

AUDIT AND GOVERNANCE COMMITTEE AGENDA



Thursday 20 March 2014

at 2.00 pm

**in Committee Room B,
Civic Centre, Hartlepool.**

MEMBERS: AUDIT AND GOVERNANCE COMMITTEE

Councillors Ainslie, S Akers-Belcher, Brash, Fisher, Loynes, Robinson and Shields

Standards Co-opted Members; Mr Norman Rollo and Ms Clare Wilson.

1. APOLOGIES FOR ABSENCE

2. TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS

3. MINUTES

3.1 Confirmation of the minutes of the meeting held on 6 March 2014 (*to follow*).

4. AUDIT ITEMS

- 4.1 Mazars Report – Certification of Claims and Returns 2012/13 – *Chief Finance Officer*
- 4.2 Mazars Report – Audit Strategy Memorandum 13/14 – *Chief Finance Officer*
- 4.3 Mazars Report – Audit Progress Report 13/14 – *Chief Finance Officer*
- 4.4 Internal Audit Plan 2013/14 Update – *Head of Audit and Governance*
- 4.5 Internal Audit Plan 2014/15 – *Head of Audit and Governance*
- 4.6 Protecting the Public Purse – *Chief Finance Officer*
- 4.7 Local Audit and Accountability Bill Update – *Chief Finance Officer*



5. STANDARDS ITEMS

No items.

6. STATUTORY SCRUTINY ITEMS

No items.

7. MINUTES FROM THE RECENT MEETING OF THE HEALTH AND WELLBEING BOARD

No items.

8. MINUTES FROM RECENT MEETING OF SAFER HARTLEPOOL PARTNERSHIP

No items.

9. MINUTES FROM RECENT MEETING OF TEES VALLEY HEALTH SCRUTINY JOINT COMMITTEE

No items.

10. REGIONAL HEALTH SCRUTINY UPDATE

No items.

11. ANY OTHER BUSINESS WHICH THE CHAIR CONSIDERS URGENT

FOR INFORMATION

Date of next meeting – 17 April 2014 at 9.30 am in the Civic Centre, Hartlepool.



AUDIT AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Chief Finance Officer

Subject: MAZARS REPORT- CERTIFICATION OF
CLAIMS AND RETURNS 2012/13.

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit and Governance 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 2012/13.

2. BACKGROUND

- 2.1 The Council received more than £200 million in funding from various grant-paying government departments in 2012/13. 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 Mazars certification work for the 2012/13 financial year and includes any recommendations arising from their assessment of the Council's arrangements for preparing claims and returns.

3. FINDINGS OF MAZARS

- 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 and Governance Committee:

- i. Note the report of Mazars.

5. REASON FOR RECOMMENDATIONS

5.1 To ensure the Audit Committee is kept up to date with the work of our External Auditor.

6. BACKGROUND PAPERS

6.1 None

7. CONTACT OFFICER

7.1 Chris Little Chief Finance Officer Civic Centre Victoria Road Hartlepool TS24 8AY Tel: 01429 523003 Email: Chris.Little@Hartlepool.gov.uk

Hartlepool Borough Council

Certification of claims and returns

Annual Report 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.

01

Background

Hartlepool Borough Council ('the Council') received more than £200 million funding from various grant-paying government departments in 2012/13. These departments attach conditions and restrictions to these grants which the Council must meet otherwise funding may be withdrawn or clawed-back.

It is therefore important that 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 terms and conditions put in place by the grant paying body for each claim and return.

The scope of our work

As the Council's appointed auditor, we act as an agent of the Audit Commission to certify specified claims and returns.

The Audit Commission, in consultation with the grant-paying bodies, sets out a programme of work in the form of Certification Instructions ('CIs') that we must follow. It also sets an overall framework under which we carry out our certification work:

- For claims and returns below £125,000 the Audit Commission does not make certification arrangements and as such we are not required to carry out any certification work.
- For claims and returns between £125,000 and £500,000, the Audit Commission requires us to undertake limited tests to ensure that entries on the claim form agree with underlying records.
- For claims and returns over £500,000, we assess the control environment the Council has put in place for preparing the claim to decide whether we can place reliance on these arrangements. Where we can place reliance on the Council's arrangements we undertake limited testing to ensure that entries on the claim form agree with underlying records (as above).

Where we cannot place reliance on the Council's control environment we carry out the full programme of testing in the Audit Commission's CI.

Our certificate

On completion of the specified work we issue a certificate, the wording of which depends on the level of work we have performed on each claim. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter.

Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

Findings

The Council's control environment

As required by the Audit Commission's certification instructions, we have assessed the control environment for three claims and returns.

We have not noted any significant weaknesses in your control environment for any claim or return.

Summary - amendments and qualifications

The number of claims and returns has reduced drastically in recent years; however the remaining ones are of high value and importance. Appendix A to this report provides a full analysis of all claims and returns on which we carried out certification work.

Of the three claims and returns we certified in 2012/13, one was qualified and amended by the Council. The return qualified (i.e. subject to a qualification letter) was the Housing and Council Tax Benefit Subsidy. We were required to issue a qualification letter due to guidance issued by the Audit Commission that extrapolated errors should not be amended for but instead reported in a letter. The Department for Work and Pensions has subsequently indicated that they will be willing to accept the impact of extrapolated errors on the overall claim. It is anticipated the Council will receive additional net subsidy of £13,599; we will update the Audit and Governance Committee verbally on this when presenting the report.

We are grateful to the officers of the Council who have continued to work closely with us to ensure returns and claims are prepared correctly. In particular, for the Housing and Council Tax Benefit return, officers' continued cooperation and prompt responses to queries is appreciated in what is a complex scheme.

03

Certification fees

For 2012/13 the total fees charged for certification work was £24,500 (£32,034 2012/13). This represents 0.02% of the value certified and is a continued reduction on fees charged in previous years (0.03% in 2011/12) as a result of:

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

A breakdown of the fees charged for each claim or return is provided in Appendix A.

Appendix A - summary of certified claims and returns

Claims and returns between £125,000 and £500,000

Claim or return	Value	2011/12 fee	2012/13 fee	Reasons for significant movement	Amended	Qualified
None						

Claims and returns above £500,000

Claim or return	Value 2012/13	2011/12 fee	2012/13 fee	Reasons for significant movement	Amended	Qualified
Housing and Council Tax Benefit return	£61,444,490	£28,550	£20,960	Reduction in fees partly due to set overall grants fee being set by the Audit Commission for 2012/13 which was based on 2011/12 as well as continued close working with the Council to address errors identified by testing.	Yes	Yes – requirement to issue a qualification letter for extrapolated errors.
National non-domestic rates return	£43,717,266	£1,742	£1,425	As per above.	No	No
Teachers' pensions return	£32,724,133	£1,742	£2,115	Not a significant change.	No	No
Total	£137,886,825	£32,034	£24,500			

AUDIT AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Chief Finance Officer

Subject: MAZARS REPORT- AUDIT STRATEGY
MEMORANDUM 13/14

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit and Governance 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 and Governance Committee with the audit plan in respect of the external audit of the Council for the year ending 31 March 2014.
- 2.2 The Plan sets out the proposed audit approach and is prepared to assist the Audit and Governance 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 MAZARS

- 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 and Governance Committee note the report of Mazars.

5. REASON FOR RECOMMENDATIONS

- 5.1 To ensure the Audit Committee is kept up to date with the work of our External Auditor.

6. BACKGROUND PAPERS

- 6.1 None

7. CONTACT OFFICER

- 7.1 Chris Little
Chief Finance Officer
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Victoria Road
Hartlepool
TS24 8AY

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Audit Strategy Memorandum

4.2 Appendix 1

Hartlepool Borough Council – year ended 31 March 2014

February 2014



4.2 Appendix 1

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Audit and Governance Committee
Hartlepool Borough Council
Civic Centre
Victoria Road
Hartlepool
TS24 8AY

25 February 2014

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2014

We are delighted to present our Audit Strategy Memorandum for Hartlepool Borough Council for the year ending 31 March 2014.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Audit and Governance Committee meeting on 20 March 2014. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Mark Kirkham
Director, for and on behalf of Mazars LLP

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01 Purpose and background

4.2 Appendix 1

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of Hartlepool Borough Council (the Council) for the year ending 31 March 2014, and forms the basis for discussion at the Audit and Governance Committee meeting on 27 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.

We see a clear and open communication between ourselves and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with 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 your attitude and views in respect 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.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

Scope of engagement

We are appointed to perform the external audit of Hartlepool Borough Council for the year to 31 March 2014. The scope of our engagement is laid out in the Audit Commission's Code of Audit Practice for Local Government bodies.

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
- the 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 submission with the audited financial statements. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland) we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud, we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

02 Audit scope, approach and timeline

Audit scope

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) and in accordance with the Code of Audit Practice for Local Government Bodies. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management 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.

Audit approach

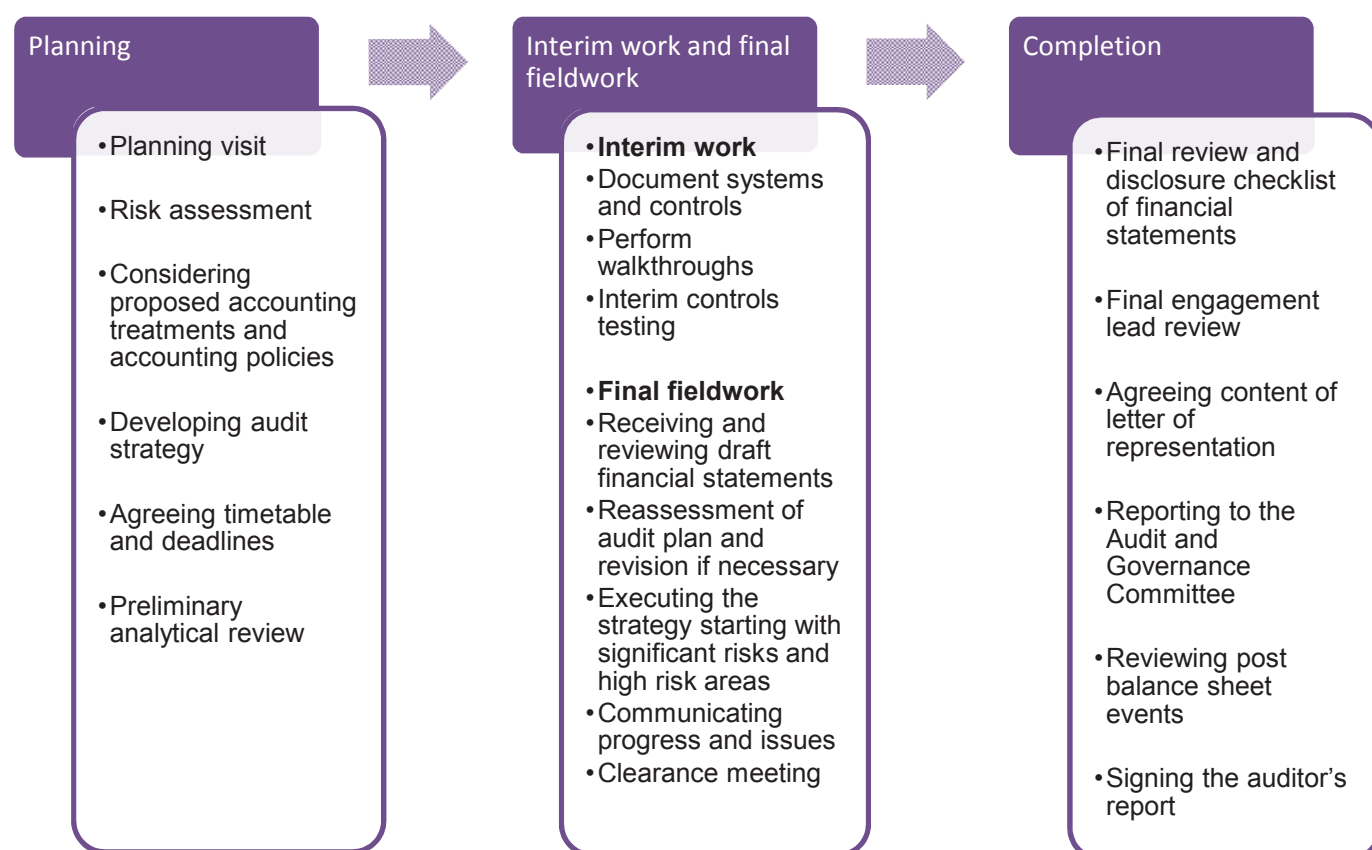
Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken will include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing.

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. Materiality and misstatements are explained in more detail in Appendix B.

The diagram below outlines the procedures we perform at the different stages of the audit.



Group financial statements

4.2 Appendix 1

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

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 evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Reliance on other auditors

We plan to place reliance on the work of another auditor in relation to pension entries, 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.

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.

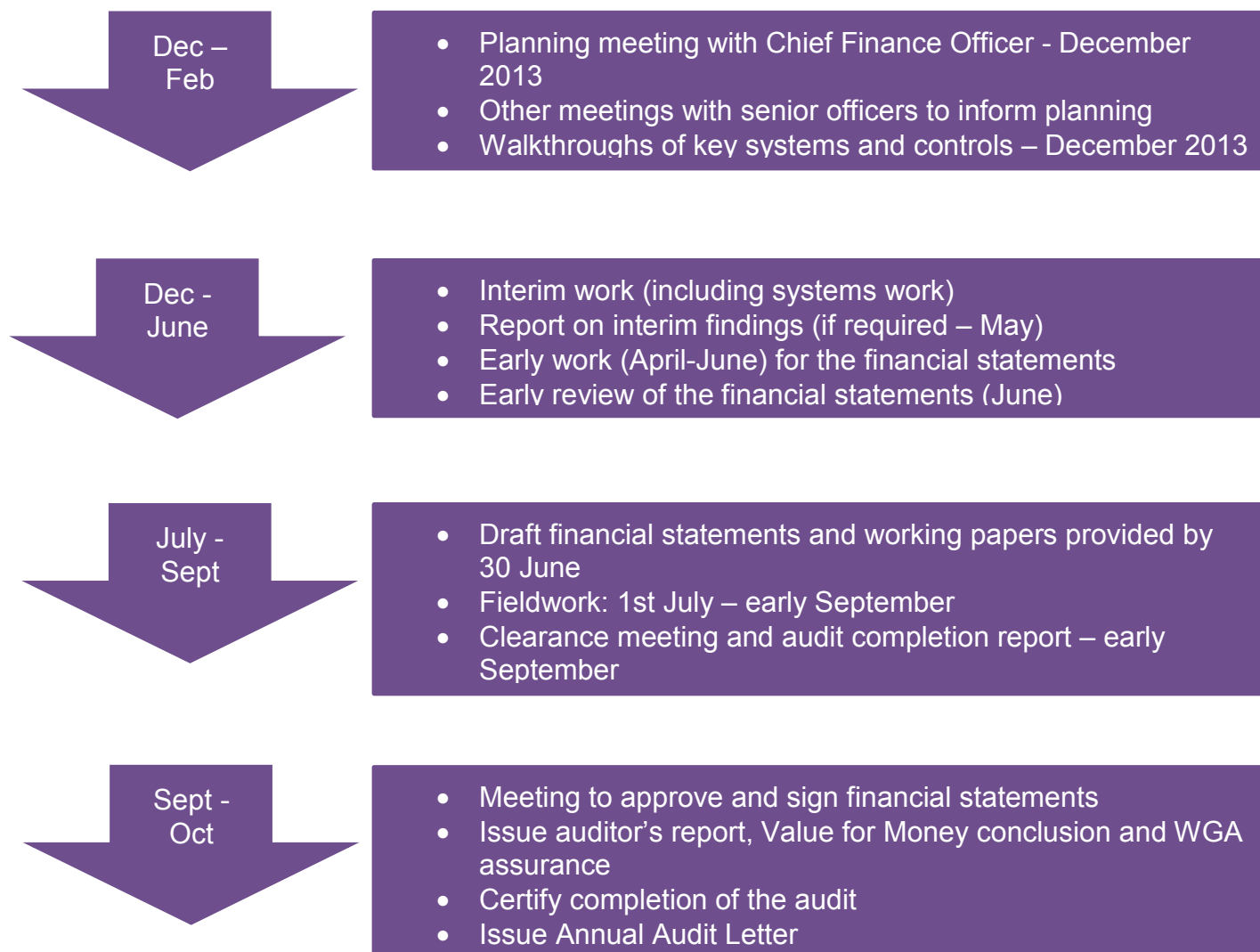
The work of experts

We plan to rely on the work of the following experts:

Items of account	Management's expert	Our expert
Asset valuations	Internal Valuer	Audit Commission's consulting actuary (PWC)
Pension liability	Actuary (AON Hewitt Ltd)	Audit Commission's consulting valuer (Gerald Eve)
Financial instruments – fair value disclosures	Sector (Treasury Management Advisor)	Audit Commission – national consideration of the use of Sector

Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



03 Significant risks and key judgement areas

We have performed our planning procedures, including risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Council faces and have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks and the areas of management judgement identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

Significant audit risks

Management override of controls

Description of the risk

Auditing standards state that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on *all* audits.

How we will address this risk

We have updated our understanding and evaluation of internal controls procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this, we will seek written assurances from the Audit and Governance 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.

Our testing strategy for this significant risk due to fraud will include:

- journals recorded in the general ledger and other adjustments made in preparation of the financial statements;
- consideration and review of material accounting estimates impacting on amounts included in the financial statements;
- consideration and review of any unusual or significant transactions outside the normal course of business; and
- consideration of any other local factors.

Revenue recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition and in relation to judgements made by management as to when income has been earned. Mazars' policy is that the scope to apply such a rebuttal is limited. Due to there being a risk of fraud in revenue recognition we consider it to be a significant risk on *all* audits. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing receipts in March and April 2014 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Expenditure recognition

Description of the risk

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of expenditure recognition and in relation to judgements made by management as to when expenditure has been incurred. As there is a risk of fraud in revenue recognition we regularly consider it to be a significant risk. This does not imply that we suspect actual or intended manipulation but that we continue to approach the audit with due professional scepticism.

How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of expenditure being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- testing payments in March and April 2014 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Pension entries (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- 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.

Key areas of management judgement

Property, Plant and Equipment – depreciation, revaluations and impairments (where applicable)

Description of the area of judgement

Accounting standards and CIPFA's Code of Practice on Local Authority Accounting require that all property, plant and equipment are depreciated, unless there is a specific exception. There are also requirements to regularly revalue assets carried at fair value on the Council's balance sheet and to carry out impairment reviews.

These involve management judgements over the useful lives and valuations of assets.

Our planned audit approach

We will evaluate the design and implementation of controls in respect of depreciation, revaluations and impairments as part of our walkthrough of the property, plant and equipment system.

In addition, we will undertake a range of substantive procedures including:

- substantive sample testing of depreciation, revaluations and impairments per the disclosure note to the financial statements;
- review and evaluation of the work of the in-house Valuer, including the Valuer's report; and
- consideration of regional valuation trends.

Financial Instruments – Fair Values**Description of the area of judgement**

Assessment of the fair values of financial instruments is required to be included in a disclosure note to the financial statements which provides a comparison with the carrying values on the balance sheet.

Management engages an expert (Sector) to provide these fair value figures.

Our planned audit approach

We will consider the Audit Commission's centrally obtained assurance over the work of management's expert, including an assessment of Sector's competence, capabilities and objectivity.

We will agree the figures provided by Sector to the disclosure note in the Council's financial statements.

04 Value for Money Conclusion

4.2 Appendix 1

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.

As in 2012/13, we will focus our work on the robustness of the annual update of the Council's Medium-Term Financial Strategy and continued budget management.

05 Your audit team

4.2 Appendix 1

Below are your audit team and their contact details.

Engagement lead
(Director)

- Mark Kirkham
- Tel: 0191 383 6300 or 07747 764 529
- Email: mark.kirkham@mazars.co.uk

Engagement Senior
Manager

- Diane Harold
- Tel: 0191 383 6322 or 07971 513 174
- Email: diane.harold@mazars.co.uk

Team Leader (Assistant
Manager)

- Rebecca Dearden
- Tel: 0191 383 6305 or 07881 283 351
- Email: rebecca.dearden@mazars.co.uk

06 Fees for audit and other services^{4.2} Appendix 1

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

Area of work	2013/14 Proposed Fee	2013/14 Scale Fee	2012/13 Actual Fee
Code audit work	£144,180	£144,180	£144,180
Certification work	£16,200	£16,200	£24,500
Total fee	£160,380	£160,380	£168,680

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.

Appendix A – Independence

4.2 Appendix 1

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

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 have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham, Engagement Lead.

Prior to the provision of any non-audit services the Engagement Lead 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 threat	Safeguards and procedures
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

4.2 Appendix 1

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. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and financial statements;
- 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 consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides 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 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 discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix C – Key communication points

4.2 Appendix 1

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present to the Audit and Governance Committee the following reports:

- our Audit Strategy Memorandum;
- our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit and Governance Committee and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- our responsibilities in relation to the audit of the financial statements;
- the planned scope and timing of the audit;
- significant audit risks and areas of management judgement;
- our independence;
- responsibilities for preventing and detecting errors;
- materiality; and
- fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- significant deficiencies in internal control;
- significant findings from the audit;
- significant matters discussed with management;
- our conclusions on the significant audit risks and areas of management judgement;
- unadjusted misstatements;
- management representation letter;
- our proposed draft audit report; and
- independence.

Appendix D – Forthcoming accounting and other issues

4.2 Appendix 1

The 2013/14 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. Officers from the Council's finance function attended workshops that provided full details of the changes in the 2013/14 Code, as well as a forward look to potential future accounting changes that may be of relevance to the Council. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

Forthcoming accounting issues

Employee benefits	How this may affect the Council
The Code includes changes as a result of the adoption of the amended IAS 19 Employee Benefits.	<p>The main potential impacts of the changes are:</p> <ul style="list-style-type: none"> • changes in terminology used for some entries in the Council's Comprehensive Income and Expenditure Statement and disclosure notes; • minor changes to the recognition point for termination benefits that may either delay or bring forward the recognition of expenses such as redundancy payments; • significant changes to the format and content of relevant disclosure notes; and • changes to the classification, recognition and measurement of post-employment benefits. <p>Where these changes have a material impact on the financial statements, it is likely the Council will need to restate their 2012/13 comparative entries.</p>
Business rates appeals	How this may affect the Council
As a result of the introduction of the business rates retention scheme from 1 April 2013, local authorities are now responsible for meeting the costs of successful rating appeals from local businesses.	It is likely that the Council will recognise a provision in its financial statements to recognise the cost of funding future successful rating appeals by local businesses.

AUDIT AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Chief Finance Officer

Subject: MAZARS REPORT- AUDIT PROGRESS
REPORT 13/14

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.

3. FINDINGS OF MAZARS

- 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 and Governance Committee:
- i. Note the report of Mazars.

5. REASON FOR RECOMMENDATIONS

- 5.1 To ensure the Audit Committee is kept up to date with the work of our External Auditor.

6. BACKGROUND PAPERS

- 6.1 Protecting the Public Purse 2013;
Mazars Quality Management Procedures.

7. CONTACT OFFICER

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Hartlepool Borough
Council

Audit Progress report

February 2014

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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 employees of Hartlepool Borough Council are prepared for the sole use of the Council. We take no responsibility to any Member or employee in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. Introduction

The purpose of this report is to update the Audit and Governance Committee on progress in delivering our responsibilities as your external auditors.

We have highlighted key emerging national issues and developments which may be of interest to Committee Members. In addition, we have included in:

- section 4, charts from an Audit Commission briefing tailored for this Council following the publication of their Annual Fraud Report – *Protecting the Public Purse*; and
- section 5, details of Mazars' quality management procedures.

If you require any additional information, please contact us using the contact details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

2. 2013/14 audit progress

Since the last Audit Progress Report we have:

- completed our planning for the 2013/14 audit year and issued our 2013/14 Audit Strategy Memorandum (i.e. the plan) which is also on the agenda; and
- documented and walked through the key financial information systems (joint walkthroughs with Internal Audit as in previous years where appropriate).

Our work in the next period includes the following:

- carrying out work to support our Value for Money conclusion;
- updating our IT risk assessment; and
- early substantive testing.

As usual, we will also have regular meetings with senior officers and will read and consider committee papers.

3. National publications and other updates

Final accounts workshops, Mazars, February 2014

As in previous years, we have run final accounts workshops for key finance staff at our clients. These are designed to help aid the smooth production of the financial statements, including early discussion of any key changes.

Finance staff from the Council attended the workshop in February.

Future of Local Audit: Consultation on Secondary Legislation, DCLG, January 2014

The Local Audit & Accountability Act 2014 received Royal Assent on 30 January 2014.

This Department for Communities and Local Government (DCLG) consultation was wide ranging, but also included proposals in relation to the Accounts and Audit Regulations. One important consultation question, of wider interest to authorities, is whether the local government financial statements production timetable should be brought forward. **The consultation has now closed. There is a separate report on this on the Committee's agenda.** The consultation can be found at:

<http://localaudit.readandcomment.com/>

Auditing the Accounts 2012/13, Audit Commission, December 2013

The Audit Commission's annual report on the stewardship of taxpayers' money by local public bodies 'Auditing the Accounts 2012/13', has found that in 2012/13, the quality and timeliness of financial reporting was consistently strong for most groups compared to last year, while councils and small bodies had improved further still. The Commission's Controller of Audit, Marcine Waterman stated: 'bearing in mind that the overwhelming majority of councils and small bodies already met their financial reporting responsibilities, even this slight improvement for 2012/13 really has to be commended, especially given the continuing financial pressures on local public bodies'.

This Council met all deadlines – in terms of submission of unaudited accounts, publication of the accounts on their website and also meeting the 30th September 2013 deadline.

<http://www.audit-commission.gov.uk/2013/12/commission-highlights-year-on-year-improvement-in-financial-reporting/>

Audit Quality Thematic Review: Materiality, Financial Reporting Council, December 2013

The Financial Reporting Council reported on its review of auditor's consideration and application of materiality. The review did not refer to the public sector, however the principles are relevant. **Our Audit Strategy Memorandum provides details of our assessment of materiality for the Council.**

<https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Thematic-Review-Materiality.pdf>

Audit Committees: practical guidance for local authorities, CIPFA, December 2013

This is a fully updated Chartered Institute of Public Finance and Accountancy (CIPFA) guide, taking account of developments in audit committees and legislation since the previous edition (in particular for changes to police bodies). **The Head of Internal Audit and Governance is aware of this update and he will be bringing an update to members at a future date.**

Financial statements: a good practice guide for local authorities, CIPFA, December 2013

Local government financial statements can be complex and readers can have difficulty identifying information they need. This CIPFA guide helps to identify issues and identify improvements in the production of accounts.

We will discuss this report with officers responsible for preparing the financial statements.

Tough Times 2013: Councils' Responses to Financial Challenges from 2010/11 to 2013/14, Audit Commission, November 2013

The Audit Commission's latest research, published in November 2013, Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14, shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges.

But, the Commission says, with uncertainty ahead, local government bodies must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

As reported in our Annual Audit Letter and VFM conclusion for 2012/13, to date the Council has demonstrated financial resilience. In common with the national picture, we also identified the Council faces significant financial challenges and difficult decisions will need to be considered.

<http://www.audit-commission.gov.uk/2013/11/councils-show-financial-resilience-but-must-continue-adapting/>

Oversight of audit quality, quarterly reports, Audit Commission, quarterly

Our regulator, the Audit Commission, also publishes quarterly and annual reports on the quality of the work it has outsourced to the firms. There are no significant issues highlighted in respect of Mazars LLP. **See section 5 for a summary of Mazars' internal quality control processes.**

<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/>

4. Protecting the Public Purse – Fraud Briefing: Hartlepool Borough Council

In our last Audit Progress Report, we highlighted the publication of the Audit Commission's Annual Fraud Report – Protecting the Public Purse. This report has been considered by the Council and there is a separate report on this Committee's agenda, therefore the key messages of the report are not repeated here.

However, the Audit Commission issued fraud briefings tailored for individual metropolitan and unitary authorities. **Therefore included below are the key charts showing the Council's comparative position in terms of levels and values of fraud detected (compared with North West, North East, Yorkshire and Humber metropolitan districts and unitary authorities).**

Figure 1: National Picture 2012/13

Total cases detected - 107,000, with a value of £178 million (excluding social housing fraud)

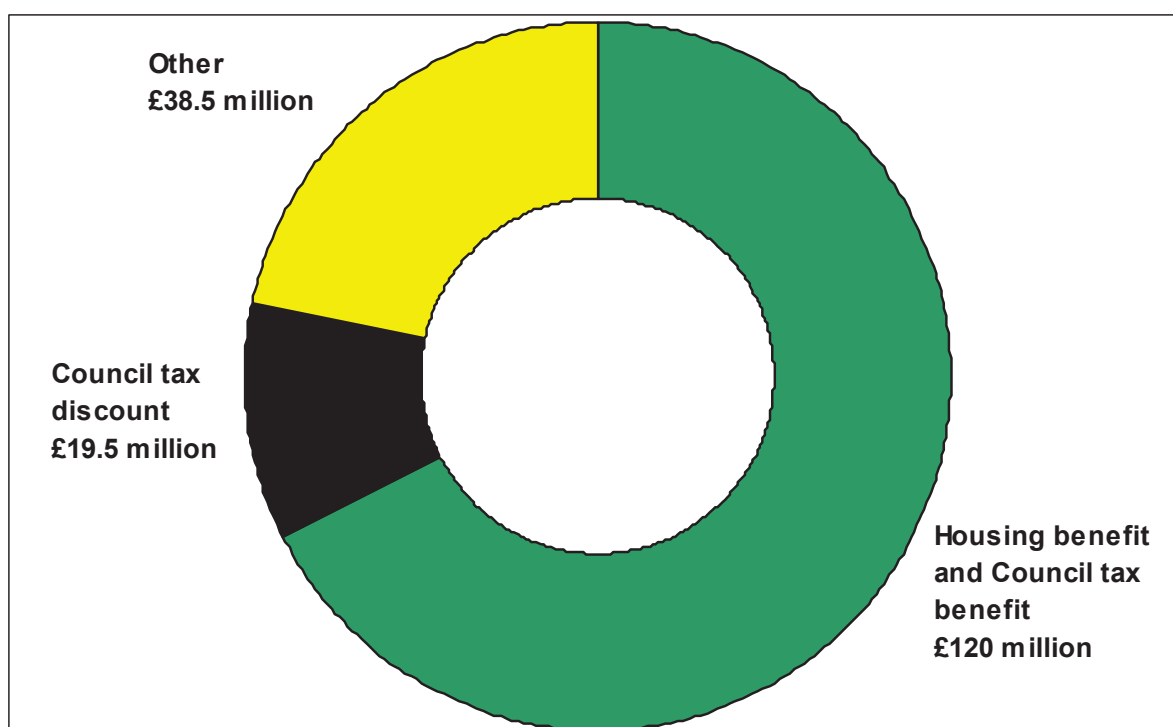
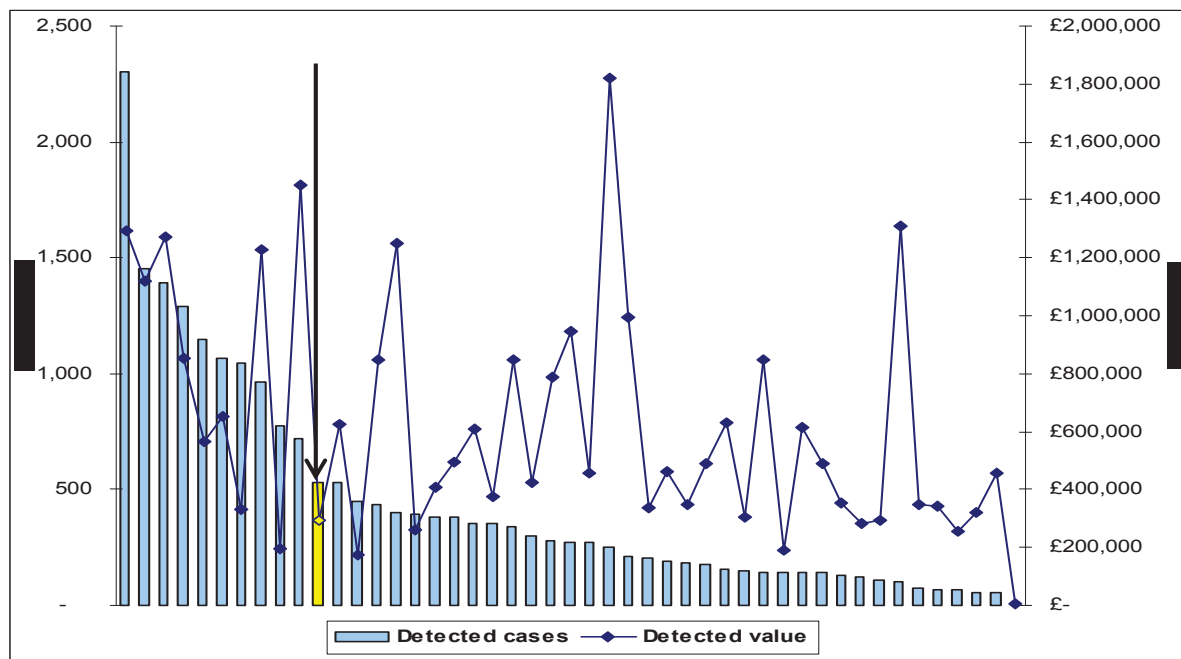


Figure 2: how the Council compares to other Northern metropolitan districts and unitary authorities - total detected cases and value 2012/13 (excluding social housing fraud)

If reading this in black and white, the Council is shown by the downwards arrow pointer



**Figure 3: Housing benefit (HB) and Council tax benefit (CTB) fraud 2012/13
Detected cases and detected cases as a percentage of HB/CTB caseload**

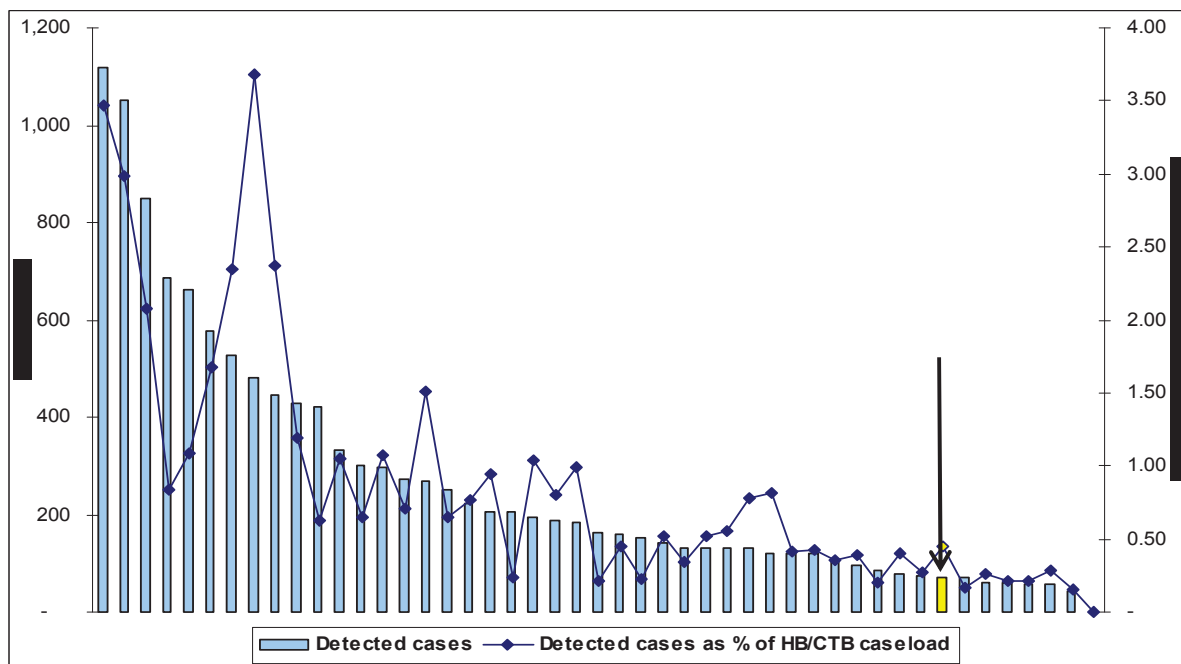
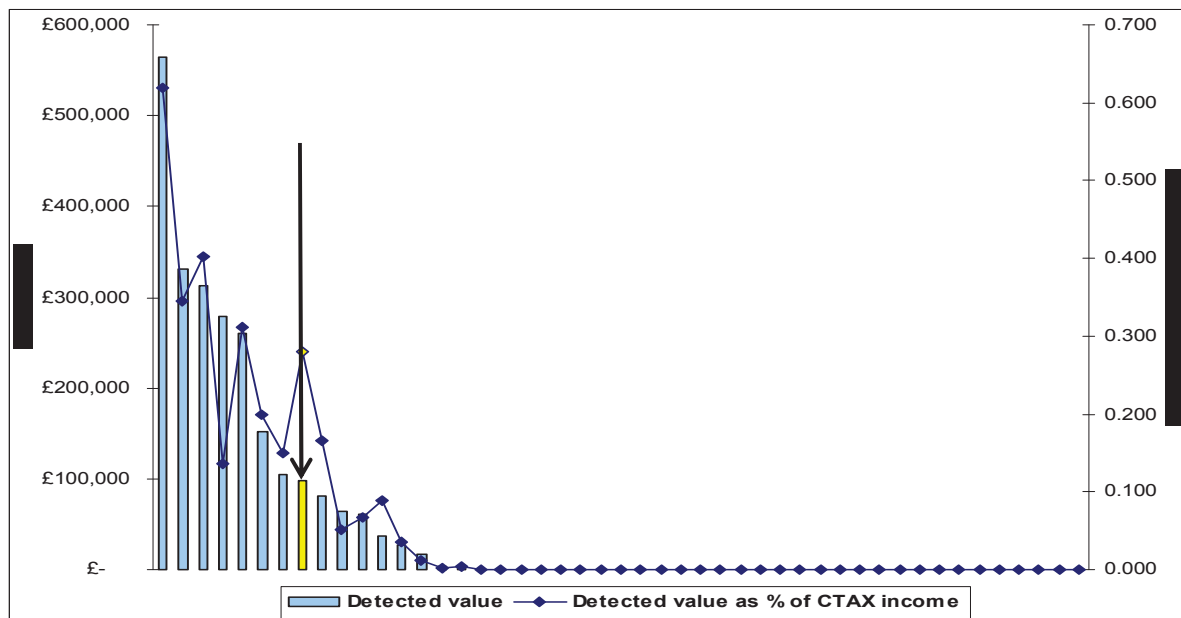


Figure 4: Council tax (CTAX) discount fraud 2012/13
Detected value and detected value as a percentage of council tax income



5. Mazars Quality Management Procedures

Quality Management

The following paragraphs summarise Mazars LLP's control and quality processes covering internal quality assurance procedures, audit methodology, continuing professional development procedures, management of conflicts of interest, client satisfaction and quality reporting processes.

Mazars LLP's processes are underpinned by a clear strategy for quality management. By quality management, we mean the process and procedures through the planning, execution and reporting of the audit. This:

- ensures delivery to contract specifications;
- guarantees the right resourcing of the assignment in terms of skill and timing;
- underpins the depth and quality of work, reporting and liaison; and
- provides a means of measuring both the performance and effectiveness of our external audit services.

Quality Control Processes

At a national level, we have a formal system of quality control led by our Standards and Risk Management team. This team inspects the technical work of each of our offices annually and subsequently shares learning across the firm. The team also quality reviews the work of individual engagement leads at least every three years depending on the results and action taken on previous reviews. We operate a licensing system for all engagement leads and managers. This ensures that for clinical commissioning groups we only appoint senior members of the firm with the appropriate expertise and experience of your sector. The firm has removed licenses where quality review has highlighted deficiencies in the capability of an engagement lead or manager.

Audit Manual

Mazars LLP has an audit manual that outlines our audit methodology, which includes chapters on specific sectors where the methodology needs to recognise different risks and reporting frameworks. We keep the manual under constant review and provide updates one or two times a year depending on developments in auditing standards and the learning we take from both internal and external quality control.

Mandatory Technical Training and Continuing Professional Development

Mazars LLP expects all audit staff to attend monthly mandatory technical training which they can 'attend' online via a webex facility and we monitor attendance rigorously. Annually, audit staff are required to confirm that they adhere to our policy

on continuing professional development. We have been accredited as meeting the requirements of relevant professional bodies. We check this every year.

Management of Conflicts

In respect of management of conflicts, Mazars LLP operates strong systems to achieve independence and objectivity. These systems involve the key procedures detailed below.

- Client acceptance and continuance of engagements which enables evaluation of the level of the client related risks, the firm's ability to perform the engagement and ethical risks in terms of independence and conflicts of interest.
- Provision of additional services to an audit client is subject to prior authorisation from the engagement lead and, in some cases, to the opinion of the head of ethics. It is also subject to authorisation of the client's audit committee. There are also additional procedures in place for Audit Commission contracts and non-audit fee work above certain thresholds.
- An annual declaration of independence by engagement leads and staff and thorough review of all situations that could compromise independence.
- Mandatory training for audit staff on ethical rules and in the firm's procedures in the area of ethics.
- Technical consultation with the experts on technical matters, ethics and other areas.
- Limits on fees per client in order to avoid financial dependence on one or several clients.
- Clear rules regarding conflicts of interest. When there is such a threat, either the assignment is refused, or appropriate safeguards are implemented.

Client Satisfaction Surveys

As part of our contract with the Audit Commission we send an annual client satisfaction survey to all bodies to identify areas for improvement.

Annual Transparency Report 2012/13

Each year Mazars LLP publishes a transparency report that sets out our quality control systems. We have summarised the key messages from the 2012/13 annual transparency report below.

Background

- Mazars LLP has in place a Governance Council (as well as an overarching Group Governance Council) which reviews the process for setting the strategy and budgets. It also approves the process for the appointment and remuneration of partners, ensures the Executive has appropriate management structures in place and has identified, and is managing, major risks. It also encompasses the Audit

Committee, made up of three members of the Governance Council and attended by one member of the Executive.

- Mazars in the UK has voluntarily committed to applying the Audit Firm Governance Code published by the Financial Reporting Council and the Institute of Chartered Accountants in England & Wales.

Mazars LLP quality assurance and risk management

- The Group Executive Board of Mazars takes overall responsibility for **internal quality control** and the carrying out of a periodic review of its effectiveness. The GEB is supported by the Technique and Innovation Global Support Unit (T&I GSU).
- The Mazars quality assurance and risk management policies are based on the standards of the International Federation of Accountants (IFAC).
- **Statement on the effectiveness of the independence safeguard systems of Mazars LLP:** Based on all the evidence collected, the management of Mazars LLP confirms, with a reasonable level of assurance, that the independence procedures and practices have been implemented and the system is effective in maintaining independence. Furthermore, management confirms that the practices have been subjected to internal review.
- Mazars LLP has an **Enterprise Risk management framework**, in accordance with the Turnbull principles.
- **Quality control system:** The policies and procedures adopted by Mazars are in compliance with the IFAC's quality control standards: ISQC1 "Quality control for firms that perform audits and reviews of financial statements and other assurance and related services engagements" and Revised ISA 220 "Quality control for an audit of financial statements." These procedures are documented in a Quality Assurance Manual available on the intranet.
- Each year, Mazars entities critically assess their Quality Control System through a monitoring program involving an assessment of the adequacy and effectiveness of the entity's procedures and a review of the entity's engagement files.
- **Statement on the effectiveness of the quality control system:** on the basis of its Quality Control monitoring conclusions, Mazars confirmed in December 2012 that it met the membership obligations of the Forum of Firms in all material respects.

Effectiveness overall: the firm's system of internal quality control is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by the firm are appropriate. The management of Mazars is content that the system is effective in the maintenance and improvement of audit quality.

The full report can be accessed from the Mazars website.

<http://www.mazars.co.uk/Home/News/Our-publications/General-publications/Mazars-UK-Transparency-Report-2012-13>

6. Contact details

Please let us know if you would like further information on any items in this report.

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AUDIT AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2013/14 UPDATE

1. PURPOSE OF REPORT

1.1 To inform Members of the progress made to date completing the internal audit plan for 2013/14.

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 school audits that have been completed and the recommendations made.

Table 1

Audit	Objectives	Recommendations	Agreed
Ward Jackson Primary	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - During the completion of the SFVS for 2013/14 the school should ensure that the document is discussed at the full Governing Body meeting and minuted before being signed by the chair of governors and sent to HBC. An action plan should be devised from any areas where further improvement needs have been identified. - Staff should continue to be vigilant and note dates by which invoices are to be 	<p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		<p>paid and attempt to make payment within the terms.</p> <ul style="list-style-type: none"> - Administrative staff are already aware of non order invoices and are making efforts to reduce the levels. The Head Teacher will also remind staff to notify the administrative office of purchases made to enable orders to be processed and budget committed. - The school has been provided with a copy of an agreement where the terms and conditions have been previously agreed with HBC Legal Services. This agreement should be used for all lettings and any changes to previously agreed dates/times/facilities should be notified to the school in writing for adequate records to be maintained for calculating charges. - The school should request a bank mandate from the bank. - The IT and electrical hardware inventory should be updated with the appropriate columns to record the required data for future purchases. The inventory should also be updated with a column to record the annual stockcheck. It is also recommended that the iPads are recorded alongside the other electrical hardware on the same inventory. - Ensure the process is completed as soon as practicable and records updated 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
West View Primary	Ensure school finance and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> - The adopted policy should be communicated to all relevant staff and a record maintained to evidence that they have read and understood the policy. - Contract procedure rules should be followed when acquiring goods/services in excess of £5,000 and the Governing Body should evaluate tender/quotation documentation for works in excess of those stated in the Contract Procedure Rules. - Expenditure incurred from the schools delegated budget should be made in accordance with the terms and conditions of the funding. - Adequate income records are completed to enable a reconciliation of all income received to be undertaken. - Access to SIMS should be restricted to authorised staff only. - The adopted policy should be communicated to all relevant staff who should sign a declaration of understanding to evidence that they have read and understood the policy. 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Audit	Objectives	Recommendations	Agreed
		- Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending.	Y
Greatham Primary	Ensure school finance and governance arrangements are in line with best practice.	- The school need to produce a medium term budget plan as soon as possible. The auditor understands the school have contacted Corporate and Schools Finance and a forward-planning visit to produce a medium term budget plan has been booked.	Y
		- All relevant documentation relating to the recruitment and selection process i.e. candidate assessment forms, panel summary forms etc should be retained for 6 months.	Y
		- A register of business interests (including 'nil' returns should be maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually.	Y
		- Contract Procedure Rules should be followed fully when acquiring goods / services above defined limits. All contract documentation should be retained securely.	Y
		- Guidance produced by HBC Schools information Governance Group should be used to develop Information Governance Policies for the school and also ensure that the school is meeting all its legal responsibilities in relation to the data it retains.	Y
		- Up to date DBS checks should be in place for all governors	Y

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

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

3.3 The benefits of the new arrangements are that:

- Ownership of both the internal audit report and any resulting actions lie with the client. This reflects the fact that it is the responsibility of management to ensure adequate procedures are in place to manage risk within their areas of operation. The new approach is much more focused 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 2013/14, other than schools, have been undertaken using the new process with management embracing the changes and compiling their own action plans to mitigate risks identified. Table 2 below summarises the assurance placed on those audits completed using the new process. More detail regarding each audit and the risks identified and action plans agreed is provided in Appendix A.

Table 2

Audit	Assurance Level
New Homes Bonus	Reasonable
Information Data Management	Reasonable
NSD Income Generation	Reasonable
Fuel Management	Reasonable
Public Sector Social Value Act	Reasonable
Main Accounting System	Reasonable
Council Tax Support/Housing Benefit	Reasonable
Debtors	Reasonable
Integrated Transport Unit – Private Vehicle Hire	No Assurance
Integrated transport Unit – Child and Adult Provision	Limited
Members Allowances	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 Table 3 below details the audits that were ongoing at the time of compiling the report.

Table 3

Audit	Objectives
Manor Residents Association/Who Cares North East	To give an opinion on the adequacy of the arrangements in place to manage and expend funding received from HBC.
Continuous Audit	Ongoing testing of fundamental systems.
Payroll	Ensure arrangements around legislation & procedures, outsourcing, claim based pay, data security, master data, starters, leavers, variations to pay, data processing and reconciliations to the FMS are adequate.
I.T Network Controls	Ensure a network strategy exists and standards and policies are in place to support its delivery. Connections and access to the network are approved and secure. Unauthorised access to data transmitted over the network is minimised. Management commission independent penetration testing. The risk and impacts of network failure are minimised. An information security policy has been established and communicated to all staff. Where applicable the Public Service Network self assessment form has been used to identify the controls in place, this information has been added to the 'system notes'.
Creditors	Ensure the systems and procedures in place for ordering, receiving and paying for goods/services to ensure that the supplies of goods and services are properly authorised and comply with Financial Procedure Rules.
Budgetary Control	Ensure adequate controls are in place in respect of budget setting and monitoring.
Children Services Capital Programme	Review the arrangements for developing the 2013/14 Schools Capital Programme using condition data and other relevant criteria to determine priority schemes, the monitoring of the 2012/13 Schools Capital programme to ensure schemes are completed on schedule and within budget and arrangements for procuring works.
Town/Borough Hall	Ensure that arrangements for collecting and processing income received in respect of lettings and bar takings. Review insurance; use of resources; procurement and performance management.
Highways Repairs and Maintenance	Ensure adequate arrangements are in place to manage the highways programme and expenditure.
Council Tax	Ensure adequate arrangements are in place to meet all legislative requirements.
Integrated Mental Health Partnership	Ensure adequate arrangements are in place to mitigate partnership risk.
NNDR	The audit is intended to review the controls in place to mitigate identified risk with testing undertaken to ensure that the controls are working effectively.
Cash/Bank	Review the procedures and processes in place for security, cash (and other income) collection, banking and reconciliations.
Loans and Investments	Give assurance that loans and investments are properly authorised, controlled and recorded in line with current Contract and Financial Procedure Rules.
Tees Archaeology	Examine the governance arrangements in place with regards to the partnership, in particular the areas relating to, service level agreement, service plan, performance management, partner contributions and budget monitoring arrangements, risk management and asset management.
Inspirations Coffee Shop	Ensure all income and stock is adequately recorded and is secure.
Employee Gifts and Hospitalitys	Ensure adequate arrangements are in place to record all instances in line with council policy.
Officer Expenses	Review expenses to ensure that all are claimed and paid in line with council policy.
Children Homes	Ensure adequate arrangements are in place for the day to day management of the establishment.

Extra Care Village	Audit objectives are that Extra Care schemes are delivered in accordance with national/local requirements, effective contract monitoring ensures that the full range of user/service outcomes are considered on a regular basis ensuring the delivery of strategic objectives and the Extra Care Service is delivered in a cost effective manner. Payments to providers are accurate and in accordance with Contract terms and conditions.
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- 3.7 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. **REASON FOR RECOMMENDATIONS**

- 5.1 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.

6. **BACKGROUND PAPERS**

- 6.1 Internal Audit Reports.

7. **CONTACT OFFICER**



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Appendix A

Audit	Objective			Assurance Level
New Homes Bonus	Review the potential for inaccurate council tax base data, the potential for inaccurate affordable homes data, non-compliance with the scheme expectation and the possibility of incorrect payments being received.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				

Audit	Objective			Assurance Level
Information Data Management	Identify where the information security risks are which could result in a security breach and identify what controls are already in place and/or what controls are intended to be put in place in the near future during or after the roll out phase to mitigate those risks.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
<p>Non-compliance with the Information Protection Policy could have a significant effect on the efficient operation of the Council and may result in financial loss and an inability to provide necessary services to customers. Unauthorised access to CONFIDENTIAL information.</p> <p>Potential sanctions (including financial penalties of up to £500,000) against the Council or individuals imposed by the Information Commissioner's Office as a result of information loss or misuse.</p> <p>Potential legal action against the Council or individuals as a result of information loss or misuse.</p> <p>Damage to the Council's reputation as a result of information loss or misuse.</p>		 <p>Likelihood</p> <p>Impact</p>	<p>Educating users on their responsibilities is part of the policy roll out currently underway within the authority. Compliance with the policy generally will be tested as part of the refresher training.</p> <p>Regular monthly reports from the Council's IT provider also give information on:</p> <ul style="list-style-type: none"> -The number of security incidents that have been reported to the IT service desk, -The number of IT assets that have virus alerts or issues reported by the virus software (Mcafee) on the HBC estate, -Emails activity / blocking, -Any vulnerable network assets server etc (Languard report). <p>CICT will also add security incidents as a call type on</p>	 <p>Likelihood</p> <p>Impact</p>

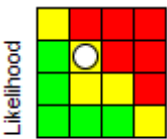
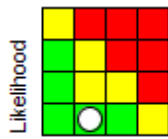
<p>Inadequate destruction of data. The loss of direct control of user access to information systems and facilities.</p>		<p>their call logging system to clearly identify any incidents. Information from all the above will be fed into user education / policy revision.</p> <ul style="list-style-type: none"> - identifying information assets, <p>Checks on the accuracy and currency of the data in the IT systems asset list will be carried out as part of the new ICT contract on an annual basis,</p> <ul style="list-style-type: none"> - risk assessing the information assets, <p>Formal risk assessments are currently not carried out, consideration around this will be undertaken by the information governance group.</p>	
<p>Information Security Incident Management Policy Risks: Non-compliance with this policy could have a significant effect on the efficient operation of the Council and may result in financial loss and an inability to provide necessary services to customers. To reduce the impact of information security breaches by ensuring incidents are followed up correctly. To help identify areas for improvement to decrease the risk and impact of future incidents. To educate users on lessons learnt and what can be done to prevent future incidents.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>The policy will be reviewed by the Information Governance Group this will include the Data Protection Officer role (Constitutional and Administrative Solicitor) in recording / reporting information security incidents. Educating users on their responsibilities to report and prevent incidents is part of the policy roll out currently underway within the authority. It will also be included in any refresher training on an ongoing basis. Compliance with the policy will be tested as part of the refresher training.</p>	 <p>Likelihood</p> <p>Impact</p>

Audit	Objective			Assurance Level
NSD Income Generation	Undertake an analysis of the income received and identify whether any further work is required to mitigate risk.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				

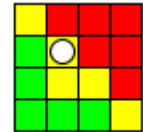
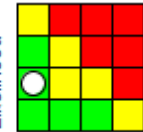
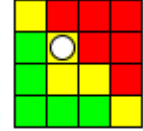
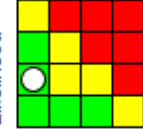
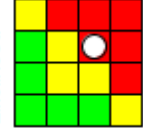
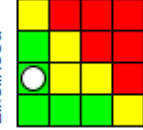
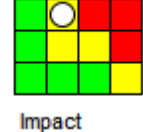

Audit	Objective			Assurance Level
Fuel Management	Ensure an effective fuel management system is in place which minimises consumption, provides for the security of fuel and reports usage accurately and completely			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
The fuel management system in place may not be capable of minimising consumption and assuring the security of fuel in an effective manner. Reporting mechanisms in place may not provide details of fuel usage accurately and completely.			When we take a delivery of fuel on receipt of the delivery note you are to input the delivery onto Time Plan system and checks are made to ensure that the actual stock of fuel and that recorded on Time Plan agree. All such checks are to be recorded. All deliveries are inputted on the Time Plan system.	

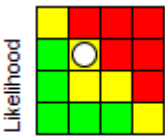
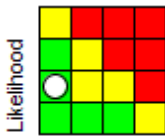
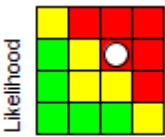
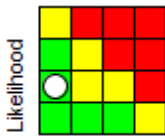
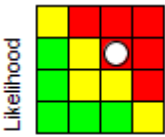
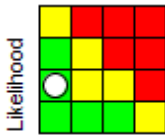
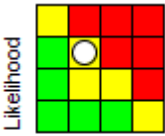
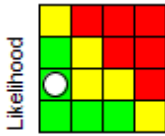
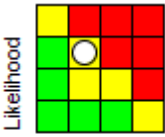
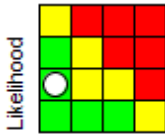
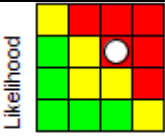
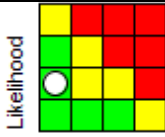
Audit	Objective			Assurance Level
Public Sector Social Value Act	Undertake an assessment of how the Act has been incorporated into HBC Contract Procedure Rules and training was undertaken to ensure that all staff involved in the process were aware of their roles and responsibilities.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				





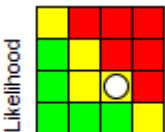





Audit	Objective			Assurance Level
Main Accounting System	Ensure identified risks are managed at an acceptable level with regard to legislative and regulatory requirements and that financial data is accurate and complete.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				


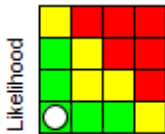




Audit	Objective			Assurance Level
Council Tax Support/ Housing Benefit	Review of Housing Benefit and Council Tax Support Scheme including claim processing - new claims, backdated claims and changes in circumstances and the calculation of support; arrangements for managing disputes to claim decisions; payments of Housing Benefit, including arrangements for recovering overpayments that arise; discretionary Housing Payments; fraud prevention and detection and data security.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Fraudulent activity may go undetected if effective arrangements are not in place to detect it. Investigations may not be undertaken in accordance with the Authority's Anti-Fraud & Corruption Policy.		 Likelihood Impact	Manager checks have recommenced with scheduled weekly caseload review as from 25.11.13 and review of sanction cases prior to hand over for decisions	 Likelihood Impact

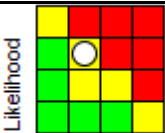
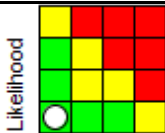
Audit	Objective			Assurance Level
Debtors	The audit will focus on providing assurance in the following areas: system security; debtor records (set up & use of); charging framework; debt collection; debt recovery and performance management.			Reasonable
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				



Audit	Objective	Assurance Level		
Integrated transport Unit – Private Hire	Review the current systems and processes in place relating to vehicle hire & recharging for both council and private hire use.	No Assurance		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Without the correct documentation being in place discrepancies relating to the booking cannot be validated and there would be no record of the request which may lead to vehicles being misappropriated without detection. Loss of income.	 <p>Likelihood</p> <p>Impact</p>	Booking and return processes to be reviewed and new improved system to be instigated – Written procedures will be modified to take this into account whilst using the current system, Bookings/ref numbers cancelled will be recorded on the system for audit purposes. Recent tests on ref No 7801 & 7810 show when booking aborted the reference numbers are deleted. The introduction of Fleetmaster will resolve this issue.	 <p>Likelihood</p> <p>Impact</p>	
Discrepancies relating to the booking cannot be validated and there would be no record of the return which may lead to vehicles being misappropriated without detection.	 <p>Likelihood</p> <p>Impact</p>	Generally the procedures will be modified to ensure vehicles are signed for both out and on return, recording both date and time. Out of hours returns needs to be reviewed as some times it is a necessity, again procedures will be modified to accommodate this. The introduction of Fleetmaster will resolve some of these issues.	 <p>Likelihood</p> <p>Impact</p>	
Drivers may not be suitably qualified to drive the vehicles on hire.	 <p>Likelihood</p> <p>Impact</p>	Driving licences are checked prior to release of vehicles, this will be reinstated as it is necessary to confirm the categories etc to ensure drivers can legally drive/operate vehicles/plant hired. A reminder to bring their licences will be added to the online booking form (mandatory field) and any Council employee who wishes to hire a vehicle through Fleet must be registered with the Road Safety Team and provide full licence details on an annual basis or as requested. The introduction of Fleetmaster will resolve this issue	 <p>Likelihood</p> <p>Impact</p>	
Without the correct documentation being in place discrepancies relating to the booking cannot be validated and there would be no record of the request which may lead to vehicles being misappropriated without detection.	 <p>Likelihood</p> <p>Impact</p>	No vehicle will be provided unless cost code is provided in advance and hired/booked by either eform or e-mail. The introduction of Fleetmaster will resolve this issue.	 <p>Likelihood</p> <p>Impact</p>	

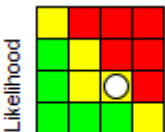

Unwarranted costs may be incurred by the Authority if vehicles are not off hired in a timely manner.	 <p>Likelihood</p> <p>Impact</p>	Normally all booking/off hire confirmation is supported by email - Vehicles to be off hired/stood down (with external hire company) will be confirmed by email - The introduction of Fleetmaster will resolve this issue.	 <p>Likelihood</p> <p>Impact</p>
Loss of income due to charges not being made and/or inappropriate/incorrect charges could be made.	 <p>Likelihood</p> <p>Impact</p>	Monthly review of all transactions will be undertaken to ensure that all necessary information is available to recharge user - The introduction of Fleetmaster will resolve this issue.	 <p>Likelihood</p> <p>Impact</p>
Inadequate records may result in charges not being made and/or incorrect/inappropriate charges being processed resulting in a loss of income to the Authority.	 <p>Likelihood</p> <p>Impact</p>	New system of recording short term hire to be established with monthly reconciliation of charges to service users –The short term hire book has been reviewed to include Name, dept, user etc. Charges to be recharged monthly. - Fleetmaster will enforce.	 <p>Likelihood</p> <p>Impact</p>
Inappropriate/incorrect charges could be made resulting in a loss of income.	 <p>Likelihood</p> <p>Impact</p>	Ensure that the current rates are used in all transactions and that a list containing these rates be available to staff and customers alike. Fleetmaster will enforce.	 <p>Likelihood</p> <p>Impact</p>
Income may not be received.	 <p>Likelihood</p> <p>Impact</p>	No vehicle to be taken without up front payment of hire charge. Bookings collected late in the day must be paid for in advance of “cashing up” or vehicle should not be issued –Fleetmaster will enforce.	 <p>Likelihood</p> <p>Impact</p>
Inappropriate/incorrect charges could be made. Fuel usage may be over or under stated resulting in a loss of income. Fuel may be misappropriated.	 <p>Likelihood</p> <p>Impact</p>	Establish a fuel recharge cost based on mileage and estimated economy of vehicles to be applied in all cases at the end of the hire period. – Fuel charges are being made three ways, spot hire sheets, computer direct and off the 'hire fuel key' log sheet, we are confident all fuel has been charged. For the hire key, in the past fuel	 <p>Likelihood</p> <p>Impact</p>

		charges have been made from the details 'hand written' on the log and it is the misinterpretation of the handwriting that has caused these issues, for future reference fuel amounts will be confirmed from the fuel computer. Fleetmaster will enforce.	
The Authority may be exposed to unacceptable financial loss if it does not have sufficient insurance cover.	 <p>Likelihood</p> <p>Impact</p>	Insurance records to be updated immediately as and when vehicles are brought into the system (i.e. delivered to Church Street Depot). The introduction of Fleetmaster will resolve this issue.	 <p>Likelihood</p> <p>Impact</p>
Fuel may be misappropriated. Inappropriate use of the fuel key may go undetected.	 <p>Likelihood</p> <p>Impact</p>	Fuel Key to be locked away at all times when not in use – A lockable key box/cupboard will be procured to accommodate both the fuel key and hired vehicle keys.	 <p>Likelihood</p> <p>Impact</p>
If keys are not kept securely this may result in unauthorised use of vehicles.	 <p>Likelihood</p> <p>Impact</p>	Keys to be kept secure at all times with access only to Fleet Services and appropriate Admin staff – A lockable key box/cupboard will be procured to accommodate both the fuel key and hired vehicle keys.	 <p>Likelihood</p> <p>Impact</p>
Fees may not be sufficient for the service provided resulting in a budget pressure. Amendments to rates are not properly approved and implemented resulting in a loss of income. Without a pricing policy, the system is open to abuse with the use of 'mates rates' going undetected.	 <p>Likelihood</p> <p>Impact</p>	New contract for the provision of hire vehicles to be prepared and put to tender for new financial year – This is the additions to the base hired in rate eg overheads, insurance etc. Fleetmaster will enforce.	 <p>Likelihood</p> <p>Impact</p>
Without adequate monitoring arrangements loss of income and/or fraudulent activities may go unnoticed.	 <p>Likelihood</p> <p>Impact</p>	Meetings to discuss performance will continue to take place monthly with Group Accountant, Technical Services Manager and Service Team Leader. Service Team Leader will be responsible for providing details as requested within one week of meeting.	 <p>Likelihood</p> <p>Impact</p>

Audit	Objective	Assurance Level		
Integrated Transport Unit – Child and Adult Provision	To examine the following areas of control: Policies, Procedures & Legislation; Service Users; Security; Contracts & SLA's; Income (private hire); Health & Safety; Budget Monitoring and Performance Management.	Limited		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
ITU has not followed the procurement process for checking all documentation on operators PQQ's. Operators may be uninsured for both vehicles and public liability insurance leading to huge reputational risk and potential financial risk.	 <p>Likelihood</p> <p>Impact</p>	All operators' details have been revised. 3 of the 16 operators on the current framework did not have Public Liability Insurance to the required level. All three have now increased their cover to the required insurance levels. Periodic inspections of Operators documents include a review of insurance requirements/ documents. Review of procurement processes and documents set in dairies in preparation for the next planned tender.	 <p>Likelihood</p> <p>Impact</p>	
Non/inaccurate payment of travel leading to a loss of income to the authority. Legislative requirements are not met due to the council generating income via private hire.	 <p>Likelihood</p> <p>Impact</p>	The booking sheet in relation to the private hire provision has been revised to require staff to indicate the pricing structure they have followed. In the first instance the schedule of rates should be used, if the journey is more unique then a bespoke estimate must be provided using the estimate sheet. A toolbox talk has taken place with all staff to advise them of the revised process and the need to complete all the relevant parts of the booking form.	 <p>Likelihood</p> <p>Impact</p>	
Drivers are not adequately qualified to drive vehicle, or trained to use equipment, lift passengers etc; HBC at risk of legal action/ large legal costs following an accident, vehicle or equipment used is damaged, resulting in an injury/accident.	 <p>Likelihood</p> <p>Impact</p>	All but three drivers have valid vehicle inspection training. Training for the remaining three will take place this week (w/c 06.01.14). 10 of the 34 drivers require a refresher of Passenger lift operation training; this is provided by a specialist trainer and has been arranged for February 2014. An annual review will take place to ensure training is kept up to date.	 <p>Likelihood</p> <p>Impact</p>	

Inaccurate information fed into PI's may lead to incorrect decisions being made.		All performance data is located on the new ITUY:drive and all relevant data is stored in files, spreadsheets or databases.	
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Audit	Objective		Assurance Level
Members Allowances	To review allowances and expenses for Members for the financial periods 12/13 and 13/14.		Reasonable
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
The Authority may not be complying with it's responsibilities in relation to either the deduction of taxation or the notification of taxable benefits to HMRC.		To be reviewed and any corrective action implemented during this financial year. Any reportable taxable benefits will be included in Payroll's end of year return to HMRC.	

Audit	Objective		Assurance Level
VAT	Ensure 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.		Reasonable
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Non compliance with VAT regulations resulting in VAT being incorrectly claimed which may result in a penalty.		Access to the "SLS - Default VAT code Amended on Inv Report" has now been granted by the Integra team. This will be reviewed quarterly and a small sample will be checked to verify amendments are appropriate.	

AUDIT AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2014/15

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 2014/2015 (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, of their current operational issues.

3 INTERNAL AUDIT RESOURCES 2014/2015

- 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 net budget for the provision of Internal Audit is £227,568, which equates to approximately £242 per audit day provided.
- 3.2 A total of 71 planned areas of audit coverage will form the basis of the mainstream Internal Audit work for 2014/15. 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 2014/15, 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 2014/2015 Internal Audit Plan and Internal Audit budget for 2014/15 of £227,568.

7. REASON FOR RECOMMENDATIONS

- 7.1 To ensure that the Audit Committee meets its remit, it is important that it satisfies itself that Internal Audit coverage is adequate and effective.

8. BACKGROUND PAPERS

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

9. CONTACT OFFICER

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Victoria Road
Hartlepool
T24 8AY

Tel: 01429 523173
Email: noel.adamson@hartlepool.gov.uk

Appendix A

Department Name		Assistant Director	2014/15
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	Computer Audit	Andrew Atkin	50
Chief Executives	Continuous Audit	Chris Little	100
Chief Executives	Council Tax	Chris Little	15
Chief Executives	Credit Card Payments	Chris Little	5
Chief Executives	Creditors	Chris Little	15
Chief Executives	Debtors	Chris Little	10
Chief Executives	Disabled Discrimination Act	Andrew Atkin	5
Chief Executives	Disclosure and Barring Scheme	Andrew Atkin	10
Chief Executives	Early Retirement/Voluntary Retirement Procedures	Andrew Atkin	10
Chief Executives	Employees Registers of Interest/Gifts and Hospitality	Andrew Atkin	5
Chief Executives	Fraud Awareness	Chris Little	50
Chief Executives	Health and Safety	Andrew Atkin	10
Chief Executives	Information/Data Management Security	Andrew Atkin	30
Chief Executives	Insurances	Chris Little	5
Chief Executives	Loans & Investments	Chris Little	5
Chief Executives	Local Council Tax Support Scheme	Chris Little	20
Chief Executives	Main Accounting	Chris Little	15
Chief Executives	Members Allowances/Travel/Subsistence	Andrew Atkin	2
Chief Executives	Middleton Grange Shopping Centre	Chris Little	5
Chief Executives	NFI	Chris Little	5
Chief Executives	NNDR	Chris Little	20
Chief Executives	Officers Expenses	Chris Little	5
Chief Executives	Risk Management	Andrew Atkin	10
Chief Executives	Salaries and Wages	Chris Little	15
Chief Executives	VAT.	Chris Little	3
Child and Adult Services	Brougham Primary School	Dean Jackson	5
Child and Adult Services	Free School Meals	Dean Jackson	5
Child and Adult Services	Golden Flatts Primary School	Dean Jackson	5
Child and Adult Services	Home Care	Jill Harrison	10
Child and Adult Services	Jesmond Gardens Primary School	Dean Jackson	5
Child and Adult Services	Kingsley Primary School	Dean Jackson	5
Child and Adult Services	Lynnfield Primary School	Dean Jackson	5
Child and Adult Services	Owton Manor Primary School Academy	Chris Little	5
Child and Adult Services	Placements	Sally Robinson	5
Child and Adult Services	Rift House Primary School	Dean Jackson	5
Child and Adult Services	Rossmere Primary School	Dean Jackson	5
Child and Adult Services	Seaton Carew Nursery	Dean Jackson	5
Child and Adult Services	Social Care - Contracts and Commissioning	Jill Harrison	10
Child and Adult Services	Social Care - Direct Payments	Jill Harrison	5
Child and Adult Services	Social Fund/Section 17	Sally Robinson	10
Child and Adult Services	St. Cuthbert's Primary School	Dean Jackson	5
Child and Adult Services	St. Helens Primary School	Dean Jackson	5
Child and Adult Services	St. Hilda's Secondary School	Dean Jackson	5
Child and Adult Services	St. John Vianney Primary School	Dean Jackson	5
Child and Adult Services	St. Joseph's Primary School	Dean Jackson	5
Child and Adult Services	St. Teresa's Primary School	Dean Jackson	5

Child and Adult Services	Stranton Primary School Academy	Chris Little	5
Child and Adult Services	Troubled Families Grant	Sally Robinson	10
Child and Adult Services	Wrap Around/After School Provision	Dean Jackson	5
Public Health	Increasing Levels of Physical Activity	Louise Wallace	5
Public Health	LA role in dealing with outbreaks/emergencies.	Louise Wallace	10
Public Health	Obesity Management Services	Louise Wallace	10
Public Health	Sexual Health Services	Louise Wallace	5
Public Health	Smoking Cessation Services	Louise Wallace	10
Regeneration and Neighbourhood	Bus Service/Fuel Operators Grant	Alastair Smith	5
Regeneration and Neighbourhood	Car Parking - Income	Alastair Smith	5
Regeneration and Neighbourhood	Empty Homes Programme	Damien Wilson	10
Regeneration and Neighbourhood	Energy Management	Alastair Smith	10
Regeneration and Neighbourhood	Highways - Repairs and Maintenance	Alastair Smith	10
Regeneration and Neighbourhood	Housing Options Centre	Damien Wilson	5
Regeneration and Neighbourhood	Integrated Transport Unit - Concessionary Travel	Alastair Smith	5
Regeneration and Neighbourhood	Integrated Transport Unit - Highways Capital Grant	Alastair Smith	5
Regeneration and Neighbourhood	Integrated Transport Unit - Private Hire	Alastair Smith	5
Regeneration and Neighbourhood	Project Management/Monitoring (Capital Programme)	Alastair Smith	10
Regeneration and Neighbourhood	Recycling/Landfill	Alastair Smith	5
Regeneration and Neighbourhood	Catering	Alastair Smith	10
Regeneration and Neighbourhood	Procurement	Denise Ogden	10
			750
ADMINISTRATION			
Corporate	Training/Development		50
Corporate	Administration		70
Corporate	Contingency/Advice/Support/Special Investigations		70
CFA			100
TOTAL			1040
Holidays			155
Contingency			25
Bank Holidays			40

Reviewing the Audit Plan

Appendix B

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 AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Chief Finance Officer

Subject: PROTECTING THE PUBLIC PURSE 2013

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Commissions publication “Protecting the Public Purse 2013”.

2. BACKGROUND

- 2.1 The 2013 version of the annual Audit Commission report *Protecting the Public Purse (PPP)* was published on 14th November 2013. That report highlights current and emerging fraud risks in Local Government. The report also provides summary information on fraud detection activities, based on the Audit Commission’s annual detected fraud and corruption survey.
- 2.2 This report has been produced for those responsible for governance in local government, particularly councillors. It is intended to help councillors protect valuable and increasingly scarce public resources. It covers these important themes:
- the scale and value of fraud detected by local government bodies in 2012/13;
 - whether fraud is in decline;
 - trends in housing tenancy and council tax discount fraud;
 - trends and threats in other significant fraud types;
 - national developments impacting on local government counter fraud.
- 2.3 The Audit Commission has compiled a checklist for those responsible for governance, attached as Appendix A, to which answers have been provided in relation to the Councils arrangements. More questions for councillors to consider in support of fraud briefings are attached as Appendix B and deal with more minor issues.

3. AUDIT COMMISSION PROPOSALS

3.1 As part of the report the Audit Commission has made recommendations it hopes will enable Local Authorities to fight fraud more effectively as detailed below:

3.2 **All local government bodies should:**

- use the Audit Commission checklist for councillors and others responsible for governance (Appendix A) to review their counter-fraud arrangements; and
- actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

3.3 **Councils in particular should:**

- Actively promote a **vigorous counter-fraud culture** by:
Enforcing robust sanctions for fraud and publicise the action taken, to enhance local deterrence;

Encourage councillors to play an enhanced role in managing the risk of fraud effectively; and

Review their own whistle-blowing arrangements in line with current best practice and applying the lessons learned from the findings of the 2013 Public Concern at Work research on whistle-blowing.

- Develop a **clear strategy** to tackle fraud by:
Reviewing their own counter-fraud strategies in the context of the national Fighting Fraud Locally (FFL) strategy to tackle local authority fraud; and

Reviewing their own arrangements against FFL good practice guidance to be issued in 2013 and 2014 about frauds in schools, business rates and personal budgets.

- **Work in partnership** to reduce fraud by:
Considering how best to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations;

Exploring joint working with other councils, particularly smaller councils with limited investigative capacity;

Realising the benefits of county councils and district councils working together to tackle blue badge fraud (disability parking) in two-tier areas.

- Prepare effectively for the introduction of the **Single Fraud Investigation Service** by:

Considering the impact that SFIS will have on their capacity to tackle non-benefit frauds;

Maintaining a capability to investigate non-benefit related fraud, proportionate to the risk;

Working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks.

- Allocate **sufficient resources** to tackling fraud by:
Focusing more on detecting and recording non-benefit fraud, particularly district councils;
- Targeting their counter-fraud resources where they will produce the most benefit, assessing the risk of harm against the measures needed to reduce it.
- Improve their use of **data to measure their performance** in tackling fraud by:
Challenging their performance in tackling non-benefit frauds, in particular against the results achieved by the top performing councils;
- Considering whether to apply the National Fraud Authority's (NFA's) Annual Fraud Indicator methodology to assess the local impact of the most financially significant frauds;
- Maximising the benefits of reporting frauds through the Action Fraud website;
- Requesting an individual fraud briefing from their external auditor.

3.4 **The Department for Communities and Local Government should consider:**

- Extending powers for councils to investigate all frauds, to protect the public purse; and
- What arrangements need to be put in place to collect and publish data on detected fraud against local public bodies, after the closure of the Audit Commission.

3.5 **Action Fraud**, the UK's national fraud and internet crime reporting centre, should provide regular and timely feedback to all local government bodies that use the Action Fraud reporting arrangements

4 **RECOMMENDATION**

4.1 It is recommended that Members note the contents of the Audit Commissions publication Protecting the Public Purse 2013 and the

actions taken by officers to implement those recommendations made that are applicable to the Council.

5. REASON FOR RECOMMENDATIONS

- 5.1 To provide assurance to the Audit and Governance Committee in relation to the arrangements the Council has in place in respect of combating fraud.

6. BACKGROUND PAPERS

- 6.1 Protecting the Public Purse 2013 (Appendix C).

7. CONTACT OFFICER

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Appendix A

General	Yes	No
1. Do we have a zero tolerance policy towards fraud?	●	
HBC Response: This is demonstrated and communicated in the Councils Fraud Strategy as approved by the Audit and Governance Committee.		
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?	●	
HBC Response: The Councils Fraud Strategy was rewritten inline with Fighting Fraud Locally and agreed by the Audit and Governance Committee.		
3. Do we have dedicated counter-fraud staff?	●	
HBC Response: Both in Revenues and Internal Audit.		
4. Do counter-fraud staff review all the work of our organisation?	●	
HBC Response: Yes.		
5. Does a councillor have portfolio responsibility for fighting fraud across the council?	●	
HBC Response: Responsibilities for corporate governance, risk management and anti fraud arrangements lie with the Chair of Audit and Governance Committee as outlined in the Constitution.		
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	●	
HBC Response: Regular updates given to management on instances of fraud and action taken to rectify any issues arising.		
7. Have we assessed our management of counter-fraud work against good practice?	●	
HBC Response: Fraud work measured against both Fighting Fraud Locally and CIPFA's Fraud "Red Book".		
General	Yes	No
8. Do we raise awareness of fraud risks with:		
■ new staff (including agency staff);	●	
■ existing staff;	●	
■ elected members; and	●	

■ our contractors?	●	
HBC Response: Induction process is in place and training is planned for all relevant staff and members. All contractors made aware of Council expectations.		
9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	●	
HBC Response: Council is member of National Better Governance Forum, National Anti Fraud Network and North East Fraud Forum.		
10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	●	
HBC Response: Through local CFO and Internal Audit networks as well as NFI and NAFN alerts.		
11. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	●	
HBC Response: All controls reviewed on a risk basis and improvements made where necessary in a timely manner.		
12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	●	
HBC Response: Yes		
13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	●	
HBC Response: Money Laundering Policy in place and communicated to all relevant staff.		
General	Yes	No
14. Do we have effective arrangements for:		
■ reporting fraud?; and	●	
■ recording fraud?	●	
HBC Response: Protocol in place between HR and Internal Audit and CMT updated regarding their responsibilities.		
15. Do we have effective whistle-blowing arrangements? In particular are staff:		
■ aware of our whistle-blowing arrangements?	●	
■ have confidence in the confidentiality of those arrangements?	●	

■ confident that any concerns raised will be addressed?			●
HBC Response: Whistleblowing Policy in place in line with Public Interest Disclosure Act requirements and communicated to staff.			
16. Do we have effective fidelity insurance arrangements?			●
HBC Response: Comprehensive insurance cover in place via self funding and external arrangements.			
Fighting fraud with reduced resources		Yes	No
17. Have we reassessed our fraud risks since the change in the financial climate?			●
HBC Response: Resources reviewed in line with CIPFA's Fraud "Red Book" and Fighting Fraud Locally.			
18. Have we amended our counter-fraud action plan as a result?			●
HBC Response: Development of arrangements is ongoing.			
19. Have we reallocated staff as a result?			●
HBC Response: Reallocated resources within the Internal Audit plan.			
Current risks and issues		Yes	No
Housing tenancy			
20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?			●
HBC Response: N/A			
21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?			●
HBC Response: N/A			
Procurement			
22. Are we satisfied our procurement controls are working as intended?			●
HBC Response: Verified via independent Internal Audit review.			
23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?			●
HBC Response: Contract Procedure Rules subject to thorough review.			
Recruitment			
24. Are we satisfied our recruitment procedures:			

- prevent us employing people working under false identities;
- confirm employment references effectively;
- ensure applicants are eligible to work in the UK; and
- require agencies supplying us with staff to undertake the checks that we require?

HBC Response: Safer recruitment procedures are in place and subject to independent Internal Audit review.

Current risks and issues

Yes

No

Personal budgets

25. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?

●

HBC Response: Procedures updated in proportion to risk and subject to independent Internal Audit review.

26. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?

●

HBC Response: Whistleblowing Policy in place in line with Public Interest Disclosure Act requirements and communicated to staff.

Council tax discount

27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?

●

HBC Response: Via periodical internal review as well as NFI and Data Tank external review.

Housing benefit

28. When we tackle housing benefit fraud do we make full use of:

- National Fraud Initiative;
- Department for Work and Pensions Housing Benefit matching service;
- internal data matching; and
- private sector data matching?

●

●

●

●

HBC Response: All of the above undertaken on a periodical and risk assessed basis.

Emerging fraud risks	Yes	No
<p>29. Do we have appropriate and proportionate defences against emerging fraud risks:</p> <ul style="list-style-type: none"> ■ business rates; ■ Right to Buy; ■ Social Fund and Local Welfare Assistance; ■ council tax reduction; ■ schools; and ■ grants? 	<p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p> <p>●</p>	
<p>HBC Response: All operational areas assessed as part of fraud risk assessment within the Internal Audit plan.</p>		

Appendix B

Questions for councillors to support 2013 individual fraud briefings

These questions are designed to be used in conjunction with individual fraud briefings for local authorities. Together, they will help councillors do more to improve public confidence in their council's efforts to tackle fraud in a range of areas.

Tenancy fraud

- Has my organisation attempted to quantify the scale of tenancy fraud that our housing stock is subject to (at least 4 per cent in London, 2 per cent outside London)?
- Does my organisation have a strategic plan to tackle tenancy fraud?
- Does my organisation have any dedicated investigative resources specifically allocated to tackling tenancy fraud?
- Are the resources dedicated to tackling tenancy fraud proportionate to the scale of the problem?
- Did my organisation receive any non-ring fenced government funding, for 2013 and 2014, to tackle tenancy fraud?
- If yes, has all that funding been allocated to tackle tenancy fraud?
- If yes, have my organisation engaged with local housing associations to maximise the benefit of such funding for the community?
- Is my organisation a member of Tenancy Fraud Forum, including any regional forum group?
- Does my organisation maximise the benefits of participating in data matching, such as the National Fraud Initiative, to identify tenancy frauds?
- What assurances are there that any tenancy audits undertaken are robust, specifically intended to identify tenancy frauds and follow recognised best practice?
- Has my organisation considered the Prevention of Social Housing Act, including the scope for greater partnership with housing associations?

Council tax discount

- How effectively does my organisation use data matching activities to tackle council tax discount fraud, including the National Fraud Initiative?
- How well does my organisation use all forms of sanction and punishment, including penalties, criminal action and targeting previous years' fraudulently obtained discounts?

- Is my organisations policy on applying sanctions to deter council tax discount fraud effective?

Right to Buy

- Does my organisation review all applications for Right to Buy discounts?

Housing benefit fraud

- Has my organisation considered the impact of Single Fraud Investigation Service (SFIS) implementation from April 2014, on capacity to investigate non-benefit fraud?
- Has my organisation considered how best to work with SFIS to ensure local priorities and risks continue to be reflected in local activities to tackle benefit fraud?

Council tax reduction

- Does my council have a strategy to tackle Council tax reduction fraud?
- How well does this strategy combine proactive and reactive approaches to tackling fraud?

Social care

- How effective is my council's fraud awareness training for all staff working in social care (including those working for contracted providers), to identify suspected social care fraud?
- How good are my council's whistle-blowing arrangements for all staff working in social care?

Business rates fraud

- How effective is my council in maximising its income by tackling business rates fraud?

Blue badge fraud (disability parking concessions)

- How effectively does my council take action to tackle abuse of blue badge and other parking concessions?

Preventing other frauds

- How confident am I that staff in my council are aware of the risks of other high value, low frequency frauds and routinely apply all necessary controls to ensure that they do not occur?

Deterrence

- How effectively does my council detect fraud?
- How appropriate are the punishments we apply for fraud?
- How well does my council publicise its success in detecting fraud?

AUDIT AND GOVERNANCE COMMITTEE

20 March 2014



Report of: Chief Finance Officer

Subject: LOCAL AUDIT AND ACCOUNTABILITY BILL
UPDATE

1. PURPOSE OF REPORT

- 1.1 To update Members on proposals for new local audit arrangements as published in the Local Audit and Accountability Bill published by the Department for Communities and Local Government and to inform members of the reply made to consultation on secondary legislation.

2. BACKGROUND

- 2.1 In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market.
- 2.2 The Audit and Governance Committee responded to consultation on the Draft Local Audit Bill at its meetings of 21.09.12 and 25.07.12. In both responses the Committee questioned the need for an independent auditor appointment panel to advise the Council on the future appointment of external auditors with a majority of independent members of the public to both chair and sit on this panel.
- 2.3 The Committee felt the need for the appointment and remuneration of an independent panel of the public is not needed when current arrangements in respect of Audit Committees could adequately undertake this role without additional expense whilst retaining independence from the executive. The Committee stated that it believed that Local Authorities should be given the opportunity to decide whether existing governance arrangements in place could adequately perform the role of the panel.

3. GOVERNMENT PROPOSALS

- 3.1 The effect of the Local Audit and Accountability Bill would be to abolish the Audit Commission and to establish new arrangements for the audit and accountability of local public bodies in England.
- 3.2 A requirement will be placed on relevant authorities to appoint an external and independent auditor on the advice of an independent auditor panel and to publish information about the appointment within 28 days of appointment.
- 3.3 The Bill creates a new regulatory framework for local audit which applies, with modifications, Part 42 of the Companies Act 2006, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local audit services.
- 3.4 The Bill transfers responsibility for setting the code of audit practice and supporting guidance to the National Audit Office, and provisions for how the code should be approved by Parliament. The Audit Commission's data matching powers for the purposes of assisting in the prevention and detection of fraud will be transferred to the Secretary of State or the Minister for the Cabinet Office.
- 3.5 A power for the Secretary of State to commission an inspection of a best value authority, mirroring current powers in existing legislation is set up. Powers for the National Audit Office to undertake examinations of thematic value for money issues relating to groups of relevant authorities, and to access information held by the latter where the National Audit Office needs it to fulfil its responsibilities is also included.
- 3.6 The Bill also amends the council tax referendums provisions in Chapter 4ZA of Part 1 of the Local Government Finance Act 1992 so that levies are included in a local authority's calculation of whether its council tax is excessive for the purpose of determining whether it is required to hold a council tax referendum.
- 3.7 In December 2013 the Government consulted on secondary legislation in respect of the Bill. Due to the timing and nature of the consultation it was not possible to report this to the Audit and Governance Committee prior to replying so, as in the past, officers replied on behalf of the Committee. The response mirrored what the Audit and Governance Committee had previously approved and again made the point about the need and role of an independent audit appointment panel.
- 3.8 The Act gained Royal Assent on 30th January and will bring about the closure of the Audit Commission. It has been reported that after lobbying on the role of the independent audit appointment panel, a national procurement route for the provision of Council external audit will be maintained. This has been seen as a major victory for Local Government and recognises concerns the Audit and Governance

Committee has consistently raised. The exact nature of how this works is not yet known as the legislation allows the Minister to produce guidance in the form of Regulations. Although it is thought that Councils will be able to opt in to the arrangements.

4 RECOMMENDATION

- 4.1 It is recommended that Members note that the Local Audit and Accountability Bill has gained Royal Assent and the role the Committee played in successfully lobbying the Government in respect of the role of independent audit appointment panels. Members will be kept fully apprised of actions the Council needs to take to comply with the Bill.

5. REASON FOR RECOMMENDATIONS

- 5.1 To ensure that the Audit and Governance Committee is kept up to date with all issues that are relevant to the pursuance of its remit.

6. BACKGROUND PAPERS

- 6.1 Local Audit and Accountability Bill.

7. CONTACT OFFICER

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