforces this approach. The likelihood is mitigated by HBC's existing approach and with the training etc that will accompany the new policy roll out this will reduce further.	 <p>Likelihood</p> <p>Impact</p>

Information Security Policies and procedures are not effective in managing information security risks that the Council is exposed to, particularly with respect to loss of personal, sensitive information.	 Likelihood Impact	The new policies include clear statements on the ability to monitor Internet and email use for audit purposes. These will be rolled out shortly.	 Likelihood Impact
Ineffective management of records may lead to: <ul style="list-style-type: none"> Poor decisions based on inaccurate or incomplete information; Inconsistent or poor levels of service; Financial or legal loss if information required as evidence is not available or cannot be relied upon; Non-compliance with statutory or other regulatory requirements. 	 Likelihood Impact	Information sharing protocols have already been adopted in high risk areas e.g. numerous areas within Child and Adults and within other service areas where confidential or sensitive information is being exchanged. The information governance group are in the process of identifying where there is a need for further sharing protocols to be put into place.	 Likelihood Impact
Organisational security arrangements may not be effective in identifying information security risks and developing appropriate strategies to manage such risks at an acceptable level.	 Likelihood Impact	The process of agreeing the policies with Unions etc is now complete, they will be rolled out shortly.	 Likelihood Impact



Audit	Objective		Assurance Level
Computer Audit – Environmental Controls	Physical entry controls, siting and protection of equipment, maintenance of equipment and third party usage are adequately controlled.		Reasonable
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Computer rooms & data centres are not sited away from areas accessible to the public and		We have asked for a formal response from Northgate re what risk assessments have taken place and what	

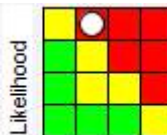
adequate precautions have not been taken to protect IT equipment from risks such as fire, water damage, extremes of temperature etc.	 <p>Likelihood</p> <p>Impact</p>	measures can be put into place to mitigate these risks. Once we have this response we will look to address the risks in the most appropriate manner.	 <p>Likelihood</p> <p>Impact</p>
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Audit	Objective			Assurance Level
Building Maintenance Protocols	Ensure time recording procedures are adequate.			Limited
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
False claims may be made for time spent on building maintenance jobs resulting in additional costs for building maintenance jobs.	 <p>Likelihood</p> <p>Impact</p>	<p>Team Leader (Charge Hands). Time sheets are signed off by specified officers.</p> <p>Team Leaders are responsible for signing off all of the timesheets for the rest of Building Maintenance timesheets (names provided) – again these will be returned if not signed by the appropriate Team Leaders.</p> <p>The Facilities Management Manager signs both Facilities Manager's standby and overtime sheets.</p> <p>Any timesheets not correctly authorised will be returned Responsible Officer: Team Leader Admin and Finance Team (Church Street).</p> <p>Further work will be undertaken to increase the level of scrutiny of work/time sheets overall to ensure consistency across the teams, and to ensure good performance management and transparency.</p>	 <p>Likelihood</p> <p>Impact</p>	
False claims may be made for time spent on building maintenance jobs resulting in additional costs for building maintenance jobs.	 <p>Likelihood</p> <p>Impact</p>	<p>Implemented Tool Box talks to all trades regarding the importance of signing in on site.</p> <p>Site Managers and Site Supervisors are responsible for ensuring that everyone visiting a site signs in.</p> <p>Each appropriate site has a Daily Diary which can be used to cross reference with work/time sheets if required.</p>	 <p>Likelihood</p> <p>Impact</p>	

		Other sites such as Schools and PCT contract sites; trades are required to both sign in and out at the office and sign the Cyclical Maintenance Logbook which is kept on each school site.	
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Audit	Objective			Assurance Level
Risk Management	Ensure arrangements are in place for identifying, evaluating, monitoring and reporting on the risks identified and the arrangements in place for mitigating the risks where this is required.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Processes in place do not provide assurance that risks are being effectively identified, assessed and managed in accordance with best practice and HBC guidance resulting in risks materialising and impacting on the authority's ability to achieve its aims and objectives or costly control measures being implemented where they are not required. Risks are not effectively identified and recorded resulting in key risks not being considered or inappropriate risks being managed.			<p>Child and Adults Dept to complete their review of their Risk Registers to ensure that all actively managed and accepted risks are identified and appropriately managed.</p> <p>CEMT to consider how divisions will ensure all staff are aware of the risk management process and how to feed in.</p>	
Processes in place do not provide assurance that risks are being effectively identified, assessed and managed in accordance with best practice and HBC guidance resulting in risks materialising and impacting on the authority's ability to achieve its aims and objectives or costly control measures being implemented where they are not required.			Performance & Partnerships Team to update the risk assessment form to capture greater detail on how the risk has been assessed including details of the considerations and analysis made by officers. This will include detail on the perceived impact of the event happening and how the risk rating has been determined.	

Audit	Objective			Assurance Level
Redundancies	The Authority complies with legislative and statutory requirements in respect of its redundancy practices.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Payments may be miscalculated and any debts owing to the Authority are not deducted prior to payment being made resulting in a loss of income.			HR Business Partners will provide a report with recommendations to the Corporate Management Team Support Group for a view on whether or not to include adjustments to the redundancy payment during the notice period and to determine future actions. Once the decision has been made by Corporate Management Team Support Group, HR staff will be informed of the decision and the procedure that needs to be followed. When the Reorganisation & Redundancy policy is updated this part of the procedure will be included in the policy and then ratified via the relevant avenues (i.e. Single Table, CMT and Portfolio).	

Audit	Objective			Assurance Level
Members Allowances	Ensure allowances are claimed and paid in line with all legislative requirements.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
The Authority may not be complying with its responsibilities in relation to either the deduction of taxation or the notification of taxable benefits to HMRC.			Analysis of Councillors' mileage from 1.11.10 to 23.10.12 to be undertaken for consideration by HMRC in respect of provision of exemption.	