

# AUDIT COMMITTEE AGENDA



**22 March 2013**

**at 9.00am**

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

MEMBERS: AUDIT COMMITTEE:

Councillors Ainslie, C Akers-Belcher, Dawkins, Hall, G Lilley, 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 14 December 2013

**4. MINUTES OF THE AUDIT SUB-COMMITTEE**

- 4.1 To receive the minutes of the Sub-Committee meeting held on 17 December 2012
- 4.2 To receive the minutes of the Sub-Committee meeting held on 28 January 2013
- 4.3 To receive the minutes of the Sub-Committee meeting held on 11 February 2013
- 4.4 To receive the minutes of the Sub-Committee meeting held on 25 February 2013

**5. ITEMS FOR DISCUSSION/DECISION**

- 5.1 Mazars Report – Audit Progress Report 12/13 – *Chief Finance Officers*
- 5.2 Mazars Report – Audit Strategy Memorandum 12/13 – *Chief Finance Officer*
- 5.3 Mazars Report – Certification of Claims and Returns 2011/12 – *Chief Finance Officer*
- 5.4 Public Sector Internal Audit Standards – *Head of Audit and Governance*



- 5.5 Internal Audit Plan 2012/13 Update – *Head of Audit and Governance*
- 5.6 Internal Audit Plan 2013/14 – *Head of Audit and Governance*
- 5.7 Letter to those Charged with Governance – Compliance with Laws and Regulations/Fraud – *Chief Finance Officer*

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



# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

14 December 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  
Noel Adamson, Head of Audit and Governance  
Denise Wimpenny, Principal Democratic Services Officer

Mazars Representatives:  
Mark Kirkham, Director  
Diane Harold, Senior Manager

### **31. Apologies for Absence**

Apologies for absence were submitted on behalf of Councillors Dawkins and G Lilley.

### **32. Declarations of interest by Members**

None

### **33. Confirmation of the minutes of the meeting held on 9 November 2012**

Confirmed.

### **34. Minutes of the Audit Sub-Committee**

The minutes of the Sub-Committee held on 5 November 2012 were received.

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

The Chief Finance Officer introduced the report and indicated that

arrangements had been made for representatives from Mazars to present the contents of the Annual Audit Letter.

The Director from Mazars presented the findings from the 2011/12 audit. It included messages arising from the audit of financial statements and the results of work undertaken to assess arrangements to secure value for money in the use of resources. Members were referred to the key messages from the work carried out, as detailed in Appendix 1 to the report.

The Committee were advised of the auditor's unqualified opinion on the financial statements and conclusion that the Council had made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

### **Decision**

That the report of the Audit Commission, be noted.

## **36. Mazars Report – Audit Update** *(Chief Finance Officer)*

The Senior Manager from Mazars provided the Committee with an update on progress made by Mazars in delivering its responsibilities as the Council's external auditors.

The report also sought to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. It was highlighted that as from 1 November 2012 former Audit Commission staff had transferred to Mazars. However, the audit team remained unchanged.

Details of the key messages regarding the update were included in the District Auditor's report, attached at Appendix 1.

Members were advised that the external audit fee of £144,180 for 2012/13 represented a reduction of 40% on the 11/12 audit fee, details of which were provided.

Members were encouraged to sign up to the various publication links which covered the range of work carried out by Mazars including a wide breadth of issues that would be beneficial and of interest to Members of this Committee.

During the discussion that followed Members welcomed the reduction in the audit fee. The Chief Finance Officer and Head of Audit and Governance responded to issues raised by Members. Clarification was provided on the impact on the Council as a result of the localisation of business rates and the significant changes from the original proposals were outlined.

Following discussion in relation to arrangements in place to detect cases of

fraud, Members were advised that additional training for staff was proposed in order to raise awareness on this issue. In view of the new governance arrangements, the Chair was keen to ensure such training was extended to Elected Members. In addition, and as part of the need to continually develop Elected Members, the Chair requested that the web link for the Mazars magazine be provided to all Members of the Audit Committee.

### **Decision**

- (i) That the contents of the report and comments of Members be noted.
- (ii) That training be provided for Elected Members in relation to awareness raising for the detection of fraud.
- (iii) That the web link for Mazars magazine be provided to all Members of the Audit Committee.

## **37. Draft Local Audit Bill – Summary of Consultation Replies** *(Chief Finance Officer)*

The Head of Audit and Governance presented the report which updated Members on consultation replies received by the Government in respect of its Draft Local Audit Bill consultation. At the meeting of the Audit Committee held on 21 September 2013 it had been agreed that Members be kept fully apprised of any future developments in relation to the provision of local audit arrangements.

The report included background information to the Government's announcement in August 2010 of 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.

The draft Local Audit Bill set out the Government's vision for the new local audit arrangements and asked a number of questions to which the Government had indicated it would welcome responses from any interested parties during the process of pre-legislative scrutiny. The Chair of the Audit Committee responded to the consultation on behalf of the Committee

Members were referred to the summary of consultation responses, a copy of which was attached at Appendix A. The Government had 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 audit panel when appointing their external auditor. This mirrored the concerns that the Audit Committee had consistently raised regarding the role, relationship and cost of setting up an independent audit appointment panel. The Government were considering how else they could streamline the auditor appointment process while ensuring that the independence of local audit was not compromised.

Further work would be undertaken in relation to how panels would operate in practice as well as how the issues raised in the responses would be addressed.

The Committee commented on the importance of taking part in consultations of this type. A query was raised regarding the potential implications for Internal Audit as a result of the transfer of external audit to the private sector. In response, the Committee was advised that whilst external audit would continue to review the work of the Internal Audit Team, there would be no changes to current arrangements unless national statutory regulations were amended.

### **Decision**

That the contents of the Local Audit Bill, Summary of Responses, attached at Appendix A, be noted and Members be kept fully apprised of any future developments in relation to the provision of local audit arrangements.

## **38. Internal Audit Plan 2013/14 Update** *(Head of Audit and Governance)*

The Head of Audit and Governance provided an update of progress made to date completing the internal audit plan for 2012/13.

Members were advised that Table 1 of the report detailed the pieces of work that had been completed and recommendations made. In order to continually improve the Internal Audit Service a review of the current process of reporting had been carried out. In order to address areas for improvement, a number of changes to current reporting arrangements had been undertaken, details of which were set out in the report together with the benefits of the new arrangements.

All audits for 2012/13, other than schools, had been undertaken using the new process with management embracing the changes and compiling their own action plans to mitigate risks identified. The report included a summary of the assurance placed on those audits completed using the new process, further details of which were attached at Appendix A.

The report detailed audits currently ongoing. It was noted that work completed and currently ongoing was in line with expectations at this time of year.

In relation to the building maintenance protocols audit, the Head of Audit and Governance advised that weaknesses had been identified in internal controls in respect of time recording procedures and a number of measures had been implemented to mitigate such risks, details of which were set out in the report.

**Decision**

That the contents of the report be noted.

**39. Date and Time of Next Meeting**

The Chair reported that the next meeting scheduled for 25 January 2013 would be cancelled and the meeting scheduled for 17 May 2013 would be rescheduled to an earlier date in April/early May, confirmation of which would be circulated following the meeting.

The meeting concluded at 9.40 am.

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

17 December 2012

The meeting commenced at 3.00 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** Gemma Day, Principal Regeneration Officer  
Kate McCusker, Commercial Solicitor  
Ursula Larkin, Procurement Category Manager  
Rachael White, Democratic Services Officer

### **64. Apologies for Absence**

None.

### **65. Declarations of Interest**

None.

### **66. Minutes of the meeting held on 5 November 2012**

Confirmed.

### **67. Items for Information**

#### **Future Solutions Project** – *Assistant Director (Regeneration and Planning)*

The Principal Regeneration Officer gave an outline of the process undertaken to procure the Furniture Solutions Project, in anticipation of presenting the bid submission(s) to the Committee. The scheme would facilitate the provision of affordable household items, both new and second hand, to families, particularly those in receipt of benefits.

The Council were looking for a community / voluntary sector organisation to operate the scheme which as a minimum would have two key strands:

- To provide credit at reasonable rates of interest to buy household items



- To offer new and good quality re-used essential white goods, furniture and furnishings at affordable process

The projected value of the project was under the threshold for tendering services. The Council was seeking written proposals from interested parties, via the Quick Quotes system of the NEPO (North East Procurement Organisation) portal, in compliance with the Council's Contract Procedure Rules.

The aim was to commence the scheme in January 2013 with the exact date to be agreed with the chosen provider. A report was scheduled to go to Cabinet on 7<sup>th</sup> January 2013 to feedback the outcome to the procurement process.

The Committee welcomed the report. The Chair queried whether any discussions had taken place with the Trading Standards team due to a conversation that had taken place with the Principal Trading Standards and Licensing Officer where interest had been expressed in relation to the project. The Principal Regeneration Officer advised that no consultations had taken place but would in the near future.

#### **Decision**

That the background to the project and the procurement process that had been undertaken be noted and the submission(s) presented be received.

### **68. Any Other Items which the Chairman Considers are Urgent**

#### **Tender Record and Forward on Programme – *Assistant Director (Resources)***

The report gave an overview of the tenders received for the Sale of Ward Jackson Park Lodge and for the Provision of Healthwatch Services and also the tenders that would be opened before the next meeting.

The Audit Sub-Committee noted the contents of the report.

The meeting concluded at 15.21pm

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

28 January 2013

The meeting commenced at 3.00 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** David Hart, Strategic Procurement Manager  
Kate McCusker, Commercial Solicitor  
Rachael White, Democratic Services Officer

### **69. Apologies for Absence**

None.

### **70. Declarations of Interest**

None

### **71. Minutes of the meeting held on 17<sup>th</sup> December 2012**

Confirmed.

### **72. Any Other Items which the Chairman Considers are Urgent**

No items.

### **73. 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.

### **74. Tender Record on Programme – (Assistant Director - Resources)**

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.

The report gave an overview of the tenders received for the Rehabilitation and Transitional Care and for the York Road Improvements. A list of tenders to be opened before the next Audit Sub-Committee was also provided.

The Chair confirmed that the tenders due to be opened before the next meeting would be opened on a Friday at 12noon. The Strategic Procurement Manager confirmed that this was the case and that the Chair was invited to attend the opening.

Clarification was sought as to whether the tenders would be opened the Friday before the date of the next Audit Sub-Committee. The Strategic Procurement Manager advised that the tenders would not necessarily be opened the Friday before the next scheduled meeting as it would depend on the closing date of the tenders. The Officer advised that he would circulate the tender closing dates to the committee as they were not detailed in the report.

#### **Decision**

That the contents of the report be noted.

#### **75. Any Other Confidential Items which the Chairman Considers are Urgent**

No items.

The meeting concluded at 3.07pm

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

11<sup>th</sup> February 2013

The meeting commenced at 3.00 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** Karen Burke, Procurement Category Manager  
Kate McCusker, Commercial Solicitor  
Rachael White, Democratic Services Officer

### **76. Apologies for Absence**

None.

### **77. Declarations of Interest**

None.

### **78. Minutes of the meeting held on 28<sup>th</sup> January 2012**

Confirmed.

### **79. Any Other Items which the Chairman Considers are Urgent**

None.

### **80. 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 81** – Tender Record Programme - 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.

## **81. Tender Record Programme – (Assistant Director - Resources)**

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.

The report gave an overview of the tenders received for the Provision of a Young Carers Service. In response to a query from the Chair of the Committee, the Procurement Category Manager advised that only one tender had been received and this met the necessary criteria. The Officer advised that the provision would commence on the 1<sup>st</sup> April.

In response to a query, the Procurement Category Manager advised that under the heading 'Tenders due to be Opened Before Next Meeting' the date should be Friday 8<sup>th</sup> February not 11<sup>th</sup> February. Therefore there were no tenders to be opened before the next Audit Sub-Committee meeting.

Clarification was sought as to whether all Members of the Committee should be invited to the tender openings. The Commercial Solicitor advised the following in relation to the opening of electronic tenders and who should be present:

'The chair of the Audit Committee Sub-Committee or a nominee of the chair, at the chair's discretion'

### **Decision**

That the contents of the report be noted.

## **82. Any Other Confidential Items which the Chairman Considers are Urgent**

None.

The meeting concluded at 3.05pm.

CHAIR

# **AUDIT SUB-COMMITTEE**

## **MINUTES AND DECISION RECORD**

25<sup>th</sup> February 2013

The meeting commenced at 3.00 p.m. in the Civic Centre, Hartlepool

**PRESENT:** Councillor Jim Ainslie (Chair);  
Councillors Keith Dawkins and Linda Shields

**OFFICERS:** Karen Burke, Procurement Category Manager  
Kate McCusker, Commercial Solicitor  
Rachael White, Democratic Services Officer

### **83. Apologies for Absence**

None

### **84. Declarations of Interest**

None

### **85. Minutes of the meeting held on 11<sup>th</sup> February 2013**

Confirmed

### **86. Any Other Items which the Chairman Considers are Urgent**

### **87. 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 88** – Tender Record on Programme - 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.

**88. Tender Record on Programme – (Assistant Director - Resources)**

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.

The report gave an overview of the tenders received for Extended Activities & 11 Week Playscheme Provision for Families of Disabled Children and Specialist Toy Loan Service and Associated Activities for Families of Disabled Children. Details of tenders due to be opened before the next meeting were also provided.

One of the tenders to be opened was in relation to refuse collection vehicles and Members queried why the vehicles weren't included in the current Kerbside and Dry Recycling contract. The Procurement Category Manager advised that information in relation to the tender and the purpose of the vehicles would be submitted to the next meeting.

**Decision**

That the contents of the report be noted.

**89. Any Other Confidential Items which the Chairman Considers are Urgent**

None

The meeting concluded at 3.04pm

CHAIR

## **AUDIT COMMITTEE**

**22 March 2013**



**Report of:** Chief Finance Officer

**Subject:** MAZARS REPORT- AUDIT PROGRESS  
REPORT 12/13.

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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 Mazars to be in attendance at this meeting, to present the content of the Audit Progress Report.

### **2. BACKGROUND**

- 2.1 This report updates the Audit Committee on Mazars progress in meeting their responsibilities as the Councils external auditor. It also highlights key emerging issues and national reports which may be of interest to the Audit Committee and includes the letter to those charged with governance, which is how Mazars formally update their understanding of how the Audit Committee gains assurance over management processes and arrangements, including compliance with laws and regulations and any fraud. A response to this letter is included later on the agenda for members consideration.

### **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

March 2013



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- 02 Summary of audit progress
- 03 Enquiries of management and those charged with governance
- 04 Emerging issues and national reports
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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

# 01

## Purpose of this report



This report updates the Audit Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging issues and national reports which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

Finally, please note the website address [www.mazars.co.uk](http://www.mazars.co.uk) which sets out the range of work Mazars carries out across the UK public sector. It also details the wider services provided within the UK and abroad.

# 02

## Summary of audit progress



Good progress has been made on the 2012/13 audit:

- We have discussed our Audit Strategy Memorandum with officers. This is included on the March agenda of the Audit Committee.
- Work has now been completed to confirm our understanding of your key systems, including reviewing documentation on the design and operation of controls and walking through transactions to test our understanding in practice. Our work has not identified any significant weaknesses in internal control.
- We are also reviewing general ICT controls and carrying out early substantive testing of income and expenditure.

# 03

## Enquiries of management and those charged with governance



As in previous years, we are required by auditing standards to make enquiries of management and those charged with governance. This is to formally update our understanding of how the Audit Committee gains assurance over management processes and arrangements, including compliance with laws and regulations and any fraud. Our letter is included overleaf. We are making similar enquiries of management.

# Letter to those charged with governance

Dear Councillor Akers-Belcher,

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 which finance staff need to spend responding to auditor queries.

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 Authority, 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 behavior (eg by updating, communicating and monitoring against the Authority's 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 2012-13?

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 2012-13?

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

# Letter to those charged with governance

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 Authority's ability to continue as a going concern?

In addition to the above questions about how you gain assurance from management, I have included overleaf, 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 will undertake.

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Mark Kirkham  
Director and Engagement Lead

# Letter to those charged with governance - appendix

No	Question	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?	
2	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> <li>• Have you identified any specific fraud risks within the Authority?</li> <li>• Do you have any concerns that there are areas within your Authority that are at risk of fraud?</li> <li>• Are there particular locations within the Authority where fraud is more likely to occur?</li> </ul>	
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <p>If not where are the risk areas?</p> <ul style="list-style-type: none"> <li>• What other controls are in place to help prevent, deter or detect fraud?</li> </ul>	
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> <li>• What concerns about fraud are staff expected to report?</li> </ul>	
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Authority?</p> <ul style="list-style-type: none"> <li>• How are the risks relating to these posts identified, assessed and managed?</li> </ul>	



# Letter to those charged with governance – appendix cont.

No	Question	Those charged with governance response
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> <li>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</li> </ul>	
7	<p>Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> <li>Are there particular balances where fraud is more likely to occur?</li> <li>Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Authority?</li> <li>Could a false accounting entry escape detection? If so, how?</li> <li>Are there any external fraud risk factors, such as income collection, which are high risk of fraud?</li> </ul>	
8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> <li>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?</li> </ul>	

# 04

## Emerging issues and national reports



The following pages outline any significant emerging issues and national reports, which includes the following:

- Striking a balance, Improving decision making on reserves
- Auditing the accounts 2011/12: Quality and timeliness of local public bodies' financial reporting
- Consultation on 2013/14 audit fees and work programme
- VFM profiles and financial ratio tool

# Emerging issues and national reports

## Issue / report

### **Striking a balance, Improving decision making on reserves** (December 2012)

This Audit Commission follow-up report (to 'Tough Times') found that English councils held £12.9 billion in their reserves at 31 March 2012, and that reserves have increased by 36% in real terms since 2006/07.

The Commission has called upon councils to improve their decision making around reserves. Given the sums involved, and the current financial challenges, councils should focus more attention on their reserves and the purposes for which they hold them. All councils should ensure that their decisions have been clearly explained to taxpayers and service users.

**The Council has carried out a thorough review of reserves held as part of its annual update of the Medium Term Financial Strategy, including reviewing whether some reserves were still needed.**

### **Auditing the accounts 2011/12: Quality and timeliness of local public bodies' financial reporting** (December 2012)

The Audit Commission's Auditing the Accounts 2011/12 report summarises the results of auditors' work for 2011/12 at councils, fire and rescue authorities, police bodies, other local government bodies, parish councils and internal drainage boards. The report covers the timeliness and quality of financial reporting.

# Emerging issues and national reports

## Issue / report

### **Auditing the accounts 2011/12: Quality and timeliness of local public bodies' financial reporting (December 2012) *cont.***

This is important as audited accounts are the principal means by which public bodies discharge their accountability for the stewardship of public money.

Publishing timely audited accounts, with an unqualified audit opinion, reflects well on your financial management arrangements and is a fundamental feature of good governance.

The audit process also provides essential assurance to accounting officers for the relevant government departments that the funds distributed to local government bodies have been safeguarded and accounted for properly.

**Hartlepool Borough Council's accounts were audited and published by the deadline of 30 September, with an unqualified opinion issued for the accounts and an unqualified value for money conclusion.**

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/auditing-the-accounts/pages/auditing-the-accounts-1112.aspx>

# Emerging issues and national reports

## Issue / report

### **VFM profiles and financial ratio tools (February 2013)**

The Audit Commission has updated its VFM profile and financial ratios tool for 2011/12 outturn data and these are available to all authorities.

[http://www.audit-commission.gov.uk/technicaldirectory/vfm1213/5.5\\_Supporting\\_VFM\\_tools\\_and\\_review\\_guides.htm](http://www.audit-commission.gov.uk/technicaldirectory/vfm1213/5.5_Supporting_VFM_tools_and_review_guides.htm)

### **2013/14 fees and work programme consultation (Audit Commission, December 2012)**

The Audit Commission has consulted on its 2013/14 proposed work programme and scales of fees. The Audit Commission has proposed that scale audit fees are set at the same level as the fees applicable for 2012/13 and will publish the final work programme and scales of fees for 2013/14 by April 2013.

**For Hartlepool Borough Council, this means the 2013/14 scale audit fee is the same as for 2012/13: £144,180.**

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314fees/Pages/201314feesandworkprogramme.aspx>

### **Final accounts workshop (Mazars, March 13)**

Mazars has run a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2012/13 statement of accounts. The workshop was free for our clients, including Hartlepool Borough Council, and your officers attended the event in February 2013.

# Emerging issues and national reports

## Issue / report

### **Health and Wellbeing Boards guidance, LGA – February 2013**

The Local Government Association has recently published "Health and wellbeing boards - A practical guide to governance and constitutional issues" The guidance explains the background and roles of the boards and progress made in establishing them in England. It also highlights a number of questions councils may wish to consider.

**Hartlepool Borough Council has already made good progress in developing its arrangements, with a shadow Health and Wellbeing Board overseeing the development of its Joint Health and Wellbeing Strategy. As part of reviewing its governance arrangements, the Council has also developed clear terms of reference for its new Health and Wellbeing Board.**

# 05

## Contact details



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Director and Engagement Lead

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## AUDIT COMMITTEE

22 March 2013



**Report of:** Chief Finance Officer

**Subject:** MAZARS REPORT- AUDIT STRATEGY  
MEMORANDUM 12/13.

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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 Mazars to be in attendance at this meeting, to present the content of the Audit Strategy Report.

### 2. BACKGROUND

- 2.1 The purpose of this paper is to provide the Audit Committee with the audit plan in respect of the external audit of the Council for the year ending 31 March 2013.
- 2.2 The Plan sets out the proposed audit approach and is prepared to assist the Audit Committee in fulfilling its governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.
- 2.3 The report is important as it attempts to:
- reach a mutual understanding of the scope of the audit and the responsibilities of the auditor and those charged with governance;
  - share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities;
  - provide those charged with governance constructive observations arising from the audit process; and
  - ensuring as part of the two-way communication process that the external auditors, gain an understanding of the attitude and views of those charged with governance of the internal and external operational, financial, compliance and other risks facing the Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.



**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.

February 2013



# **Hartlepool Borough Council – Audit Strategy Memorandum 2012/13**



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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

# 01

## Purpose and background

This document communicates to you the scope of our audit, the risks we have identified and the procedures we will perform to deliver the audit.



# Purpose and background

## **Purpose of this document**

This document sets out our audit plan in respect of the external audit of Hartlepool Borough Council (the Council) for the year ending 31 March 2013. This document forms the basis for discussion at the Audit Committee meeting on 22 March.

The Plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

Our communication with you is important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of the auditor and those charged with governance;
- sharing information to assist both the auditor and those charged with governance to fulfil their respective responsibilities;
- providing to those charged with governance constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of the attitude and views of those charged with governance of the internal and external operational, financial, compliance and other risks facing the Council which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

## **Scope of engagement**

We are appointed to perform the external audit of Hartlepool Borough Council for the year to 31 March 2013. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

## **Respective responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out our respective responsibilities as 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 we undertake our audit work to meet these responsibilities.

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

- Audit Commission Act 1998; and
- Code of Audit Practice for Local Government bodies.

We, as auditors to the Council, are responsible for forming and expressing an opinion on the financial statements and reaching a conclusion on the arrangements you have put in place to secure economy, efficiency and effectiveness in the use of your resources (the Value for Money conclusion).

We are also required to report on the consistency of your Whole Government Accounts L-Pack with the audited financial statements.

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

# 02

## Independence

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. If at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with the engagement lead.

We are required by the Audit and Assurance Council (previously the Auditing Practices Board - APB), which has issued ethical standards for auditors, to confirm we have complied with relevant ethical standards requirements regarding independence. This is to ensure our objectivity and independence is maintained.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We include in Appendix A our analysis of the principal threats to our objectivity and independence and the safeguards we have put in place.



# 03

## Audit approach

We work with you to ensure our audit approach is efficient, effective and limits the impact on your staff.



# Audit approach

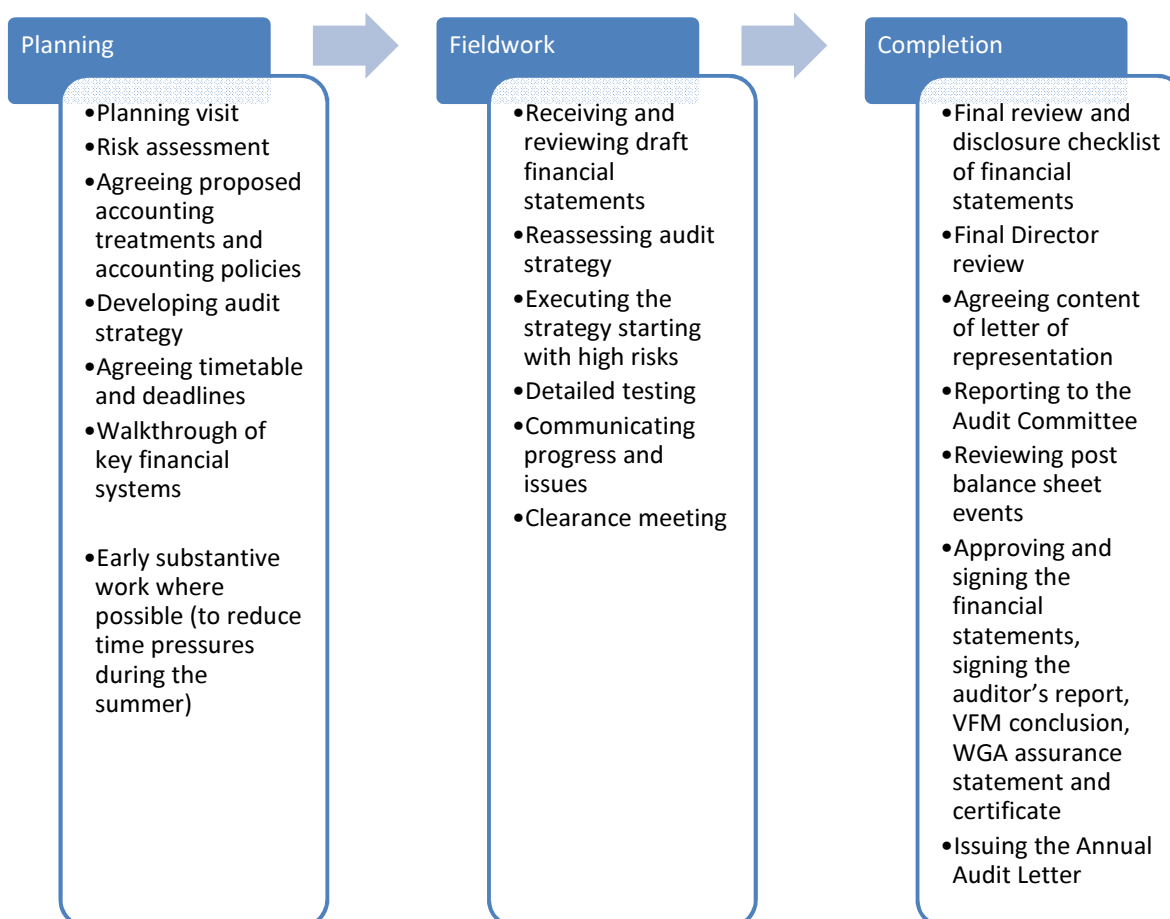
Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) issued by the Audit and Assurance Council (previously the APB). Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past. We raise and discuss these with you on a regular basis, not just at the time of the audit fieldwork. We shall expect to obtain appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom and will use a combination of controls and substantive testing procedures as appropriate.

We plan our audit to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements. We will consider the control procedures in place to prevent and detect fraud, whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our procedures accordingly. We also plan our audit to negate the risk of management overriding controls by testing year-end journal entries and the major judgements and estimates that management make.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view.

We outline the key stages of the audit in the diagram below.





# Audit approach

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Reliance on experts

We plan to place reliance on the following work of experts.

Area	Expert engaged by:	
	You	Us
Asset valuation	Internal valuer	Audit Commission – Gerald Eve
Pension liability	Actuary	Audit Commission – PwC
Financial instruments – fair value disclosures	Sector (Treasury Management Advisor) and Public Works Loan Board	Audit Commission – national consideration of the use of Sector

## Group accounts

Local authorities are required to consider interests in other entities and whether those interests might necessitate the production of group accounts. The Council has determined that group accounts are not required. We will revisit your assessment if there are any changes to take into consideration.

## Service organisations

We are required to assess whether there are any material entries in your financial statements where the Council is dependent on an external organisation. We call these entities service organisations. There are no such service organisations for the Council where we need to carry out special procedures.

## Reliance on other auditors

We plan to place reliance on the work of another auditor, namely the auditor of the Pension Fund, Deloitte LLP. We have agreed a work programme and timetable for the receipt of information with Deloitte LLP.

# 04

## Significant risks and key judgement areas

We plan our audit to focus on the risk of material misstatement in your financial statements.



# Significant risks and key judgement areas

We met with senior management as part of the audit planning process. We discussed the risks that, in management's opinion, you face and considered the impact on our audit risk. Set out below are the audit risks and the areas of management judgement to which we will pay particular attention to reduce the risk of material misstatement in the financial statements.

Significant audit risk	How we will address this risk
<p><b>Management override of controls</b> Auditing standards state that management is in a unique position to perpetrate fraud, because of management's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>While the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in <i>all</i> entities and is therefore a significant risk of material misstatement because of fraud.</p>	<p>We have updated our understanding and evaluation of internal controls procedures as part of our audit planning, including completion of a fraud risk assessment.</p> <p>As part of this, we will seek written assurances from the Audit Committee and management on their controls and processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud.</p> <p>Our testing strategy for this significant risk due to fraud will include:</p> <ul style="list-style-type: none"> <li>• general ledger journal testing;</li> <li>• consideration and review of material accounting estimates;</li> <li>• consideration and review of any unusual or significant business transactions; and</li> <li>• consideration of any other local factors.</li> </ul>
<p><b>Pensions entries (IAS 19)</b> The financial statements contain material pensions entries in respect of the retirement benefits.</p> <p>The calculation of these pensions figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions.</p> <p>This results in an increased risk of material misstatement.</p>	<p>We will discuss with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts.</p> <p>In addition to our standard programme of work in this area, we will:</p> <ul style="list-style-type: none"> <li>• evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and</li> <li>• consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the Audit Commission.</li> </ul>

# 05

## Value for money

We conclude on the arrangements you have in place to deliver value for money in the use of your resources.



# Value for money

We are required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of your resources.

Our conclusion on your arrangements is based on two criteria, specified by the Audit Commission:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising your resources within tighter budgets and the need to improve productivity and efficiency.

We have considered the risks that are relevant to our value for money conclusion and have not identified any significant risks that need to be addressed specifically through our work.

We will focus our work on the robustness of the annual update of the Council's Medium-Term Financial Strategy. This sets out how it plans to make the savings required to ensure it has a balanced budget.

We note the change from a Mayoral to Committee system but consider this does not present any risk to the 2012/13 audit and that good progress appears to have been made to date in revising the governance arrangements.

# 06

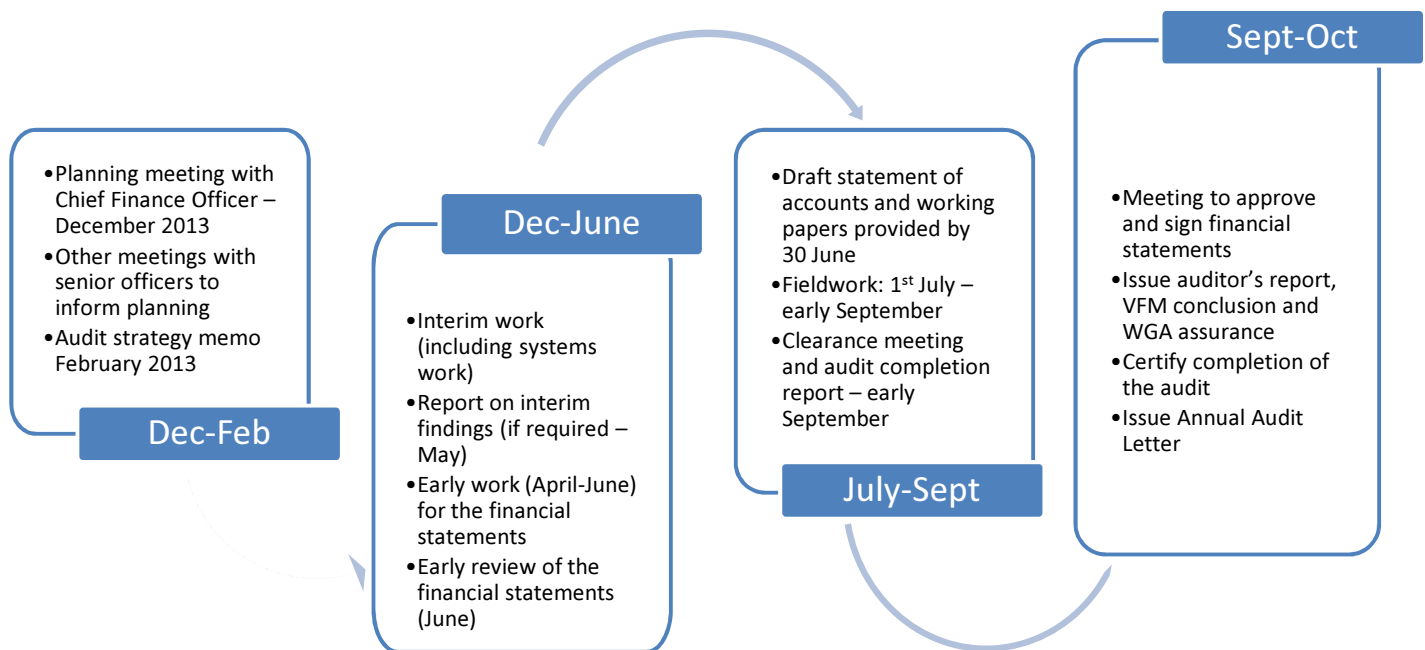
## Audit timeline

We work closely with you to agree an audit timeline that enables us together to meet statutory target dates.



# Audit timeline and deadlines

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process to facilitate a two way process of updates and identifying issues. We will continue to communicate outside of these dates to ensure that all parties understand developments and issues as they arise and to help in providing timely and appropriate solutions.





# Fees for audit and other services

[illegible]



# Fees for audit and other services

## Audit fees

As communicated to you in our letter dated 5 October 2012, the Audit Commission has set a scale fee of £144,180. Our audit fees for the audit are outlined in the table below:

Area of work	2012/13 Planned	2011/12 Actual
Audit	£144,180	£240,300*
Certification	£24,500	£32,034

\*excluding the one-off rebate of £19,224 issued by the Audit Commission in that year

## Non-audit services

We do not currently plan any non-audit services, and no audit or non-audit services are provided to the Council by Mazars LLP associated entities.

# 08

## Your audit team

We know that you value a team who understands the environment you operate in, understands your systems and controls and has a good working relationship with your staff and internal auditors. Your team meets all these criteria.



# Your audit team

Name and contact	Role	Experience and responsibilities
Mark Kirkham Tel: 0191 383 6300 Email: mark.kirkham@mazars.co.uk	Engagement Lead	Mark has over 20 years external audit experience of a wide range of public sector bodies. He is responsible for the overall delivery of the audit, including the quality of audit reports. Mark will sign the auditor's report.
Diane Harold Tel: 0191 383 6322 Email: diane.harold@mazars.co.uk	Engagement Manager	Diane has managed the Hartlepool Borough Council audit for a number of years. She will manage and coordinate the different parts of the audit and be the key point of contact.
Rebecca Dearden Tel: 0191 383 6305 Email: Rebecca.dearden@mazars.co.uk	Team Leader	Rebecca is an experienced team leader having worked on both local government and NHS audits.

# 09

## Appendices

- A – Independence
- B – Materiality
- C – Required communication



# Appendix A - Independence

Independence is an on-going consideration and as such we monitor it throughout the audit process. The principal types of threats to the auditor's objectivity and independence are:

- self-interest threat - exists when the auditor has financial or other interests which might cause the auditor to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit;
- self-review threat - exists when the results of a non-audit service performed by the engagement team or by others within the audit firm are reflected in the amounts included or disclosed in the financial statements;
- management threat - exists when the audit firm undertakes work that involves making judgments and taking decisions that are properly the responsibility of management;
- advocacy threat - exists when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context;
- familiarity (or trust) threat – exists when the auditors are predisposed to accept or are insufficiently questioning of the client's point of view (for example, where they develop close personal relationships with client personnel through long association with the client); and
- intimidation threat – exists when the auditor's conduct is influenced by fear or threats (for example, when they encounter an aggressive and dominating individual).

Prior to the provision of any non-audit services the engagement partner will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

The following principal threats to our independence and associated safeguards have been identified:

Issue	Perceived threats	Safeguards
A member of the wider audit team has declared a close personal relationship with a Member of the Council.	Self-interest	If this member of the team is used on the Hartlepool Borough Council audit, then appropriate safeguards will be put in place
A Senior Manager within the Mazars' wider audit team has declared a close personal relationship with a senior finance officer at the Council.	Self-interest	This member of our team will not be used on the audit.

# Appendix B - Materiality

'Materiality' is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. It is reasonable for us to assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We will consider materiality whilst planning and performing our audit.

Whilst planning, we will make judgements about the size of misstatements which we will consider to be material and which will provide a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We will revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We will include in our Audit Completion Report all unadjusted errors we have identified above those which are clearly trivial.

# Appendix C – Required communication

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach.

Required communication	When and how we will communicate with you
<p>Respective responsibilities of auditor and those charged with governance.</p> <p>Our responsibility for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements.</p> <p>The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>	<p>Section 3 of this report and the Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies.</p>
<p>Communication of the planned scope and timing of the audit.</p> <p>Matters communicated include:</p> <ul style="list-style-type: none"> <li>▪ significant audit risks and how we will address them;</li> <li>▪ our approach to internal control relevant to the audit;</li> <li>▪ the application of the concept of materiality in the context of an audit;</li> <li>▪ our use of the work of internal audit;</li> <li>▪ your approach to internal control and how you oversee the effectiveness of internal control procedures;</li> <li>▪ the attitude, awareness and action of those charged with governance concerning the detection or possibility of fraud; and</li> <li>▪ your response to new accounting standards, corporate governance practices and related matters.</li> </ul>	<p>Included in this document.</p> <p>These matters were discussed at the planning meeting and responses incorporated into this document as appropriate.</p>
<p>Our views on significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures.</p> <p>When applicable, why we consider a significant accounting practice not to be appropriate to the entity.</p>	<p>We will communicate these in our Audit Completion Report, orally as they arise and at the Audit Committee.</p> <p>Depending on the extent of the issue, either orally at the Audit Committee, in our Audit Completion Report or immediately we become aware of the issue.</p>

# Appendix C – Required communication (continued)

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach.

Required communication	When and how we will communicate with you
<p>Significant difficulties, if any, encountered during the audit.</p> <p>Significant difficulties encountered during the audit may include such matters as:</p> <ul style="list-style-type: none"> <li>▪ Significant delays in management providing required information;</li> <li>▪ An unnecessarily brief time within which to complete the audit;</li> <li>▪ Extensive unexpected effort required to obtain sufficient appropriate audit evidence;</li> <li>▪ The unavailability of expected information;</li> <li>▪ Restrictions imposed on the auditor by management; and</li> <li>▪ Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern.</li> </ul>	<p>We will communicate these in our Audit Completion Report, orally as they arise and at the Audit Committee meeting.</p>
<p>Details of significant matters discussed with, or subject to correspondence with management.</p>	<p>We will communicate these in our Audit Completion Report, orally as they arise and at the Audit Committee meeting.</p>
<p>Details of written representations we require for our audit.</p>	<p>We will communicate this in our Audit Completion Report.</p>
<p>Any other matters which we consider to be significant to the oversight of the financial reporting process.</p> <p>Other significant matters arising from the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.</p>	<p>As any matters arise which we consider should be communicated to you and within the Audit Completion Report.</p>



# Appendix C – Required communication (continued)

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach.

Required communication	When and how we will communicate with you
Statement that the engagement team and the firm have complied with relevant ethical requirements regarding independence.  Written disclosure of relationships which have a bearing on our independence and safeguards we have put in place, details of non audit services provided and written confirmation of our independence.	Section 4 and Appendix A of this document and as any new matters arise.
Form, timing and general content of communications.	We will issue our Audit Completion Report which will conclude upon our audit and the issues presented in this document. Should you require us to communicate in a different way please inform us of your preferred method.
Our evaluation of the adequacy of the communication process between ourselves and those charged with governance. This may include: <ul style="list-style-type: none"> <li>• observations on appropriateness and timing of action taken by you in response to matters we have raised;</li> <li>• the openness of your communication with us;</li> <li>• your willingness and capacity to meet with us without management being present;</li> <li>• your opportunity to fully comprehend matters we have raised;</li> <li>• the extent to which you probe issues raised and our recommendations;</li> <li>• any communications we have had in establishing with you the form, timing and general content of communications; and</li> <li>• your awareness of how our discussions impact on your governance and management responsibilities and whether your communication with us meets legal and regulatory requirements.</li> </ul>	Should we consider it necessary to raise any of these issues, we will consider the most appropriate method and the most appropriate person. The nature of our observation will determine the method and timing of our communication.  We may consider that any inadequacy in the communication process is indicative of an unsatisfactory control environment and increase our assessment of audit risk. We will also consider whether we need to reassess our audit strategy. We will discuss with you any additional procedures we consider necessary as a result of these observations.  If we consider the communication between you and us to be inadequate and we are unable to agree additional procedures which we consider necessary, we may modify our audit opinion, obtain legal advice, discuss with other third parties as we consider appropriate or may, if permitted under applicable law or regulation, withdraw from the engagement.

# Appendix C – Required communication

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require the auditor to communicate a number of matters with those charged with governance. These matters are set out below along with our proposed approach.

Required communication	When and how we will communicate with you
Any significant deficiencies in internal control that we have identified during the audit.	<p>We will communicate these to you in our Audit Completion Report. Should it be appropriate, we will discuss significant deficiencies with management as they arise.</p> <p>Our written communication will include a description of the deficiencies with sufficient explanation for you to understand the context of the deficiency and an explanation of the potential effects.</p> <p>We are required to communicate all significant deficiencies to you, irrespective of whether you are already aware of them or have chosen not to take remedial action for cost or other reasons. We will continue to communicate deficiencies previously communicated to you until remedial action has been taken. We will consider whether failure to act, or lack of rational explanation itself represents a significant deficiency.</p>
Other deficiencies in internal control that we have identified during the audit.	<p>We will consider whether other deficiencies should be reported to you, taking into account the likelihood and potential magnitude of misstatements that may arise. We will also determine whether we report these to you orally or in writing.</p>

## **AUDIT COMMITTEE**

**22 March 2013**



**Report of:** Chief Finance Officer

**Subject:** MAZARS REPORT- CERTIFICATION OF CLAIMS AND RETURNS 2011/12.

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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 Mazars to be in attendance at this meeting, to present the content of the Certification of Claims and Returns Annual Report 2011/12.

### **2. BACKGROUND**

- 2.1 The Council received more than £250 million in funding from various grant-paying government departments in 2011/12. These departments attach conditions to some of these grants and where the Council cannot evidence conditions have been met, the funding can be at risk.
- 2.2 It is therefore important the Council can demonstrate that it:
- has put in place adequate arrangements to prepare and authorise each claim and return; and
  - can evidence that it has met the conditions attached to each claim.
- 2.3 The purpose of this report is to summarise the findings from External Audits certification work for the 2011/12 financial year and includes any recommendations arising from their assessment of the Councils arrangements for preparing claims and returns.

### **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

# Certification of claims and returns

Annual report 2011/12

## Hartlepool Borough Council



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- 02** Findings
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Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

# 01

## Background



# Background

## The scope of our work

We are required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to the Council. We charge a fee to cover the full cost of meeting this requirement.

The Council is responsible for compiling grant claims and returns that follow the requirements and timescale set by the grant paying departments. The key features of the current arrangements are:

- For claims and returns below £100,000 the Commission does not certify arrangements.
- For claims and returns between £100,000 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 preparing the claim or return to decide if we can place reliance on it. Where we place reliance on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where we cannot place reliance on the control environment, auditors undertake all the tests in the certification instruction and use their assessment of the control environment to inform decisions on the testing required. This means we can reduce the audit fees for certification work if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and we test accordingly. The approach impacts on the grants work we carry out, placing more emphasis on the high value claims.

# Background

Hartlepool Borough Council (the Council) receives more than £250 million in funding from various grant-paying government departments in 2011/12 (£265 million in 2010/11)\*. These departments attach conditions to some of these grants and where the Council cannot evidence conditions have been met, the funding can be at risk.

It is therefore important the Council can demonstrate that it:

- has put in place adequate arrangements to prepare and authorise each claim and return (we call this the control environment); and
- can evidence that it has met the conditions attached to each claim.

This report summarises the findings from our certification work for the 2011/12 financial year and includes any recommendations arising from our assessment of your arrangements for preparing claims and returns.

\* source: Note 10 and 28 grant income of the 2011/12 financial statements, excluding council tax income



# 02

## Findings



# Findings

## **Your control environment**

We assessed your control environment for the three specified claims and returns:

- Housing and Council Tax Benefit subsidy;
- NNDR; and
- Teachers Pensions.

We did not identified any weaknesses in your control environment.

## **Amendments and Qualifications**

Where our certification work identifies errors on a claim or return the Council will amend the claim or return to correct the error. Where we concluded that the claim or return is not fairly stated or in accordance with the associated terms and conditions we will issue a qualification letter to the grant-paying body to draw its attention to our findings.

We certified three claims and returns in 2011/12 and none were subject to a qualification letter. The Housing and Council Tax Benefit subsidy return was amended with a reduction in subsidy of £30,807 due to the misclassification of overpayments.

Officers completed their own testing of overpayments during 2011/12 in response to the misclassification issues arising in previous years and we carried out appropriate re-performance of this work. As a result of this testing, following liaison with the Department for Work and Pensions, an amendment was made to move amounts from eligible overpayment cells attracting 40% subsidy to cells attracting nil subsidy. The impact of this was a reduction in subsidy claimed of £30,807.

It should be noted that there are complex rules and thresholds in respect of benefit overpayments. In previous years, the Council has benefited from these thresholds, with an increase in subsidy following our certification work, of £13,897 in 2009/10 and £15,375 in 2010/11. In addition, as can be seen in section 03, certification fees have reduced.

A full summary of the claims and returns is included at Appendix A.

# Certification Fees

[illegible]

# Certification Fees

For 2011/12 the total fee for certification of claims and returns was £32,034 (£57,430 2010/11). This represents 0.03% of the value certified (0.06% 2010/11). This is a significant reduction on fees charged in previous years as a result of:

- a reduction in the number of claims above the £500,000 threshold;
- a reduction in the number of claims for which the Audit Commission has made certification arrangements; and
- an improvement in the Council's arrangements for preparing claims and returns.

# 04

## Appendix

A – Summary of certified claims and returns



# Appendix A – Summary of certified claims and returns

## Claims and returns above £500,000

Claim or Return	Value (£)	Was reliance placed on the control environment?	Value of any amendments made £	Was a qualification letter issued?
Housing and Council Tax Benefit Scheme	60,036,022	Our approach to this claim does not allow reliance on the control environment. The approach agreed with the DwP is to test an initial sample of each benefit type and evaluate results from that work.	-30,807	No
National Non –Domestic Rates return	25,646,406	Yes – good control environment with historically few issues arising.	Nil	No
Teachers' Pension return	6,616,430	Yes – good control environment with historically few issues arising.	Nil	No
	<b>92,298,858</b>			

## AUDIT COMMITTEE

22 March 2013



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

**Subject:** PUBLIC SECTOR INTERNAL AUDIT STANDARDS

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the new Public Sector Internal Audit Standards (PSIAS), and to demonstrate how the Council will ensure compliance.

### 2. BACKGROUND

- 2.1 The UK Public Sector Internal Audit Standards Advisory Board (IASAB) was established in March 2012 by the bodies responsible for setting Internal Audit Standards within the public sector, namely:

- CIPFA
- HM Treasury
- Department of Health
- The Scottish Government
- The Welsh Government
- The Department of Finance and Personnel (Northern Ireland)

- 2.2 The UK Public Sector IASAB proposed that a common set of Internal Audit Standards is applied to the public sector from 1 April 2013. This is to be based on the mandatory elements of the Institute of Internal Auditor's International Professional Practices Framework (IPPF):

- The Definition of Internal Auditing
- The Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary)

- 2.3 Where considered necessary, the IPPF will be adapted and / additional interpretation provided to match the needs of the UK public sector. Public sector requirements will be inserted in such a way as to preserve the integrity of the original wording of the IPPF text.

Key public sector requirements are as follows:

- Compliance with the IIA Code of Ethics (as well as those of any other professional body a public sector internal auditor may be a member of).
- Compliance with the Nolan Principles of Public Life.

- The Internal Audit Charter must define:
  - The term “Board”
  - Cover internal audit resourcing arrangements
  - Define the role of internal audit in any fraud related work; and
  - Set out how conflicts of interest for non-audit activities are avoided
- The Chief Audit Executive – must report functionally to the Board and hold a relevant professional qualification.
- Board approval for significant additional consulting / advisory services not included in the internal audit plan.
- The internal audit plan must:
  - Take account of the need to produce an annual internal audit opinion
  - Explain how the internal audit resource requirement has been assessed
  - Explain the approach taken to using other sources of assurance and work required in order to place reliance on these sources
- The Chief Audit Executive must agree the scope of any external assessment with an appropriate sponsor and instances of non-conformance with the IPPF must be reported to the Board.
- The Chief Audit Executive must provide an annual opinion and report for use in the organisation’s governance statement. The report should include a statement on conformance with UK Public Sector Internal Audit Standards and the result of the quality assurance and improvement programme.

2.4 The UK Public Sector IASAB published the final set of Internal Audit Standards in December 2012, with these coming into force on 1 April 2013.

### **3. Impact on HBC Internal Audit**

- 3.1 Current Local Government Internal Audit Standards have been in place since 1 April 2006 in the form of CIPFA’s Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. HBC Internal Audit also is mindful of IIA standards as a number of its auditors are members of that body and are therefore bound by that bodies standards.
- 3.2 As such the procedures Internal Audit has in place are already aligned to the IIA IPPF. Changes required by the introduction of UK Public Sector Internal Audit Standards, which are formed around the IPPF, are therefore expected to be minimal.

Internal Audit undertook a review of practices and procedures against the PSIAS’s when these were issued in draft in late 2012 and whilst largely compliant, a related action plan has been developed. A small number of actions arising from this review are still outstanding, in particular:

- the development of a quality assurance and improvement programme schedule;
- updating performance standard arrangements;



- the revision of the audit planning strategy and related procedural guidance to better take account of the use of third party assurance providers and the allocation of staff to individual audit assignments.
- 3.3 The issue of UK Public Sector Internal Audit Standards will require some additional, minor revisions to the HBC Internal Audit Charter, the audit planning strategy and to background information within audit plans.
- 3.4 Additional guidance for local authorities will be included in the Local Government Application Note on the PSIAS, which CIPFA are publishing on 3<sup>rd</sup> April 2013. The Application Note includes a checklist for measuring the performance of internal audit against the PSIAS as part of the quality assurance and improvement programme.
- 3.5 Previously, the Application Note was simply guidance and referred to as such. However, after discussion between CIPFA and the DCLG with regards to what constitutes 'proper practices' in internal control as per the Accounts & Audit Regulations 2011, the status has altered so that 'proper practices' for UK local government is the PSIAS *plus* the Local Government Application Note. Therefore, the mandatory sectoral requirements for local authorities are the PSIAS as well as the Application Note and the content of both documents must be followed in order to satisfy proper internal audit practices.

#### **4. RECOMMENDATION**

- 4.1 The Audit Committee is asked to note developments related to UK Public Sector Internal Audit Standards and their introduction from 1 April 2013. The Audit Committee to note that the introduction of these standards will have a minimal impact on the practices and procedures of HBC Internal Audit but will necessitate some revisions to the Internal Audit Charter and to the audit planning strategy in order to comply with PSIAS and the Local Government Application Note.

#### **5. BACKGROUND PAPERS**

- 5.1 - United Kingdom Public Sector Internal Audit Standards (PSIAS).  
- Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards.

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# AUDIT COMMITTEE

22 March 2013



**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
Hart Primary School	Ensure school finance and governance arrangements are in line with best practice.	- Arrangements should be made to ensure that all documentation in relation to the recruitment process is securely retained.	Y
		- The school should develop the arrangements in place to manage software on its computers.	Y
		- An Information Security Policy	Y

Audit	Objectives	Recommendations	Agreed
		<p>considering all information governance issues relating to schools should be developed and distributed to all staff. All staff at the school should complete data protection forms of undertaking.</p> <ul style="list-style-type: none"> <li>- The inventory requires bringing up to date and allocating assets unique asset numbers may assist in providing continuity between asset registers.</li> <li>- Orders should be raised to ensure that committed expenditure is accounted for in budget monitoring reports.</li> <li>- The predicted out-turn should be monitored during the year and reported to Governors.</li> <li>- 3 quotations should be obtained for all purchases over £5000. These should be retained and the results of the procurement exercise reported to governors.</li> <li>- The bank mandate should be provided and checked to ensure that there is a minimum of 3 signatories and at least 2 of these should sign each transaction.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Dyke House School	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- Consideration is given to the use of documentation to summarise the shortlisting and panel scoring processes as a point of best practice.</li> <li>- In the interest of good information governance the school should consider adding document retention procedures and clear desk policies to their acceptable use policy. The revised policy would then require approval by the Governing Body and staff would need to complete new declarations.</li> <li>- The school should arrange to undertake benchmarking on a regular basis (at least annually) and the results should be reported to governors with explanations for any significant variances in comparison to other similar establishments.</li> <li>- All staff (budget holders) with the authorisation to spend against a budget should be reminded of the need to place an order through the procedures in place within the finance office for all expenditure they are incurring. The finance team should monitor the level of non-order invoices processed and continue to explain the need for effective budgetary control to budget holders.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
St Hilda's	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- When the HCSS software is available again to reliably forecast budgets for future years this should be utilised as it has been in the past. At the same time the school could consider moving to longer term planning (perhaps yearly)</li> </ul>	Y

Audit	Objectives	Recommendations	Agreed
		<p>and link this with the budget and pupil number forecasts to demonstrate how the school will use its budget to continue to progress with key objectives.</p> <ul style="list-style-type: none"> <li>- Consideration be given to the use of documentation to summarise the panel scoring processes as a point of best practice.</li> <li>- It may be worth reviewing the order process to see if it is possible to raise any other orders in areas where spend is known to be expected in that financial year, such as maintenance agreements or subscription renewals. Minimising the number of non-order transactions means that expected spend is committed against budgets and that therefore the most up to date and accurate financial information is presented to the Governing Body each month.</li> <li>- It is recommended that the school develops an application form or lettings agreement form which should be completed by all individuals/groups requesting use of the schools premises. Other schools could be approached to obtain copies of the forms they use for suggestions, but the form should include: <ul style="list-style-type: none"> <li>- name, address and contact details of the person requesting the letting,</li> <li>- purposes of letting (activity etc),</li> <li>- rooms/facilities being requested,</li> <li>- dates of lettings and times,</li> <li>- price of each letting,</li> <li>- statement outlining the school's terms and conditions of use of their premises including their payment policy,</li> <li>- statement to be signed agreeing to the above.</li> </ul> </li> </ul> <p>Legal Services may be of assistance in the wording and phrasing of the statements.</p>	<p>Y</p> <p>Y</p> <p>Y</p>

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

<b>Audit</b>	<b>Assurance Level</b>
Localism Act	Reasonable
Bus Service Operators Grant	Reasonable
Local Enterprise Partnership	Reasonable
Troubled Families	Reasonable
Public Health Act	Reasonable
Debtors	Reasonable
Creditors	Reasonable
Budgetary Control	Reasonable
Disabled Facilities Grant	Reasonable
Employees Gifts and Hospitalitys	Reasonable
VAT	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 has now been notified of all matches and is undertaking a review of those provided.
- 3.7 Table 3 below details the audits that were ongoing at the time of compiling the report.

Table 3

<b>Audit</b>	<b>Objectives</b>
Procurement	Ensure adequate procedures are in place to deliver the procurement function.
Continuous Audit	Ongoing testing of fundamental systems.
Benefits	Ensure adequate arrangements are in place in relation to the administration of the service, Local Housing Allowance, claims processing, disputes & appeals, changes in circumstances, overpayments, Discretionary Housing Payments Payments, Fraud prevention and detection, subsidy claims and IT controls.
Social Care Governance Arrangements	Evaluate the systems and procedures in place relating to Social Care Financial Assessments including the administration of the service, residential & non residential care assessments and service user contribution calculations, reviews and deferred payments.
Main Accounting System	Ensure identified risks are managed at an acceptable level with regard to legislative and regulatory requirements; the accuracy and completeness of financial data and the security of data.
Fraud Awareness Training	Investigate the provision of corporate fraud awareness training.
Loans and Investments	Ensure effective arrangements are in place to ensure Treasury Management activities are consistent with legislative / regulatory requirements.
CRB	Ensure adequate arrangements are in place to mitigate risk in relation to the provision of CRB checks.
Officers Expenses	Ensure adequate arrangements are in place in relation to Car Mileage, Travel and Subsistence claims.
Fuel Management	Ensure an effective fuel management system is in place which minimises consumption, provides for the security of fuel and reports usage accurately and completely.
Council Tax	Review the controls in place to mitigate identified risk with testing undertaken to ensure that the controls are working effectively.
NNDR	Ensure adequate arrangements are in place to ensure risk identified in the delivery of the NNDR service is mitigated.
Car Parking	Ensure the following areas of risk are adequately mitigated: <ul style="list-style-type: none"> <li>- Compliance with legislation</li> <li>- Collection of car parking income</li> <li>- Collection of enforcement (fines) income</li> <li>- Security of information.</li> </ul>
Capital Programme	Review the controls in place to mitigate identified risk with testing undertaken to ensure that the controls are working effectively.
Payroll	Review system access data and security, standing data, starters and leavers processes, variations to pay, Integra reconciliation.
Cash/Bank	Ensure adequate procedures and processes in place for: <ul style="list-style-type: none"> <li>- security,</li> <li>- cash (and other income) collection,</li> <li>- banking,</li> <li>- reconciliation.</li> </ul>

- 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 Mazars 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.


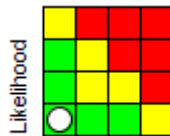
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## Appendix A

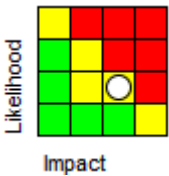
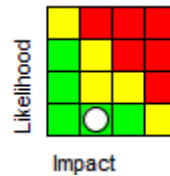
Audit	Objective			Assurance Level
Localism Act	Ensure adequate cover is provided efficiently and effectively.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
The risk of not agreeing to the proposals to amend the audit plan is that there may not be sufficient or appropriate assurance provided in the future over key areas included in the Localism Act.		 <p>Likelihood</p> <p>Impact</p>	Changes to the Internal Audit Plan should be made as necessary to incorporate the results of this audit.	 <p>Likelihood</p> <p>Impact</p>

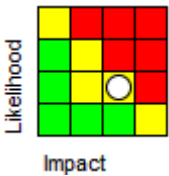
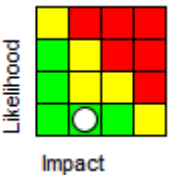
Audit	Objective			Assurance Level
Bus Service Operators Grant	Ensure adequate arrangements are in place to produce an accurate claim.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risks identified				



Audit	Objective			Assurance Level
Local Enterprise Partnership	Provide assurance that risks identified are being mitigated.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risks identified				

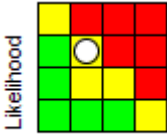

Audit	Objective			Assurance Level
Troubled Families	Ensure governance arrangements are established to deliver the programme and manage performance, the analysis of data and compilation of lists of troubled families, data security, and the development of procedures to deliver services and report outcomes.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified				

Audit	Objective			Assurance Level
Disabled Facilities Grant	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
Expenditure may exceed the total grant awarded.			The discrepancies identified in the finding will be reviewed. If there are any future cases like the one identified the same process will be followed with regular reconciliation between Special Needs Budget sheets and Integra.	




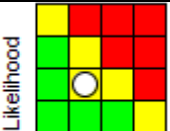


<p>Disabled Facilities Grant entitlement is not awarded correctly or in accordance with statutory requirements and Council policies and that information upon which grant eligibility is decided is not formally supported. Resulting in grants award to persons who do not meet the required criteria and the incorrect calculation of award.</p>		<p>Means Testing – Staff who complete means test are to be informed that when they are noting down income amounts they must sign and date next to the amount.</p> <p>Waiting List – Highlight to Support Staff of what is required when a new application is received and is classed as urgent. This will be done with a flowchart for good practise.</p> <p>Contractors – Update contractor list to delete contractor not to be used. The reason that two contractors did not have any supporting information were that they were used for a number of years before the contractor list was increased to deal with an increased budget. The reason the properties reviewed differed from those on the application were that Special Needs were unable to gain access to the ones on the application.</p> <p>Ensure that if new contactors want to be added to the list accurate records of addresses which are visited are maintained.</p> <p>Commencement of Work – Write to all contactors who complete DFG works to instruct that they need to complete and return the contact confirming they have won a particular job before works start</p> <p>Monitoring of Grant Award Balances – Ensure that when the reconciliation of budgets sheets are completed on a 1/4ly basis the budget sheets are signed and dated by the checking officer.</p>	
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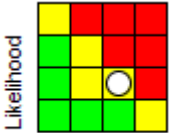

Audit	Objective	Assurance Level		
<b>Public Health Act</b>	Review the planning and processes behind the transition of public health services from PCT to Local Authority.	<b>Reasonable</b>		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
No unmitigated risk identified.				

Audit	Objective			Assurance Level
Debtors	Review the following areas; system security, debtor records, charging framework, debt collection, debt recovery, performance management.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				

Audit	Objective			Assurance Level
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.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Purchases may not be made via an official HBC order resulting in the terms and conditions not being provided to the supplier, the transaction not being made by an authorised officer, procurement contracts not being utilised and best value not being achieved. There are also budgetary control implications as the committed expenditure will not show on the accounting system.		 <p>Likelihood</p> <p>Impact</p>	Processes to be introduced to engage with suppliers re ordering / invoicing activity which are supported by CMTSG. Arrangements for returning invoices to suppliers where non compliance (e.g. no order number quoted) occurs were introduced in February. To monitor and report back in June 2012.	 <p>Likelihood</p> <p>Impact</p>

## 5.5

Other payment methods may bypass the controls in place for the creditor transactions.	 <p>Likelihood</p> <p>Impact</p>	A copy of the email authorising the transaction will be attached to the payment document prepared by Cash Book. At this stage the payment has already been made from the bank account but this will provide the authorisation for the transaction to be processed against the agreed budget code.	 <p>Likelihood</p> <p>Impact</p>
Payments may be made for goods/services that have not been requested or received by the authority or incorrect payments may be made.	 <p>Likelihood</p> <p>Impact</p>	To review incidents (excl stores) to establish circumstances that led to occurrences. Procedures to be reviewed following findings.	 <p>Likelihood</p> <p>Impact</p>
Access to the creditor payment system may not provide an adequate separation of duties in the process including approval and checking of transactions resulting in inaccurate transactions or fraudulent transactions being processed.	 <p>Likelihood</p> <p>Impact</p>	To introduce routine reviews of access levels and supply to managers for confirmation that roles are still valid.	 <p>Likelihood</p> <p>Impact</p>

Audit	Objective	Assurance Level	
<b>Employees Gifts and Hospitalities Register</b>	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.	<b>Reasonable</b>	
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Interests are not declared which may result in contracts, planning, development etc being unfairly awarded.	 <p>Likelihood</p> <p>Impact</p>	Register of Declaration forms are due to be completed at the beginning of April. The Head of Finance (Corporate) will ensure that they are all completed.	 <p>Likelihood</p> <p>Impact</p>

Audit	Objective	Assurance Level	
<b>Budgetary Control</b>	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.	<b>Reasonable</b>	
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified			

Audit	Objective	Assurance Level		
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.	Reasonable		
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified				

## **AUDIT COMMITTEE**

**22 March 2013**



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

**Subject:** INTERNAL AUDIT PLAN 2013/14

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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 2013/2014 (Appendix A).

### **2. BACKGROUND**

- 2.1 Under the Accounts and Audit Regulations 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 new Public Sector Internal Audit Standards (PSIAS) 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.

### **3 INTERNAL AUDIT RESOURCES 2013/2014**

- 3.1 Hartlepool Borough Council Internal Audit establishment consists of a Head of Audit and Governance and 5 FTE audit staff. When taking into account operational costs of providing the service and income generated, the total budget for the provision of Internal Audit is £227,289, which equates to approximately £226.15 per audit day provided.
- 3.2 A total of 66 planned areas of audit coverage will form the basis of the mainstream Internal Audit work for 2013/14. 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.
- 3.3 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.
- 3.4 For 2013/14, 100 days of audit work will also be provided to the Cleveland Fire Authority.
- 3.5 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 Mazars 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 review and approve the 2013/2014 Internal Audit Plan and Internal Audit budget for 2013/14 of £227,289.

## **7. BACKGROUND PAPERS**

- 7.1 - United Kingdom Public Sector Internal Audit Standards (PSIAS).  
 - CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

## **8. CONTACT OFFICER**

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 TS24 8AY

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## Appendix A

Department Name		Assistant Director /Director	2013/14
Chief Executives	Attendance Management	Andrew Atkin	10
Chief Executives	Benefits - Housing	Chris Little	20
Chief Executives	Budgetary Control	Chris Little	15
Chief Executives	Cash/Bank	Chris Little	5
Chief Executives	Communication - Mobile Phones	Andrew Atkin	5
Chief Executives	Computer Audit	Andrew Atkin	50
Chief Executives	Continuous Audit	Chris Little	100
Chief Executives	Council Tax	Chris Little	15
Chief Executives	Council Tax Benefit	Chris Little	20
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 Hospitalities	Andrew Atkin	5
Chief Executives	Fraud Awareness	Chris Little	50
Chief Executives	Information/Data Management Security	Andrew Atkin	30
Chief Executives	Journal Review	Chris Little	5
Chief Executives	Loans & Investments	Chris Little	5
Chief Executives	Main Accounting	Chris Little	15
Chief Executives	Members Allowances/Travel/Subsistence	Peter Devlin	5
Chief Executives	NFI	Chris Little	5
Chief Executives	NNDR	Chris Little	20
Chief Executives	Officers Expenses	Chris Little	5
Chief Executives	Partnerships	Andrew Atkin	10
Chief Executives	Performance Management Systems	Andrew Atkin	5
Chief Executives	Public Services (Social Value Act)	Andrew Atkin	5
Chief Executives	Recruitment, Selection and Retention	Andrew Atkin	5
Chief Executives	Risk Management	Andrew Atkin	10
Chief Executives	Salaries and Wages	Chris Little	15
Chief Executives	V.A.T.	Chris Little	5
Child and Adult Services	Adoption	Sally Robinson	5
Child and Adult Services	Avondale Centre	Dean Jackson	5
Child and Adult Services	Barnard Grove Primary School	Dean Jackson	5
Child and Adult Services	Catcote Special School	Dean Jackson	5
Child and Adult Services	Children Services Capital Programme	Peter Macintosh	5
Child and Adult Services	Clavering Primary School	Dean Jackson	5
Child and Adult Services	Early Intervention Strategy	Sally Robinson	10
Child and Adult Services	Eldon Grove Primary School	Dean Jackson	5
Child and Adult Services	Fostering	Sally Robinson	5
Child and Adult Services	Grange Primary School	Dean Jackson	5
Child and Adult Services	Greatham C Of E Primary School	Dean Jackson	5
Child and Adult Services	Libraries	John Mennear	5
Child and Adult Services	Public Health Responsibilities	Louise Wallace	20
Child and Adult Services	Sacred Heart Primary School	Dean Jackson	5
Child and Adult Services	Social Fund/Section 17	Sally Robinson	10
Child and Adult Services	Social Care - Direct Payments	Jill Harrison	5
Child and Adult Services	Springwell Special School	Dean Jackson	5
Child and Adult Services	St. Aidans Primary School	Dean Jackson	5
Child and Adult Services	St. Begas Primary School	Dean Jackson	5

Child and Adult Services	Stranton Primary School	Dean Jackson	5
Child and Adult Services	Throston Primary School	Dean Jackson	5
Child and Adult Services	Tourism - Town Hall Theatre/Borough Hall	John Mennear	10
Child and Adult Services	Ward Jackson Primary School	Dean Jackson	5
Child and Adult Services	West Park Primary School	Dean Jackson	5
Child and Adult Services	West View Primary School	Dean Jackson	5
Regeneration and Neighbourhood Services	Community Grants	Denise Ogden	5
Regeneration and Neighbourhood Services	Grant Certification	Alastair Smith	10
Regeneration and Neighbourhood Services	Highways - Repairs and Maintenance	Alastair Smith	10
Regeneration and Neighbourhood Services	Industrial Estate Lettings/Rental	Damien Wilson	5
Regeneration and Neighbourhood Services	Integrated Transport Unit - Highways Capital Grant	Alastair Smith	5
Regeneration and Neighbourhood Services	Integrated Transport Unit - Child and Adult Provision	Alastair Smith	10
Regeneration and Neighbourhood Services	Integrated Transport Unit - Private Hire	Alastair Smith	5
Regeneration and Neighbourhood Services	New Homes Bonus	Damien Wilson	5
Regeneration and Neighbourhood Services	NSD Income Generation	Graham Frankland	10
Regeneration and Neighbourhood Services	Project Management (Capital Programme)	Graham Frankland	5
Regeneration and Neighbourhood Services	Stores	Graham Frankland	5
Regeneration and Neighbourhood Services	Procurement	Graham Frankland	10
	<b>ADMINISTRATION</b>		
Corporate	Training/Development		50
Corporate	Administration		65
Corporate	Contingency/Advice/Support/Special Investigations		65
	<b>Cleveland Fire Authority</b>		100
	<b>TOTAL</b>		<b>1005</b>
	Holidays		175
	Contingency		25
	Bank Holidays		35

## 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

22 March 2013



**Report of:** Chief Finance Officer

**Subject:** LETTER TO THOSE CHARGED WITH GOVERNANCE -  
COMPLIANCE WITH LAWS AND REGULATIONS/  
FRAUD

## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the proposal to reply to the letter received from the Director and Engagement Lead of our External Auditor, Mazars, to those charged with governance regarding compliance with laws and regulations and fraud.

## 2. BACKGROUND

- 2.1 In carrying out the annual accounts audit, Mazars have to demonstrate compliance with International Standards for Auditing (UK and Ireland). The Standard requires the Audit Commission to gain each year, an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.
- 2.2 Mazars must also gain a general understanding of the legal and regulatory framework applicable to the audited body and how the audited body is complying with that framework. After gaining a general understanding auditors need to undertake audit procedures to help identify instances of non-compliance with those laws and regulations where this impacts on preparing the financial statements. This includes:
- Enquiring of management whether they have complied with all relevant laws and regulations;
  - Written representation from management that they have disclosed to the auditor all known actual or possible areas of non-compliance; and
  - Enquiring with "those charged with governance" whether they are aware of any possible instances of non-compliance.

### **3. AUDIT COMMITTEE RESPONSE**

- 3.1 Attached as Appendix A is a letter to Mazars from the Chair of the Committee detailing how the committee has complied with the requirements of International Standards for Auditing.

### **4 RECOMMENDATION**

- 4.1 It is recommended that Members agree the contents of the letter to Mazars outlining how the activities of the Committee comply with the requirements of International Standards for Auditing.

### **5. BACKGROUND PAPERS**

- 5.1 Letter to Those Charged With Governance - Compliance with Laws and Regulations/ Fraud

### **6. CONTACT OFFICER**

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## Appendix A

**Cllr Christopher Akers-Belcher**

*Audit Committee Chair*

Civic Centre

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Our Ref:

Your Ref:

22.03.13

Mark Kirkham,  
Director and Engagement Lead,  
Mazars.

Dear Mark,

Further to your letter to those charged with governance - compliance with laws and regulations / fraud; in relation to understanding how Mazars gains assurance from management, I have outlined below in the answers to the questions posed, how the Audit Committee gains assurance that all relevant laws and regulations are complied with and how we exercise oversight of the processes in place for identifying and reporting the risk of fraud and possible breaches of internal control.

*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 Authority, 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 behavior (e.g. by updating, communicating and monitoring against the Authority's code of conduct?); and*
- *communicating to you the processes for identifying and responding to fraud or error*

As the Audit Committee we review the Councils Financial Statements and take advice from both officers' internally and externally regarding the accounting statements and processes in place to ensure they are a true and fair view of the Council's financial position. We are regularly updated in relation to issues regarding potential fraud and review and approve the Councils Anti Fraud and Corruption Strategy. The Audit Committee review and approve the Councils Code of Corporate Governance and also the Councils Risk Management Strategy. As an independent committee of the Council, the Audit Committee can at any time seek explanation from any officer of the Council regarding issues it considers.

*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 2012-13?*

We considered Internal Audit Plan 2012/13 Updates. Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and



comment upon any areas of concern. As a Committee we are not aware of any breaches of internal control during 2012-13, and will consider those significant governance issues highlighted in the Annual Governance Statement in the context of our knowledge and understanding of the Council over the financial year.

*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 2012-13?*

As detailed above we considered Internal Audit Plan 2012/13 Updates. Four of these reports were reviewed by the committee during the year which allowed members to be kept up to date with the ongoing progress of the Internal Audit section in completing its annual audit plan. These reports allowed the committee to review the outcomes of all completed internal audit reports and comment upon any areas of concern. Members of the Audit Committee are active in other areas of Council activity and bring that knowledge and experience to the Audit Committee in relation to the Councils operation. The Audit Committee reviews performance and risk management arrangements in place through the work of Internal Audit and other reports received and is not aware of any non compliance with relevant laws or regulations during 2012-13.

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

The Committee is not aware of any new significant litigation or claims or changes to any existing litigation / claim 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 Authority's ability to continue as a going concern?*

Having reviewed the reports and information provided to the Committee over the course of the year, including reviewing the Councils Financial Statements and Annual Governance Statement, the Committee has no significant doubt as to the Councils ability to continue as a going concern.

In addition to those processes and procedures detailed above, the Committee has also considered the information outlined below:

- *Considered the 2012/13 Internal Audit Plan* – This informed the committee of the direction of Internal Audit activity and sought approval of the annual operational Internal Audit Plan for 2012/13. It also provided accountability for internal audit services allowing the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2011 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Reviewed the Internal Audit Outcome Report 2012/13* – This provides accountability for internal audit delivery and performance and allowed the committee to monitor the application of the delegated authority for ensuring an effective and satisfactory Internal Audit function in accordance with the Accounts and Audit Regulations 2011 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).
- *Reviewed and approved the findings of the review of the effectiveness of internal audit* – This allowed the committee to place reliance on the totality of systems and procedures in operation at the council in pursuit of its objectives.
- *Approved the Internal Audit Charter* – This ensured that the purpose, authority and responsibility of Internal Audit is formally defined and consistent with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- *Approved the Internal Audit Strategy* – This ensured compliance with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and the Accounts and Audit Regulations.

- *Reviewed the Treasury Management Outturn 2011/12* – This report provided a review of the Treasury Management activity for 2011/2012 and the outturn Prudential Indicators for this period.
- *Treasury Management Strategy 2013/14* – To enable the Audit Committee to consider the proposed Treasury Management Strategy for 2013/2014 prior to the strategy being referred to Council in February 2013.
- *Review of External Auditor Reports.*

In relation to the questions posed regarding fraud, the Committee would make the following comments;

*1) Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2012 – 31 March 2013?*

The Committee is aware of fraud perpetrated against the Council in respect of benefit claims and I as Chair of the Committee was informed of a cash discrepancy at a school kitchen during the period 1 April 2012 – 31 March 2013.

*2) Do you suspect fraud may be occurring within the Authority?*

- *Have you identified any specific fraud risks within the Authority?*
- *Do you have any concerns that there are areas within your Authority that are at risk of fraud?*
- *Are there particular locations within the Authority where fraud is more likely to occur?*

The Committee does not suspect fraud may be occurring within the Authority and is satisfied that adequate arrangements are in place to tackle suspected fraud.

*3) Are you satisfied that internal controls, including segregation of duties, exist and work effectively? If not where are the risk areas? What other controls are in place to help prevent, deter or detect fraud?*

The Committee is satisfied that the Council has adequate governance arrangements in place to in relation to its internal control environment and gains assurance from the work of its internal and external auditors.

*4) How do you encourage staff to report their concerns about fraud?  
What concerns about fraud are staff expected to report?*

The Council has a well established and publicised Whistleblowing Policy in place as well as an up to date Anti Fraud and Corruption plan. Staff are expected to report all instance of suspected fraud and corruption and are encouraged to do so.

*5) From a fraud and corruption perspective, what are considered to be high risk posts within your Authority? How are the risks relating to these posts identified, assessed and managed?*

The Committee considers those posts dealing with all aspects of procurement and cash handling to high risk. The Committee takes assurance from the fact that risk assessment of posts is undertaken and training is provided to enable awareness of fraud to be highlighted to staff.

*6) Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?*

The Committee is not aware of any related party relationships or transactions that could give rise to instances of fraud. The Committee is assured that adequate arrangements are in place for the recording and declaration of any relationships or interests that may raise cause for concern.

7) *Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?*

- *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 Authority?*
- *Could a false accounting entry escape detection? If so, how?*

*Are there any external fraud risk factors, such as income collection, which are high risk of fraud?*

The Committee is not aware of any entries made in the accounting records of the authority that we believe or suspect are false or intentionally misleading. We do not believe any assets, liabilities or transactions have been improperly included or omitted from the accounts of the Authority. The Committee takes assurance from both its internal and external audit coverage of the Councils accounting records and is satisfied that sufficient checks and balances are in place.

8) *Are you aware of any organisational, or management pressure to meet financial or operating targets? 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?*

The Committee is not aware of any organisational, or management pressure to meet financial or operating targets or any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating targets. The Committee takes assurance from the governance arrangements the Council has in place and the independent assurance it receives over the course of the year that these arrangements are working in practice.

Yours Faithfully

**Cllr Christopher Akers-Belcher**  
*Audit Committee Chair*