

AUDIT COMMITTEE AGENDA



Tuesday 17th January 2006

at 10.00am

in Committee Room C

MEMBERS: AUDIT COMMITTEE:

Councillors: Allison, Hall, Preece, R Waller and Wistow

1. **APOLOGIES FOR ABSENCE**
2. **TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS**
3. **MINUTES**
 - 3.1 To confirm the minutes of the meeting held on 25th October 2005 (*attached*)
4. **ITEMS FOR DISCUSSION/DECISION**
 - 4.1 Audit Commission IT Report and Annual Audit and Inspection Letter – *Chief Finance Officer*
 - 4.2 Internal Audit Plan 2005/06 Update – *Chief Internal Auditor*
 - 4.3 Internal Audit Plan 2006/07 – *Chief Internal Auditor*
5. **ANY OTHER ITEMS WHICH THE CHAIR CONSIDERS ARE URGENT**

AUDIT COMMITTEE

MINUTES AND DECISION RECORD

25th October 2005

Present:

Councillors Derek Allison, Gerard Hall, Arthur Preece and Ray Waller

Officers: Tony Brown, Chief Solicitor
Mike Ward, Chief Financial Officer
Noel Adamson, Group Auditor
David Cosgrove, Principal Democratic Services Officer
Jo Wilson, Democratic Services Officer

1. Appointment of Chair

Councillor Hall was appointed Chairman of the Committee.

2. Apologies for Absence

Apologies were received from Councillor Gerald Wistow.

3. Declarations of interest by members

None

4. Presentation regarding Internal Audit and the Function and Role of an Audit Committee *(Chief Financial Officer)*

The Chief Financial Officer reported on the function and role of Internal Audit. Internal Audit was a statutory, professional and corporate requirement to provide an independent and objective opinion on the Council's internal control environment. Audit Officers tested various policies and procedures and ensured corrective action was taken where weaknesses were found.

Mr Adamson went on to explain the function and role of an Audit Committee. Members were informed of the remit of the Committee, as agreed by Council on the 4th November 2004 and given details of a proposed timetable for future meetings. Members raised the following issues

- The relationship between the Chief Financial Officer and Internal Audit –

Mr Adamson explained that the Chief Financial Officer, as Section 151 Officer, had a legal and professional requirement to ensure the Audit Section acted independently. Mr Ward informed members that external audit also reviewed internal audit procedures to ensure their independence and objectivity.

- The relationship between Internal and External Audit. Mr Adamson explained that there was liaison to ensure the minimum duplication of work. The Chief Financial Officer indicated that the District Auditor would also check Internal Audit to ensure their independence had not been compromised.
- The overlap of functions between Audit Committee and Scrutiny. The Chief Financial Officer explained that the functions carried out by the Audit Committee were previously part of the former Resources Scrutiny Forum's remit. The Chief Solicitor said the Audit Committee's function was to ensure Council financial policies were carried out properly, not to determine these policies. Members felt it was not their role to look at issues delegated by Scrutiny as they were more concerned with value for money while the Audit Committee needed to ensure the systems in place were working properly.

Decision

That members note the report and agree the proposed timetable.

5. Internal Audit Functions and Internal Audit Plan 2005/06 *(Chief Internal Auditor)*

The Chief Internal Auditor reported on the proposed Internal Audit Plan for 2005/2006. Internal Audit performance targets were detailed and proposals for delivery of audit and integration between Internal Audit and the Audit Commission were explained to members. The Internal Audit Annual Plan and Statement of Purpose, Responsibility and Authority were attached as appendices to the report. Members raised the following issues.

- Internal Audit staff allocation. Mr Adamson reported that there were nine staff in the team. A member queried their responsibility to provide an audit service to Cleveland Fire Authority. The Chief Financial Officer confirmed there was a contract to provide audit functions for the Fire Authority. The work schedule for the team would generally only be affected by the need to undertake a major unforeseen investigation.
- The relation between audit and the budget. Mr Adamson said they would look at general budget monitoring procedures rather than budget over or under spending. From an audit point of view, as long as any over or under spends were identified, the budget monitoring process was working correctly.

- The auditing of schools. A member asked if this should be the responsibility of the Council as schools had been given budgetary freedom by the Government. Conversely, as teachers were paid by the Council should there be some responsibility for auditing schools? The Chief Financial Officer explained that the Children's Services department had a strategic responsibility to ensure school audits were carried out. The Council were under no responsibility to carry out the audits but there would be budget implications for schools to do it themselves. Mr Adamson reported that the schools valued the audit process as it gave them information on the way school operations could be improved.
- The auditing of debtors balances - the Chair queried the role of Internal Audit in this area. Mr Adamson indicated that the audit of the debtors systems in 2005/06 would examine and test the controls in the system. Business rates and write-offs would also be examined and the conclusions reported to the Committee.

Decision

That the 2005/2006 internal audit plan and the Statement of Purpose and Responsibilities be approved.

6. Internal Outcome Audit Report (*Chief Internal Auditor*)

The Chief Internal Auditor reported on the audit work carried out between April 2004 and March 2005. Members were given detailed information on the time and staffing allocated to the Council's audit plan. The final report showed that key systems were operating soundly, there had been no fundamental breakdown in controls and satisfactory arrangements had been implemented to ensure the effective, efficient and economic operation of the Council's financial affairs. The performance indicators for Internal Audit showed that all completion targets set by the department had been met or exceeded. A summary of the planned work completed for 2004/2005 and list of recommendations made were attached as appendices to the report.

The Chair asked if their success in meeting the targets would go toward the Council's CPA rating and was informed it did form one of the measures. Members asked if the recommendations in the reports had been implemented. Mr Adamson said Officers were in the process of checking this but so far they had been. The possibility of rating individual departments was raised but the Chief Financial Officer explained that Internal Audit rated the potential loss risk of differing functions rather than departments. Members questioned if the audit procedures used were based on any standards. Mr Adamson explained that all departments had a national code of practice which they would use when developing their own procedures. Internal Audit would then examine these procedures in line with national standards.

Decision

That the report be noted.

J A BROWN

CHIEF SOLICITOR

AUDIT COMMITTEE

17th January 2006



Report of: Chief Financial Officer

Subject: AUDIT COMMISSION IT REPORT AND
ANNUAL AUDIT AND INSPECTION LETTER

1. PURPOSE OF REPORT

- 1.1 To inform members of the two most recent Audit Commission reports agreed by officers.

2. BACKGROUND

- 2.1 It was agreed that part of the remit of the Audit Committee would be to receive and review all Audit Commission reports. To meet this requirement the two most recently agreed Audit Commission reports are attached. More information about the content of the reports and the Councils response are included in the detailed report.

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

Members note the contents of this Report.

Report of: Chief Financial Officer

Subject: AUDIT COMMISSION IT REPORT AND
ANNUAL AUDIT AND INSPECTION LETTER

1. PURPOSE OF REPORT

- 1.1 It was agreed that part of the remit of the Audit Committee would be to receive and review all Audit Commission reports. To meet this requirement the two most recently agreed Audit Commission reports are attached.

2. DETAILED AUDIT COMMISSION REPORTS

- 2.1 Copies of the Audit Commissions two most recent reports are attached as follows:

Appendix A - Key Systems Controls,
Appendix B - Annual Audit and Inspection Letter 2004/05,

and the key issues identified in these reports are highlighted in the following sections. These reports will also be referred to the Scrutiny Co-ordinating Committee.

3 AUDIT COMMISSION REPORT “KEY SYSTEMS CONTROLS”

- 3.1 In order to give its annual opinion on the Council's accounts, the Audit Commission review the Council's main accounting system and feeder systems. Internal Audit reviews which were carried out on these systems concentrated on manual controls, therefore, the Audit Commission carried out testing on the IT controls within these systems.
- 3.2 The review carried out by the Audit Commission concentrated on the following areas:
- Review and assess the operation of controls over the update of systems,
 - Ascertain and evaluate the controls over the integrity of data,
 - Review the controls over user access,
 - Review the controls over backup and recovery for systems.
- 3.3 An IT specialist undertook the work for the Audit Commission and highlighted areas where improvements could be made. These related to:

- Disaster recovery arrangements,
- Password and access controls,
- Monitoring, reviewing and testing system security,
- Increased Internal Audit coverage of IT controls/security.

3.4 Sixteen recommendations were made in the report and agreed by officers. The report highlights that considerable progress has been made in terms of implementing recommendations made and agreeing strategies for future implementation.

3.5 Whilst it is accepted that a number of criticisms have been made in the report, a number of measures have been taken to address areas of concern highlighted. This includes training for all Internal Audit staff, which was provided by the Audit Commission and will enable a more comprehensive review of these areas to be undertaken internally in the future.

4 AUDIT COMMISSION REPORT “ANNUAL AUDIT AND INSPECTION LETTER”

4.1 This report advises Members that under the new CPA assessment criteria the Council's performance has been judged as four-star (the highest rating). The report indicates that the Council's priorities are clearly defined and informed by effective community engagement.

4.2 The CPA judgement has been made using the revised methodology, “CPA – The Harder Test”, which is a more stringent test with more emphasis placed on outcomes for local people and value for money. A direction of travel judgement is now part of the test and measures how well the Council is improving. Under the new framework the Council is judged as improving well (the second highest rating).

4.3 Although the report is positive, there were some areas identified where action is needed by the Council:

- Monitor the application of reserves and balances and periodically review levels of reserves to ensure that they are still required or sufficient for purpose; and
- Ensure that the Council's internal control framework is mapped and evaluated in 2005/06 and that action plans to address identified weaknesses are implemented.

4.4 In relation to the above the following issues are brought to Members attention in relation to points 1 and 2:

- Point 1 - The Audit Commissions findings are based on the position applying at the 31st March 2005, as the Auditor is required to report on what the Council had done at that date and not what it intends to do in the future. Since that time a comprehensive review of the Council's reserves and balances

has been completed by the Scrutiny Co-ordinating Committee (SCC) and SCC have issued a detailed report to Cabinet on their findings.

This report confirms that the majority of the Council's reserves are needed for the purpose identified. However, the report did identify three reserves, with a total value of £2.197m, which SCC recommended could be returned to the authority's General Fund Reserve, as follows:

- Coastal Defences reserve £1.598M;
- Benefit Subsidy reserve £0.549M;
- Council Tax Revaluation Reserve £0.05M.

Cabinet has now considered the reported issued by the SCC and agreed with the proposal to return the above resources to the General Fund Reserve. Whilst, Scrutiny did not consider the usage for such funds, Cabinet has now determined to use this amount to partly fund unbudgeted Equal Pay costs. These proposals were set out in the draft Budget and Policy Framework proposals, which are currently being subject to formal scrutiny.

Further details in respect of the above issue and the Councils overall reserves will be reported within the final Budget and Policy Framework proposals, to be referred to Council on 10th February 2006.

- Point 2 - The Audit Committee has been given the remit of raising awareness of internal control, reviewing controls and financial operations and developing an anti-fraud culture. It will receive reports from Internal Audit that will allow the Committee to review both the internal control environment and the Statement of Internal Control for 2005/06, addressing weaknesses and ensuring corrective action is taken.

5. RECOMMENDATIONS

Members note the contents of this Report.

Key Systems Controls

Hartlepool Borough Council

Audit 2005-2006

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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Summary report

Introduction and background

- 1 The main accounting system forms the basis for the Council's annual accounts which are reviewed to form our opinion. It is the most fundamental system the Audit Commission presently audits and we will be required to undertake sufficient work to ensure compliance with the International Standards of Accounting (ISA) from 2005/06 onwards.
- 2 The Council also has many other systems that feed or receive data to/from the main accounting system, which is currently CODA Financials. Therefore the controls applied to departmental systems are also important in terms of ensuring data integrity and reducing the risk of material errors or the likelihood of fraud.
- 3 A recent review of Internal Audit reviews of key systems has indicated that this work has concentrated on the manual controls within systems. Therefore, there was a need for greater coverage of IT controls that support such systems and therefore additional work was required to provide the opinion for 2004/05.

Scope, objectives and audit approach

- 4 The review was designed to address both the opinion and corporate governance elements of our code of practice responsibilities. The main areas included in the review and how we approached the work are as follows.
 - Document the flow of information to and from the general ledger (CODA) in order to identify the system interfaces and key controls.
 - Review and assess the operation of controls over the update of the systems.
 - Ascertain and evaluate the controls over the integrity of data.
 - Review the controls over user access.
 - Review the controls over backup and recovery for system.
- 5 In order to satisfy the above scope, an IT Specialist has:
 - mapped the processes and controls for the interfaces between systems;
 - identified key controls and tested these where appropriate;
 - reviewed the arrangements for user access on all key systems and tested the key controls where appropriate; and
 - reviewed the arrangements for backup, recovery and disaster recovery for key systems and tested key controls where appropriate.

Main conclusions

- 6 Overall, the arrangements for access controls and disaster recovery supporting the key systems the Council operates were assessed as weak. The Council has now addressed a number of these issues and is working with its IT partner and system providers to address the remaining issues. The weaknesses relate to:
 - password and access controls did not comply with recommended industry standards;
 - a lack of proactive monitoring, review or testing by the Council of the security of the systems; and
 - Internal Audit activity concentrated on manual control process and there was limited coverage by Internal Audit of IT controls/security of systems
- 7 At the time of review, CODA provided weak password security for the users of the system. It is acknowledged that the Council has now addressed the weaknesses identified in the review. The Council recognises that these controls need to be replicated in the new Financials application.
- 8 I-World currently provides effective security for the users of the system but weaknesses were identified in the excessive number of privileged job roles and weak password security for the highest privileged user of the system. Plans are currently being developed to remedy the identified weaknesses in conjunction with the system supplier.
- 9 Prolog currently provides weak security for the users of the system in part due to the number of platforms users must log on to for system access resulting in ineffective/weak controls for logical access and also due to system limitations. The Council is currently investigating the system limitations to determine whether solutions are financially feasible and compensating controls are being implemented.
- 10 The AS400 on which the Prolog and CODA systems reside currently provides limited security for the users and weak arrangements supporting the highly privileged users of the system. These issues are being progressed with the Council's IT Partner.
- 11 The interface process is largely manual and time consuming and a result could present risks of data inaccuracy or untimely reflection of data in systems. It is acknowledged that compensating controls are in place (eg reconciliation and budgetary controls) to detect material errors, however, this may not detect small value fraud or error. It is planned that the replacement of the current Financials application will allow the Council to remedy the weaknesses and inefficiencies currently experienced.
- 12 The Council has now completed the tendering process for the replacement of the FM system and appointed an agreed supplier. It is planned to implement the new system from the 1 April 2006. The Council, the successful supplier and the Council IT partner recognise and assess that this is a challenging, but achievable deadline and with appropriate project management arrangements included within the contracts the deadline will be achieved.

- 13** Backup arrangements are assessed as appropriate for key systems but weaknesses were identified in the disaster recovery arrangements encompassing none AS400 systems.

Detailed report

CODA user access

- 14 In order to access CODA, a user must first access the network with a user ID and a password and then require a CODA logon on their desktop, which requires a further user ID and a password.
- 15 The security parameters established for CODA were assessed as weak at the time of review, however, it is acknowledged that because the issues were highlighted at the time of review the Council immediately resolved these issues to a satisfactory level. Weaknesses identified included the following:
- The minimum password length was set at four characters and therefore passwords can be potentially weak and easily guessable. It is acknowledged that users as a general rule do not use four character passwords but the system does not prevent this from occurring.
 - The password expiry was set to 31 days, which is normal best practice. However, no control was enforced to ensure the user changed the password to something different from the previous one because the parameter for this control was not set. Therefore a user could potentially use the same password permanently, which as a result reduces the strength of the password expiry at 31 days.
 - The parameter to enforce a limited number of attempts to enter the correct password before the user is locked out has not been set and this increases the risk of an unauthorised user repeatedly attempting to guess the password. The risk is also increased due to the weak password length control currently in place.
- 16 The Council immediately informed CODA users of the required security parameters as soon as the issues were highlighted by the ICT Specialist and have subsequently implemented the required parameters on the CODA application.

Recommendation

R1 The Council should ensure that the recommended security parameters are applied to the new Financials application when implemented.

- 17 In order to provide segregation of duties, the Council has assigned privileges to a 'Capability' for different roles, and then assigned users to an appropriate 'Capability' depending on their role or function. However, review of a sample of these capabilities indicated that there are many more capabilities than are normally required. These have been developed over a period of the system's life to ensure appropriate cover is provided and that users are provided the privileges they require. There is a concern that the current arrangements over user access to a 'Capability' may provide an over complex administrative process. It is acknowledged that the Council will address this issue when implementing arrangements within the new FM system.

Recommendation

R2 The Council should ensure that careful consideration is made to how users will be assigned to a 'Capability' in the future to ensure there is adequate segregation but also balancing this with the need to reduce the burden on administration.

- 18 A review of the users with access to inputting and posting journals to general ledger identified a lack of preventative controls (ie access controls providing segregation of duties) between input and posting, but it is acknowledged that adequate compensating controls are established (ie procedures are in place and officers are aware that the procedures must be followed and reconciliations).
- 19 A number of weaknesses were identified during the review of CODA User Access and highlighted to the Council. Satisfactory improvements have been made to address these issues.

I-World user access

- 20 In order to access I-World a user must first access the network with a user ID and password and then users require a user ID and password to gain access to the I-World application.
- 21 Generally the I-World system provides for effective user access and good practice is adhered to for security and segregation of duties including:
- pre-defined job roles with specific privileges and officers are assigned to the appropriate role for their function;
 - password minimum length of six characters - normal best practice is seven characters but this not assessed as a medium or high-risk;
 - password expiry set at 28 days;
 - three attempts to enter the system with the correct password; and
 - one numeral required in the password.

- 22 However, there are weaknesses identified during the review around the high privileged users such as 'RB' user. The 'RB' user is a system default user which has been assigned with the 'FIRST' job role providing full access to the system. The 'RB' user does not require a strong password (presently four characters) and does not require a password change at a given interval. This weakness was highlighted during the review and initial investigations by the Council indicate that this may be due to a system limitation, however, further investigations are progressing with the software supplier to identify how this can be best addressed.

Recommendation

R3 The Council should where possible ensure that all user accounts require a strong password and that these passwords expire.

- 23 In addition, the 'FIRST' user role has been assigned to approximately 17 users of I-World and therefore a large number of users have full access to the system. This weakness was highlighted during the review and there are plans to reduce the number of users significantly.

Recommendation

R4 The Council should ensure that the users with 'FIRST' user role is reduced the minimum required to satisfactorily administer the application.

- 24 The above risks are exacerbated by a lack of periodic monitoring of highly privileged access such as the 'FIRST' job role. There is, therefore, a risk that inappropriate activity or accidental errors are more likely due to the number of users with such privileges.

Recommendation

R5 The Council should ensure that where user accounts require a 'hard coded' password and these user accounts do not expire, that periodic review of such users activity is performed.

Prolog payroll user access

- 25 In order to gain access to the Payroll system, a user must first access the network with a user ID and a password, then require a user ID and password for the AS400 library on which the Payroll system resides and then require a user ID and a password for the Prolog application. The network and AS400 Payroll library access arrangements are managed by Northgate and the access to the Payroll application is managed by the Payroll Manager.
- 26 The review concludes that the user access arrangements for the Payroll system are weak, although some of the weaknesses are attributed to the limitations of the system and solutions have been investigated in the past.
- 27 The responsibility for the user access arrangements is split between Northgate and the Council, which in itself is not assessed as a weakness but the process of gaining access to the application is cumbersome and potentially over controlled.
- 28 Although it is acknowledged that users require a password to gain access to the application, these passwords do not expire and the present arrangements result in the Payroll Manager knowing all passwords of all users. Such issues reduce the effectiveness of a password control.

Recommendation

R6 The Council should ensure more effective controls are enforced for the users of the Payroll system including where possible password expiry. Such security parameters should correlate with those of other applications and platforms (such as Lotus Notes Email and Network access).

- 29 There were examples of live users found who have either left the Council or have moved departments and in both examples do not require access to Payroll. The Payroll Manager indicated when such issues arose that they are dependent on user departments informing them of the leaver or change in role before access is removed. However, as this is the Payroll process, it is expected that this department would be aware of leavers because these would be reflected in information initiated by Personnel and result in a leaver on the Payroll.

Recommendation

R7 The Council should develop a corporate process for leavers that ensures that system administrators are made aware that a leaver requires removing or disabling from the system (in terms of access).

- 30 A number of other minor housekeeping weaknesses were identified during the review of Payroll user access including:
- examples of generic user accounts were found, which do not provide accountability for access - these will be removed following this review; and
 - a number of housekeeping issues were also identified (users still having user ids relating to their maiden names or user ids that are not best practice).
- 31 The above weaknesses were highlighted during the review and have subsequently been resolved. The Council also continues to investigate other compensating controls for the Payroll application where there are limitations for preventative/system controls.

AS400 user access

- 32 The AS400 is the platform on which the CODA Financials and Prolog Payroll systems reside and therefore a key platform supporting key business processes. However, only the Payroll system requires Northgate to create file access to the Payroll library on the AS400, as most users of CODA use the browser version and therefore users do not individually log on to the AS400. Essentially the AS400 contributes to the internal control environment of the Payroll system and supports the arrangements for CODA Financials.
- 33 The security assigned to the AS400 governing user access was assessed as weak and the following observations were made:
- password minimum length of six characters - normal best practice is seven characters but this is not assessed as a risk;
 - a number of settings that could enforce strong passwords have not been configured and therefore users can use easily guessable passwords. These included preventing the use of the user ID as a password, preventing using the same characters repetitively and not ensuring users require a numeric in their password); and
 - users are also not prevented from using the same password repeatedly (ie they can use the same password each time they change at password expiry interval) and therefore reduces the effectiveness of the current password expiry of 21 days.

Recommendation

R8 The Council should ensure that the security parameters of the AS400 address recommended good practice and correlate with those of other applications and platforms (such as Lotus Notes Email, Network, CODA, Prolog).

- 34 In addition, to the weaknesses identified on password parameters for the AS400, a number of issues were also identified regarding the high privileged users of the platform (primarily Northgate users). High privileged user such as *SECOFR (providing full access to the platform) has been assigned to a number of generic user accounts and these are used by a number of staff within Northgate in support of the application. As a result, high privileged user access is not attributable to an individual user and therefore increases the risk of unauthorised activity or accidental errors, which are difficult to trace to an officer.

Recommendation

R9 The Council should ensure that high privileged access where this is required is assigned to attributable user IDs.

- 35 The above weaknesses are exacerbated by the lack of password expiry enforced on high privileged users.

Recommendations

R10 The Council should ensure that where possible all user accounts should require expiring passwords.

Overall conclusions

- 36 Overall the internal controls supporting the user access arrangements of the Council's key systems were assessed as weak at the time of the review. Although it is acknowledged there is no evidence that there have been any unauthorised access to the system. In many cases the Council has now addressed these weaknesses. Many of the weaknesses are contributed to by limitations of the present CODA and Prolog systems for which short and medium term plans for replacement are established. Many of the weaknesses are as a result of:
- the Council having a variety of systems on a variety of differing platforms (eg the network, the AS400);
 - the Council having a variety of levels of logical access (eg the network, the AS400 and the application itself);
 - differing security policies applied to each platform and each level of access resulting in the need for simple/easily guessable passwords;
 - a lack of appropriate guidance from ICT on best practice for security; and
 - the Council's keenness to 'keep things easy' in terms of user access due to the above.

- 37 However, it is acknowledged that the Council has taken prompt action to resolve the security issues raised in relation to CODA and further investigations are being made into the limitations of the Payroll application preventing effective controls. Plans are in place to resolve the weaknesses identified on I-World and work is ongoing with Northgate to address AS400 controls.

Interfaces

- 38 A variety of systems interface either automatically or manually (via journals or electronic file uploads) to CODA Financials and other Council systems. Examples include:
- income received by the Council via REMIT Cash Receipting is manually input to the ledger by Accountancy; and
 - payroll summary totals are uploaded by Accountancy as an electronic journal.
- 39 The Council recognises that the current interface process could be improved and this would provide efficiency savings, although it will require an upfront investment. The replacement of CODA will provide the Council with the opportunity to achieve these efficiencies by automating and integrating feeder systems.
- 40 In addition, reviews at other Councils recently indicate that Neighbourhood Services and Schools are now using the new Financials systems rather than their own departmental systems, which in this case relates to UNICLASS and SIMS respectively. However, it is acknowledged that the Council has attempted in the past to encourage the use of CODA by schools and plans to include Neighbourhood Services in the replacement of the Financials application.
- 41 It is also acknowledged that the Council is seeking to implement an automated interface between Cash Receipting and Financials, Council Tax and NNDR refunds (which is presently a manual interface with CODA) and replace the UNICLASS system used by Neighbourhood Services.

Recommendation

R11 The Council should where possible automate the interface process.

Overall conclusions

- 42 There is scope to improve the existing interface process and this would enable the Council to achieve efficiency savings. The replacement of CODA should assist the development of more automated interfaces in the future and this way reduce the risk of data integrity issues or small value errors.

CODA replacement project

- 43 A replacement supplier has now been selected for the replacement of the CODA system. The new system will be going live from 1 April 2006. The project will be significant for the Council in terms of
- the efficiency savings that may be gained from the replacement;
 - addressing the requirements of the e-government target; and
 - ensuring the Council has a more accurate timely financial position.
- 44 Such projects require significant resources and planning. It is therefore important that the Council manages this process carefully to ensure the above objectives are addressed appropriately and to ensure effective internal controls are developed during the implementation.

Recommendation

R12 The Council should ensure that the risks of non-delivery within the planned timescales are appropriately identified and evaluated and appropriate action taken to mitigate such risks (eg insufficient resources, finance, project does not meet expected requirements or objectives).

- 45 In addition, recent review of Internal Audit coverage indicated a weakness in their ability to effectively contribute to key projects to ensure projects are managed appropriately/to standards expected. The role of the Internal Auditor in a project must be clearly defined from the initiation of the project to provide appropriate benefit to the project but also ensuring the independence of the auditor. It is also acknowledged that this has been in part addressed by the planned provision of IT Audit training by the Audit Commission and will continue to be an ongoing development. However, to supplement this training, the Council needs to formally establish the role of Internal Audit within projects.

Recommendation

R13 The Council should ensure that the role of Internal Audit in the CODA replacement project is clearly defined and that periodic independent assessments of the project's progress and the effectiveness of internal controls are built into the project.

Overall conclusions

- 46 The present plans for implementation of the replacement Financial Management system by 1 April 2006 are challenging. The Council has recognised the risks associated with the achievement of this timescale. The Council has indicated that appropriate project management arrangements are being developed, including the adoption of PRINCE2 methodology.

Backup, recovery and disaster recovery

- 47 All key systems were found to have appropriate backup arrangements established on a daily basis with off-site storage of backups whilst not in use.
- 48 The only platform with disaster recovery arrangements is the AS400. However, the contract with the supplier provides a number of day's recovery testing which Northgate have indicated have not been 'taken up' but planned before the end of 2005. The arrangements appear informal and there appears to be no formal strategy for disaster recovery including the requirement for periodic testing of arrangements. Therefore although arrangements may be in place, such arrangements may not be effective if not tested regularly to obtain the required assurances.

Recommendation

R14 The Council should ensure that a strategy for disaster recovery testing is in place for all key systems.

- 49 In addition, no disaster recovery is currently in place for such systems as I-World Revenues and Benefits or REMIT Cash Receipting. Such systems are key to the income and expenditure processes of the Council and could impact on the reputation of the Council if a period of unavailability occurred.

Recommendations

R15 Disaster recovery arrangements should be implemented for all key systems.

R16 The Council should ensure that disaster recovery requirements are built into the success criteria of projects including the current replacement of CODA.

Overall conclusions

- 50 Backup arrangements are assessed as effective but disaster recovery across all key systems is weak.

Appendix 1 – Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R1 The Council should ensure that the recommended security parameters are applied to the new Financials application when implemented.	3	Financial Services Manager	Yes	The Council has implemented recommendations within the existing Financial Management system.	April 2006
R2 The Council should ensure that careful consideration is made to how users will be assigned to a 'Capability' in the future to ensure there is adequate segregation but also balancing this with the need to reduce the burden on administration.	2	Financial Services Manager	Yes	The Council is already investigating the applicable 'Capability Groups' for the chosen Financials application.	April 2006

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R3 The Council should where possible ensure that all user accounts require a strong password and that these passwords expire.	3	Support Services Manager and Northgate	Yes	The Council is currently investigating whether the weakness is due to a system limitation and whether other compensating controls can be implemented to reduce the risk.	December 2005
R4 The Council should ensure that the users with 'FIRST' user role is reduced the minimum required to satisfactorily administer the application.	3	Support Services Manager and Northgate	Yes	The Council plans to reduce the number of users assigned to this user role down to five.	December 2005
R5 The Council should ensure that where user accounts require a 'hard coded' password and these user accounts do not expire, that periodic review of such users activity is performed.	2	Support Services Manager and Northgate	Yes		December 2005

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R6 The Council should ensure more effective controls are enforced for the users of the Payroll system including where possible password expiry. Such security parameters should correlate with those of other applications and platforms (such as Lotus Notes Email and Network access).	3	Payroll Manager/ Northgate	Yes	The Council has requested an options appraisal from the ICT Partner (Northgate) to remedy some of the weaknesses identified. In addition, the future replacement of the system will allow stronger controls in the longer-term.	December 2005
R7 The Council should develop a corporate process for leavers that ensures that system administrators are made aware that a leaver requires removing or disabling from the system (in terms of access).	2	Payroll Manager	Yes	The Council is seeking to implement a corporate approach to leavers via the ISO17799 process.	December 2005

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R8 The Council should ensure that the security parameters of the AS400 address recommended good practice and correlate with those of other applications and platforms (such as Lotus Notes Email, Network, CODA, Prolog).	3	Financial Services Manager/ Northgate	Yes	The Council has raised a helpdesk call with the ICT Partner (Northgate) to request that the AS400 is 'brought into line' with other recommended best practice to be applied to other platforms and applications.	December 2005
R9 The Council should ensure that high privileged access where this is required is assigned to attributable user IDs.	3	Financial Services Manager/ Northgate	Yes	As above.	December 2005
R10 The Council should ensure that where possible all user accounts should require expiring passwords.	3	Financial Services Manager/ Northgate	Yes	As above.	December 2005

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R11 The Council should where possible automate the interface process.	2	Group Accountant (Technical)	Yes	Cash Receipting interfacing with Financials will be more automated as a result of the Financials replacement project. UNICLASS users will migrate to the new Financials application. Schools will be encouraged to take on the new corporate Financials application. Other manual feeds will be automated where the benefits are identified.	November 2005 and ongoing.
R12 The Council should ensure that the risks of non-delivery within the planned timescales are appropriately identified and evaluated and appropriate action taken to mitigate such risks (eg insufficient resources, finance, project does not meet expected requirements or objectives).	3	Financial Services Manager/IBS/ Northgate	Yes	Although the Council agrees that the timescales are challenging, consultation with the supplier and the ICT Partner (Northgate) indicate that the timescales are achievable if the resources are committed to the project.	November 2005 onwards.

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R13 The Council should ensure that the role of Internal Audit in the CODA replacement project is clearly defined and that periodic independent assessments of the project's progress and the effectiveness of internal controls are built into the project.	3	Chief Internal Auditor	Yes	Agreement will be made with Internal Audit on their role within the project and a process of independent assessment possibly reporting outside of project structures will be established (ie to the Chief Financial Officer or Assistant Chief Financial Officer rather than the Project Manager).	November 2005 and ongoing.
R14 The Council should ensure that a strategy for disaster recovery testing is in place for all key systems.	3	Corporate Strategy/ Northgate	Yes	The Council's IT Partner Northgate test the Council's current DR arrangements annually with their DR suppliers Network Disaster Recovery. With the implementation of the new FMS these arrangements are under review to ensure they are appropriate for this new system and also on whether the service should be extended to cover other key IT systems.	December 2005 and ongoing.

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R15 Disaster recovery arrangements should be implemented for all key systems.	3	Corporate Strategy/ Northgate	Yes	A number of disaster recovery options are currently being investigated including reciprocal arrangements with Housing Hartlepool, this process includes extending the DR service to other systems the Council define as key.	December 2005 and ongoing.
R16 The Council should ensure that disaster recovery requirements are built into the success criteria of projects including the current replacement of CODA.	3	Corporate Strategy	Yes	A Systems Acceptance Policy is currently being developed; ensuring DR arrangements are considered in project delivery and included within policy. This will need to be revisited in terms of the project plans as it is a key requirement of a Financials application.	December 2005 and ongoing.

Annual Audit and Inspection Letter

Hartlepool Borough Council

Audit 2004-2005

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Key messages

Council performance

- 1 Under a new assessment process the Council has been judged to be four-star overall (the highest rating) and consistently above minimum requirements - performing well in most aspects of use of resources. The Council's priorities are clearly defined and are informed by effective community engagement. However, the Council is not delivering efficiency gains in all areas and there is a need to further develop understanding of the new governance arrangements and scrutiny amongst all members.

Financial position

- 2 The Council's accounts for 2004/05 presented fairly its financial position. The Council's overall financial standing is sound, but is facing a significant budget gap in two year's time and cannot rely on its reserves and general fund balances to support the budget.

Other accounts and governance issues

- 3 The Council's arrangements for corporate governance and internal control meet or exceed minimum standards. However, some areas of weakness still need to be addressed.

Action needed by the Council

- 4 The key issues for members are to:
 - challenge the way services are provided and find efficiency savings across the Council to ensure future plans are sustainable;
 - monitor the application of reserves and balances and periodically review levels of reserves to ensure that they are still required or sufficient for purpose; and
 - ensure that the Council's internal control framework is mapped and evaluated in 2005/06 and that action plans to address identified weaknesses are implemented.

Performance

Services in most priority areas are improving and are providing good value for money with high public satisfaction. The Council's change management programme has identified capacity which will allow continued improvement but this needs to be allied to a robust programme of efficiency savings to ensure a sustainable future.

CPA scorecard

- 5 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. A Direction of Travel judgement is part of this test and measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is four-star.

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	3: improving well
Overall	Four-star
Current performance	Out of 4
Children and young people	3
Social care (adults)	3
Use of resources	3
Housing	4
Environment	3
Culture	4
Benefits	4

(Note: 1=lowest, 4=highest)

- 6 Services in most priority areas are improving and achievement against key targets is good. Educational achievement is improving at most levels. There are improvements in services for looked after children and child protection, but the educational attainment of care leavers is well below the national average. Adult social services continue to perform well against national indicators. There is continued improvement in high performing environmental, benefits and cultural services. The Council, with partners, is making progress across wider community outcomes, including increased employment, reduced crime and improvement in community housing. Consultation arrangements with all sections of the community are developing and the accessibility to services continues to improve. The Council is providing good value for money and high public satisfaction, but not delivering efficiency gains in all areas.
- 7 The Council is well-placed to deliver further improvement. It is currently looking to further strengthen and modernise its governance and scrutiny, where understanding by members requires further development and financial planning to deal with emerging budget pressures is also developing.

Direction of Travel report

- 8 The Council is improving in most of its priority areas which are clearly defined and informed by effective community engagement. Public satisfaction with services remains in the best quartile. Sixty four per cent of key PIs have improved with 51 per cent now in the best quartile.
- 9 Educational achievement is improving at most levels. Improvements have been made at Key Stage 2, but these are not yet reflected at Key Stage 3. GCSE results improved in line with national trends. The number of those with grades A* to C is broadly average, but those with grades A* to G is low. There is good capacity to improve services further.
- 10 Social care is a council priority and this has resulted in increased funding for both children and adult services. This has led to improvements in some aspects of services for looked after children and child protection, but the educational attainment of care leavers remains poor. Social care services are serving most adults well and Council's capacity to improve these services is promising. Performance against national indicators is generally good with a number of improvements this year.
- 11 Crime levels overall have reduced by 21 per cent. The Drug Intervention Programme consistently achieves high performance and the Youth Offending Service performance has improved to top quartile in 2004/05. The number of people feeling unsafe has reduced over the past two years.
- 12 Environmental services have high levels of satisfaction in all areas. All key operational waste PIs are top quartile performance and continue to improve. The planning service is performing well. Increased investment has improved performance in community housing to top quartile in key areas. The benefits service has been judged as excellent, exceeding standards for the three performance measures of user focus, quality and accessibility.

- 13 There is continued improvement in cultural services. With 22 of 24 national library standards met, the service now has an 'excellent' rating. User satisfaction is high and usage has increased across all cultural facilities. Leisure centre attendance from nine of the most disadvantaged wards is up by 54 per cent, exceeding targets set by the Council.
- 14 The Council is contributing well to wider community outcomes, resulting in significant external investment in economic and community development. The gap between local and national unemployment rates has continued to reduce, with council assisted business start-ups and VAT registrations in 2004/05 both up on the previous year. The LSP has been awarded the highest category in the LSP validation exercise for two years.
- 15 Systematic consultation by the Council is strong, through a citizen's panel, focus groups, external research and three neighbourhood forums. Young people are regularly consulted.
- 16 There is an appropriate range of opportunities for young people, including those with disabilities. The numbers from black and minority ethnic backgrounds (BME) who are assessed or receive adult social services is lower than expected from the population profile, but the Council is developing engagement with BME groups.
- 17 The Council is providing good value for money. It is investing effectively in priority areas and delivering good quality services, some well above minimum standards, with high levels of resident satisfaction, but for relatively high costs as it is a small unitary authority. The Council's efficiency gains have increased from £0.3 million to £2.184 million but this is delivered inconsistently across all services. Financial capacity is strong and a medium-term financial strategy is in place, but emerging budget pressures may affect this in the future.
- 18 The 'Way Forward Change Programme' represents a robust approach to the Council's programme of modernisation and improvement. Key performance measures have been identified for each improvement priority and the Council is developing its performance management framework. A number of strategies are in the process of implementation, for example the approach to neighbourhood planning and a best value review into how local communities can be strengthened.
- 19 Key milestones are being achieved. Of the 24 LPSA targets for March 2005, only 5 are identified as not being met. The proportion of PI targets achieved increased to 59 per cent. At the end of the first quarter of 2005/06, 75 per cent of the corporate plan improvement priorities were on target to be achieved.
- 20 The Council has a good record of joint procurement with a range of partners in the public, private and community sectors to improve quality of services and achieve savings. External funding is used effectively to support local priorities. National Procurement Strategy milestones are being met and plans are in place to meet targets up to 2006. A revised risk strategy has been approved and risk registers at service level enhanced.

- 21 The Council has much of the capacity it needs to sustain further improvement and is building additional capacity through the implementation of its change programme. Management development is being rolled out to 400 managers together with, a restructure from six to five departments, the implementation of an ICT strategy and a programme of business process re-engineering. All external assessments report a strong ability to deliver programmed change.
- 22 A development programme for members is in place and the Mayor has strengthened the link between the executive and scrutiny. However, these changes are at an early stage and more understanding of the new governance arrangements and scrutiny is required by all members.
- 23 There are no significant weaknesses in arrangements for securing continuous improvement that would prevent improvement levels being sustained.

Performance indicators

- 24 We are required to give an opinion on your best value performance plan (BVPP) and certify the performance indicators specified by the Audit Commission. We gave an unqualified opinion on the BVPP and although a very small number of PIs were amended, none were qualified.

Working with other inspectorates and regulators

- 25 An important aspect of the role of the relationship manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
 - Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.
- 26 We share information and seek to provide 'joined up' regulation to the Council. During the last year, the Council has received the following assessments from other inspectorates:
 - Annual Performance Assessment for Adult Social Care;
 - Annual Performance Assessment for Children's Services including social care and education; and
 - Benefit Fraud Inspectorate Annual Assessment.

Accounts and governance

We have given an unqualified audit opinion on the Council's accounts for 2004/05.

Your overall corporate governance arrangements meet or exceed minimum standards in most areas. However, there has been a lack of leadership from the Council in reviewing the effectiveness of the system of internal control and improvements are required in the way the Council appraises the projects it includes in the capital programme. Both of these areas adversely impacted on the use of resources judgement.

Use of resources judgements

- 27 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Council. It assesses how the financial management is integrated with strategy and corporate management, supports Council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 28 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

Element	Assessment
Financial reporting	3 out of 4
Financial management	2
Financial standing	3
Internal control	2
Value for money	3
Overall	3 out of 4

(Note: 1=lowest, 4=highest)

- 29 In reaching these judgements, we have drawn on the wider audit and supplemented this with a review against specified key lines of enquiry.
- 30 The Council is assessed as 'consistently above minimum requirements - performing well' in three areas and as 'only at minimum standard - adequate performance' in two areas.

- 31 The Council has recognised that action is required to strengthen arrangements and has recently established an Audit Committee to evaluate the systems of internal control. In addition, the 2006/07 budget and service planning process is more closely linked and the developments in the performance management system and budget monitoring should link financial and operational activity in reports to members. This will enable members to see clearly the impact of investment decisions.
- 32 The most significant areas where further development is needed are:
- embedding arrangements for financial management and corporate governance across the range of community partners involved in the LAA;
 - improving the way the asset base is managed and introducing arrangements for appraising projects for inclusion in the capital strategy to comply with the Prudential Code; and
 - ensuring the Council undertakes an annual review of the effectiveness of internal control.

Audit of 2004/05 accounts

- 33 We gave an unqualified opinion on the Council's accounts on 27 October 2005. The Statement of Internal Control was revised to reflect only significant weaknesses in the control environment. The statement was re-approved by members on 26 October.
- 34 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 20 July 2005.
- 35 Due to time pressures and staff shortages, a large number of minor errors and disclosure issues in the statements were identified during the audit. Most were corrected within the amended accounts. The majority of these issues would have been identified by the Council if it had undertaken its own review or quality assurance process before the accounts were presented for audit. This issue is not expected to re-occur in 2005/06.
- 36 In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Officers have already started to review processes to ensure that the deadline of 30 June 2006 can be met.
- 37 The Council needs to consider how it can improve accountability to council tax payers and citizens. The accounts could be made more widely available by placing the statements of account or a summary version on the website.

Report to those with responsibility for governance in the Council

- 38 We reported to those charged with governance (in this case General Purposes Committee) that there were no outstanding matters of concern before we gave an opinion on the financial statements.

Financial standing

The Council has built up significant levels of reserves which have allowed it to manage fluctuations in revenue funding without emergency cuts in services. However, the Council faces a significant budget gap in two year's time and cannot rely on those reserves to support the budget in the longer term. Members need to establish priorities for resources and implement a robust programme of efficiency savings to ensure future plans are adequately resourced.

General fund spending and balances

- 39 At the end of the financial year 2002/03, the Council's reserves and balances stood at £23 million, rising to £28 million in 2003/04, and to £35 million at 31 March 2005. Of this amount £16.7 million is set aside in specific reserves and the remainder is general balances. The 2003/04 Annual Audit and Inspection Letter stressed the need for the Council to have a clear strategy for the use of these reserves and balances.
- 40 The general fund balances at 31 March 2005 of £19 million represent 16 per cent of the net operating expenditure of the Council. Of this £19 million officers have identified £15 million as needed to meet identified risks and contingencies. The contribution to reserves of some £6 million arose from one-off receipts or underspends which were greater than anticipated when the original budget was determined.
- 41 The Council has a plan in place to spend the majority of its reserves and balances over the next three years. A review of the plan identified some areas of weakness.
- There is not always a formal risk assessment documented for each reserve although we acknowledge that officers do carry out an informal assessment of risk.
 - Although there is generally a timescale in place for the use of each reserve, these are not explicitly monitored throughout the year.
 - There is not always a clear link between each reserve and the Council's key business plans.

- 42** The Council has reported a significant budget gap in 2006/07 of between £4.7 million and £8 million with further budget pressures identified in 2007/08. Given the commitments and risks identified against the reserves held by the Council, these reserves are not available to support the revenue account to any greater extent than planned. Consequently the Council needs to prioritise its services and need for resources. It also needs to ensure that robust plans are in place to achieve real efficiencies in either cash terms and at the same time obtain improvements in services for the same level of resource. The Council also needs to regularly review the risks attached to each reserve, earmarked and unearmarked, to ensure the risk is still relevant and that the reserve is sufficient.

Systems of internal financial control

The Council has an adequate overall control framework. However, there are weaknesses in parts of the framework which need to be addressed.

- 43** The Council has not ensured that members are engaged with the process for reviewing the effectiveness of system of internal control as required by the Accounts and Audit Regulations 2003. The Audit Committee did not sit for the financial year 2004/05 and Resources Scrutiny Committee decided not to receive Internal Audit reports for the financial year. The Council has not undertaken any self assessments of its control framework and a number of the actions to address weaknesses contained in the 2003/04 Statement of Internal Control have not been implemented.
- 44** In last year's letter we identified that action was required to improve risk management arrangements and information security. The Council has responded to both these issues and has:
- embedded risk management into the working practices of the Council resulting in action plans to deal with a number of key issues which previously had been lower priority; and
 - employed a client IT officer who has been proactive in negotiating a better deal for the Council with the IT supplier.

Internal Audit

- 45** Our assessment indicates that Internal Audit provides an effective service except in the area of their coverage and assessment of IT controls in key financial systems. We did not obtain adequate assurance that key controls were identified, evaluated or tested from the sample of files we reviewed.
- 46** Much of the evidence in the files indicated that where system controls were tested this was limited to:
- verbal confirmation of controls with end users responsible for the applications; and
 - reliance placed on previous audits completed over two years ago.

- 47 No review of interfaces between systems had been completed for any of the sample of files reviewed.
- 48 Because of this we had to undertake further audit work to gain assurance that controls within key financial systems were operating as they should.

Key system IT controls

- 49 Overall, the arrangements for access controls and disaster recovery supporting the key systems were assessed as weak:
- password and access controls did not comply with recommended standards; and
 - a lack of proactive monitoring, review or testing by the Council of the security of systems.
- 50 The Council has now addressed the weaknesses identified around passwords and access controls and is working with suppliers to further strengthen these controls.
- 51 The interface process is largely manual and time consuming and could therefore present risks of data inaccuracy. Although compensating controls are in place to detect material errors, these would not detect small value fraud or error.
- 52 The Council has now completed the tendering process for the replacement of the FM system and appointed a supplier. It is planned to implement the system from 1 April 2006. The Council, supplier and Northgate assess that this is a challenging timescale, but with appropriate project management arrangements this deadline is achievable. The Council needs to ensure that the project management arrangements are sufficiently robust to deliver this complex project.

Strategic housing management

- 53 In recent years, the Government has emphasised the strategic role local authorities must play in housing as a result of their stock transfer plans. The wider agenda of neighbourhood management, regeneration, social inclusion and supporting people highlights this role. Our approach to assessing the Council's strategic housing arrangements focused on:
- role of members and accountability;
 - capacity;
 - information systems and organisational structures; and
 - partnerships and commissioning.
- 54 Our work was undertaken in February 2005 and identified the following issues. Action was agreed with officers and the table overleaf indicates where actions have been implemented.

Table 3 Strategic housing

Findings and recommendations

Findings	Recommendation	Action agreed/implemented
The promises made at transfer are not clear or well documented therefore it is not known if the objectives of the stock transfer and consequent improvements in service will be achieved.	Develop and agree clear outcome measures with Hartlepool Housing, including the quality and frequency of performance information.	Outcome measures and monitoring arrangements have been agreed with Housing Hartlepool and information is to be supplied quarterly.
No detail has been agreed for the investment programme to meet decent homes standards.	Ensure Housing Hartlepool put in place and agree stock investment programmes to achieve decent homes standard.	Information now received on the programme to 2011.
There are capacity issues within the current structure where lack of dedicated resources has led to delays in production of the housing strategy and development of 'supporting people' services. There is confusion amongst front line staff as to the Council's responsibilities in this area.	Ensure staffing levels in the housing service to meet statutory requirements and raise the profile of the service within the Council.	Additional resources obtained to develop the strategy for July 2005. Training programme for staff to be implemented by October 2005.

Standards of financial conduct and the prevention and detection of fraud and corruption

We have not identified any significant weaknesses in arrangements to prevent and detect fraud and corruption, but to strengthen arrangements further the Council should consider anti fraud publicity campaigns and provide better evidence to ensure successful benefit fraud prosecutions.

National Fraud Initiative

- 55 In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 56 The Council has adequate arrangements to follow up issues arising from the NFI and almost 400 high-risk matches are being investigated and some £20,000 of savings realised.

Legality of transactions

- 57 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

Grant claims

- 58 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 59 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years and there are no issues for members.

Looking forwards

Future audit and inspection work

- 60** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 61** The Council's services for supporting people are currently undergoing inspection and the joint area review/corporate performance assessment is planned for late 2006/early 2007. The Council will need to begin its preparations for this important review early in the new financial year.
- 62** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 63** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 64** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with Resources Scrutiny Committee in March 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 65 This letter has been discussed and agreed with officers. A copy of the letter will be presented at the Cabinet and Scrutiny Co-ordinating Committee in the new year.
- 66 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 67 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Steve Nicklin
District Auditor/Relationship Manager
December 2005

Appendix 1 – Background to this letter

The purpose of this letter

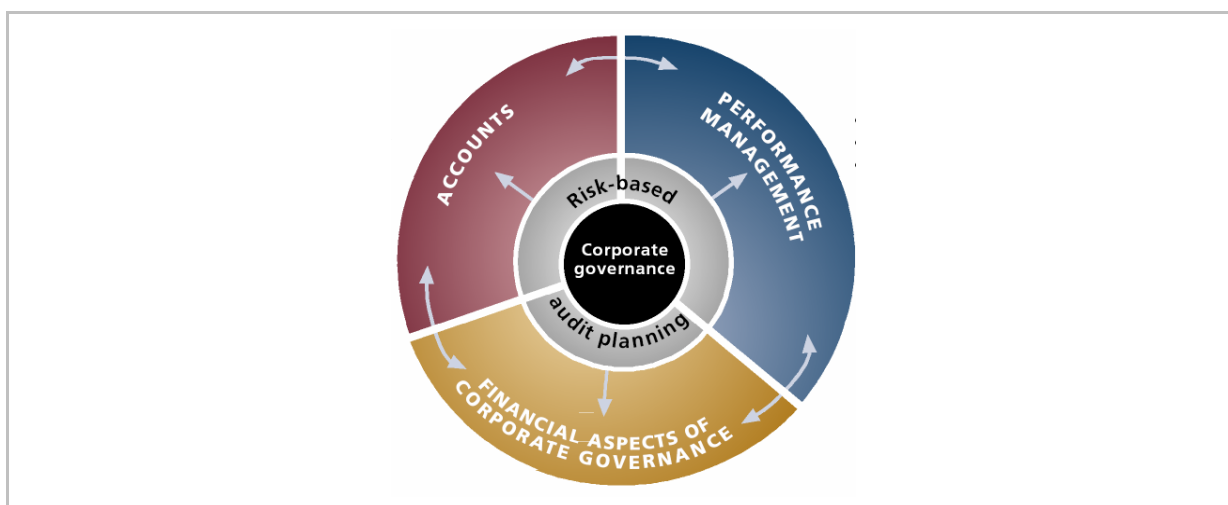
- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 4

Report title	Date issued
Audit Plan	March 2005
Interim Memorandum	July 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Strategic Housing	June 2005
Review of Internal Audit's Coverage of IT Controls	June 2005
Risk Management Follow-up	May 2005
BVPP Opinion	October 2005
Key System IT Controls	November 2005
Final Accounts Memorandum	November 2005
Direction of Travel Report and Scorecard	November 2005
Use of Resources Assessment	November 2005

Appendix 3 – Audit fee

Table 5 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	58,811	68,311
Financial aspects of corporate governance	104,966	104,966
Performance	39,659	39,659
Total Code of Audit Practice fee	203,436	212,936

Inspection fee update

- 8 The full year inspection fee is £11,600. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.

AUDIT COMMITTEE

17th January 2006



Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT PLAN 2005/06 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2005/06.

2. BACKGROUND

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

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

Members note the contents of this Report.

Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT PLAN 2005/06 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2005/06.

2. BACKGROUND

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

3. AUDITS COMPLETED AND IN PROGRESS

- 3.1 Appendix A of the report details the pieces of work that have been completed.
- 3.2 As well as completing the afore mentioned audits, Internal Audit staff have been involved with the following working groups:
- ISO 7799 Group.
 - Procurement Working Group.
 - Business Process Review.
 - Financial Management System Upgrade

In order to meet Audit Commission recommendations regarding the use of I.T when carrying out audits as well as undertaking more detailed testing of I.T controls, all Internal Audit staff have undergone a weeks training in the use of computer aided audit techniques, which was provided by the Audit Commission.

- 3.3 A follow up audit of the Sure Start Central scheme, of which the Council is accountable body, has been carried out in conjunction with Stockton Borough Council Internal Audit section. This was to enable an independent opinion to be given on the follow up audit of the work initially undertaken by the Council's Internal audit section. This approach has proved successful

and indicates good partnership arrangements working between two neighbouring councils.

- 3.4 The 2005 National Fraud Initiative has been completed and returned to the Audit Commission within the required deadlines with any anomalies that were identified investigated and reported upon. The section played a key role in formulating the Statement of Internal Control for 2004/05 and has also updated the Internal Audit Manual, Internal Audit risk assessment process and implemented an integrated electronic time recording and audit reporting process.
- 3.5 Appendix B details the audits that were ongoing at the time of compiling the report.

4 AUDIT PLAN PROGRESS

- 4.1 The work completed and currently ongoing is in line with expectations at this time of year, and it is anticipated that the fundamental systems currently in progress will be completed in order to fit in with the Audit Commissions programmed work.

5 RECOMMENDATION

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

Appendix A

Audit	Objectives	Recommendations	Agreed
High Tunstall Secondary School	Ensure school financial and governance arrangements are in line with best practice	None.	N/A
Industrial Estates	Review the management arrangements for Commercial Properties to ensure that units are let and managed effectively and efficiently.	<ul style="list-style-type: none"> - That any action taken for rent 'concessions' must be fully documented, so that the officer cannot be exposed to unfair bias. - Regular details of all outstanding debts are submitted to the Estates Division, and analysis of the arrears levels are carried out quarterly within the Estates Division. Details of any suppression should be documented. - Recovery procedures are put in place for the debtors identified during the audit. - Evidence is placed on file to show that inspections have been done on each unit. 	Yes Yes Yes Yes
LPI SS 8c	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable.	None	N/A
LPSA Target 12	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A
SEN Support	Evaluate the adequacy and effectiveness of the systems and procedures used to provide SEN support and promote the 'inclusive' approach to educating children within Hartlepool	None	N/A
Kingsley Primary School	Ensure school financial and governance arrangements are in line with best practice	That the back up discs are stored in the fireproof safe and not taken from the premises.	Yes
BVPI 56	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A
Access to Learning	Ensure financial and governance arrangements are in	- Evidence that monthly CODA prints are reviewed and action plans developed for any potential	Yes

	line with best practice	<p>overspends etc should be retained for reference purposes.</p> <ul style="list-style-type: none"> - Ownership of IT equipment should be determined and the appropriate parties undertake back up of data on a regular basis, update virus checkers and install firewall. - Written instructions forbidding the use of unauthorised discs or software should be in place and communicated to all staff. - Dinner money income should be banked on a regular basis. - There should be an independent check of daily registers to ensure the accuracy of weekly returns submitted to Neighbourhood Services. - Checks should be made on Neighbourhood Services invoices to verify their accuracy. - Staff names and rates of pay should be checked to monthly CODA prints for accuracy. - A robust system of attendance should be introduced for supply teachers employed by Select Education. - Adequate records should be maintained for Enterprise monies held. Monies held should be used only for the purposes held and not used to supplement the petty cash float. - Petty cash expenditure records should be investigated and records updated. - All copy orders, delivery notes and invoices should be retained in a secure manner for reference purposes. - In order to comply with the Late Payment of Commercial Debts (Interest) Act 1998, invoices should be paid within the payment terms stated on the face of the invoices. - An inventory should be developed to record all assets over £500 or of an attractive/portable nature. Stock checks should be carried out annually by an independent person who should record the stock take in the inventory 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>
St. Cuthbert's Primary	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> - Consideration is given to including in the School Improvement Plan future budgets for 3 years, predictions of future pupil numbers and associated income, as well as future staff costs. - The financial statement presented in the Governors' Report should 	<p>Yes</p> <p>Yes</p>

		<p>include the application of any donations</p> <p>- It should be ensured that all staff have completed and signed an Internet and Email Policy form.</p> <p>- It should be ensured that all staff have completed a Data Protection Form.</p> <p>- In line with Data Protection requirements, the back up discs should be stored in the fireproof safe and not taken from the premises.</p> <p>- In respect of the Private Fund, expenditure receipts should be numbered to correspond to entries in the ledger.</p> <p>- Pupils should only be awarded school meals once a valid FM5 form has been received by the school</p> <p>- Debts over £25 should be passed to Central Finance so that a debtor's invoice can be issued.</p> <p>- Neighbourhood Services invoices for school meals should be checked for accuracy prior to payment and any discrepancies raised with the Neighbourhood Services Department</p> <p>- All invoices, including Neighbourhood Services invoices for school meals, should be signed as authorised by the Head Teacher prior to payment.</p> <p>- Could you please inform the Audit section once the Neighbourhood Services school meals invoices covering W/E 22/04/05 to W/E 13/05/05 have been received.</p> <p>- The Contract Information Module in SIMS should be updated to take into account employees that have left the school or changed their name.</p> <p>- The school should obtain a copy of Bank Mandates.</p> <p>- All Orders should be signed by the Head Teacher, as evidence of authorisation.</p> <p>- Non-order invoices should be kept to a minimum.</p> <p>- A check of the inventory should be carried out at least annually.</p> <p>- For all items on the inventory, full details should be recorded, including serial number, model number and price.</p> <p>- The digital camera borrowed from the school in 2001 should be recovered.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>
Monthly Payroll	Evaluate the systems operated by the Payments Unit for	-That issues relating to system security in the Audit Commission report are implemented.	Yes

	monthly payroll administration	<ul style="list-style-type: none"> - That the establishment list is updated. - Personnel returns to be completed and checked in Personnel and sent to the Payments Unit for every leaver/starter. 	Yes Yes
BVPI 82a and b	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A
Rossmere Primary School	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> -All Private School Accounts to have a written constitution, and be subject to an independent annual audit. -Errors within the school's data software to be investigated and corrected. - Arrears in respect of school meal money to be collected regularly and outstanding debts to be vigorously pursued. Those debts that do not pay should be passed to Central Finance so that a debtor's invoice can be issued. - Staff contracts information in SIMS to be updated to reflect the 2005/06 pay scales. - Income to be posted to the correct codes to ensure income reports show meaningful results - Private telephone call contributions to be identified on the monthly invoice to enable the auditor to confirm the correct amount have been paid. - The duplicate entries identified during the audit are reversed. - Coda Income Notification sheets to be kept on file. - Ensure that authorised orders are entered into the SIMS system before the invoice arrives and that invoices are authorised prior to payment. - Ensure that all signed Governor's Business Interest forms are kept on file. 	Yes Yes Yes Yes Yes Yes Yes Yes Yes
Trade Refuse	Ensure that the arrangements in place for providing the trade refuse service are adequate and provide management with the necessary level of assurance needed.	<ul style="list-style-type: none"> - Agreement forms and duty of care forms must be completed when any change in the service occurs. - All customers must appear on a drivers list. - The customers address and reason for credit note should be written on the credit note request form. 	Yes Yes Yes
LPI NS 4b	Systems are in place to provide information that is sound and that the final information used is accurate,	None	N/A

	complete and reliable		
St. Teresa's Primary	Ensure school financial and governance arrangements are in line with best practice	-Non-order invoices should be kept to a minimum.	Yes
LPI CS 2C (iii)	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	- That procedure notes are drawn up for this indicator and held with the back up documentation. - Details of documentation seen for renewals are recorded on the original application form	Yes Yes
Adult Education	Ensure that all areas of administrative activity are adequately controlled and operate effectively.	-Enrolment forms to be held in the appropriate folders. - Evidence of benefits must be obtained in all cases. - Copies of application forms and contracts are held in personal files. - All income to be banked promptly.	Yes Yes Yes Yes
Recruitment and Retention	Procedures are in place to ensure that a Recruitment and Selection policy is formally adopted, distributed to all staff and implemented across the Authority	- Procedure notes should be completed following the internal review of HR procedures in January. These should be made available to all HR staff to ensure that systems in place support the Policy. - It should be ensured that all officers involved in the recruitment process have received HBC Recruitment training, i.e. their name should appear on the Workforce Development Training Register - Vacancy Record Forms should detail the officers involved in making the shortlisting decision. - Panel Summary Forms should be signed by the full interview panel to record the final appointment decision. - Proof of identity, DOB and qualifications should always be obtained prior to the appointment of a candidate. - Where a person has changed their name since achieving a qualification, evidence should be obtained, e.g. a marriage certificate. - Proof of eligibility to work in the UK should always be obtained prior to appointment, e.g. a UK passport or proof of NI number such as a P45 or NI card. - All Vacancy Monitoring Forms should be signed by the CPSO as evidence that the post has been approved by Vacancy Panel - There should be consistency over which file the Vacancy Monitoring Form is placed on (Personal File). - The maximum meal reimbursements detailed in the Policy as part of interview expenses should	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes

		<p>be updated.</p> <ul style="list-style-type: none"> - The complaints procedure, currently in draft form, should be finalised and published with existing procedures on the intranet. - It should be ensured that the procedure for issuing a Conditional Commencement Authorisation Form when awaiting CRB clearance has been approved by CRB and/or the Legal section. - The number of employees commencing employment prior to CRB clearance should be kept to a minimum - As an extra security measure, CRB keys should be taken off site each evening, either by the Administrator or one of the Countersignatures - A system for signing Personal Files in and out of the filing cabinet should be implemented. - CRB documentation should be held for a maximum of 6 months. 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>
LPI SS1d	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A
LPI NS 1a	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A
LPI CS 12 b (ii)	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	-Procedure notes are drawn up for this indicator and are held with backup documentation.	Yes
BVPI 96 & 99	Systems are in place to provide information that is sound and that the final information used is accurate, complete and reliable	None	N/A

Appendix B

Audit	Objectives
Benefits - Housing & Council Tax	<p>Examine and evaluate the systems and procedures in place to administer Housing Benefits to ensure that:</p> <ul style="list-style-type: none"> -The Council promptly and accurately provides Housing Benefit to eligible persons. -The Council is complying with statutory requirements. -Information held is complete, accurate and reliable. -The system provides the most effective and efficient use of resources. -All information is securely held and system access is well controlled.
Council Tax	<p>Examine and evaluate the systems and procedures in place to ensure that;</p> <ul style="list-style-type: none"> -All taxable properties are identified, assessed and recorded and that these records are accurately maintained, -All persons liable for Council Tax and all discounts, exemptions, benefits and other allowances have been identified and correctly recorded, -Amounts due in respect of each property have been correctly calculated and promptly demanded from the liable person, -Secure and efficient arrangements exist for all collections, which are promptly posted to the correct taxpayer's accounts, all refunds are authorised and valid, -All arrears are promptly identified and effectively pursued and all write offs are valid and authorised, -The Authority complies with all statutory and other requirements for tax setting and the keeping of accounts.
Redundancies	<p>Evaluate the systems operated by the Human Resources for redundancy payment administration to ensure appropriate written procedures have been produced, circulated and are adhered to.</p>
Creditors	<p>Examine and evaluate the systems and procedures in place that administer the Central creditors system</p>
Budgetary Control	<p>Examine and evaluate the systems and procedures in place to administer the councils budgetary control systems.</p>
Cash/Bank	<p>Examine and evaluate the systems and procedures in place to administer the Central Cash Receipting system to ensure that;</p> <ul style="list-style-type: none"> -The Council provides a secure, convenient environment for the collection of income due, -Financial procedural rules are adhered to, -Income is promptly banked and correctly accounted for, -The systems in place operate effectively and efficiently, -Collection points are secure, -Cash receipting systems are secure.
Loans & Investments	<p>Examine and evaluate the system and procedures in place to ensure that:</p> <ul style="list-style-type: none"> -An official Council policy on borrowing and investing is in place and that CIPFA guidelines are followed. -Systems are in place for daily cash flow forecasting. -Loans are subject to monitoring and satisfactory authorisation. -Investments are subject to monitoring and satisfactory authorisation. -Interest calculations are undertaken ensuring that investment repayments and interest are received on due dates. -Appointment and payment to brokers is in line with guidelines.
VAT	<p>Examine and evaluate the systems and procedures in place to administer the Sundry Debtors system</p>
Debtors	<p>Examine and evaluate the systems and procedures in place to administer the council's procedures for dealing with VAT.</p>

Highways	Ensure that adequate controls are in place in respect of the design, ordering, inspection, undertaking and payment of any works carried out as part of any reactive or scheduled maintenance on highways, street lighting, winter gritting and gully works.
Procurement	To ensure that: There are systems in place to ensure that legislation is complied with – National Procurement Strategy for Local Government. Contract Procedure Rules and Financial Procedure Rules are adhered to. Milestones are set and monitored to ensure that key target dates are met. Roles and responsibilities with regard to procurement are clearly defined. Electronic Procurement issues relating to the IEG initiative are clearly identified and monitored to ensure that deadlines are achieved.
Free School Meals	Examine and evaluate the adequacy and effectiveness of the systems used to administer the free school meals provision.
NNDR	Examine and evaluate the systems and procedures in place to administer NNDR to ensure that; -The Authority maintains an accurate list of all hereditaments subject to locally collectable non domestic rates, -Liability for NNDR is accurately assessed and timely bills for the correct amount are sent to the occupiers of all rateable hereditaments, -All NNDR money collected is promptly posted to the correct account, -Prompt and effective recovery action is taken on all overdue unpaid amounts, -Relief given for transition, charities and hardship are given in accordance with the regulations and local schemes and all write offs are valid, -NNDR transactions are recorded in the Authority's accounts.
Main Accounting System	Examine and evaluate the systems in place to administer the CODA FM function to ensure that; -Correct accounting data is provided, for input into the Council's Final Accounts, Balance Sheets and Statement of Accounts, -Council Standing Orders and Financial Regulations are complied with as appropriate, -Controls are in place to ensure that data entered to CODA is complete, accurate and can be relied upon for reporting purposes, -The administration of the CODA system is carried out effectively without duplication of work, -Access to the CODA FM System is adequately controlled.

AUDIT COMMITTEE

17th January 2006



Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT PLAN 2006/07

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 2006/07.

2. BACKGROUND

The attached Report provides accountability for internal audit services and allows Members to monitor the application of the delegated authority for ensuring an effective and satisfactory internal audit function in accordance with the Accounts and Audit Regulations 2003 and CIPFA Code of Practice for Internal Audit in Local Government in the UK (2003).

3. FINANCIAL IMPLICATIONS

None.

4. RECOMMENDATIONS

Members note the contents of this Report and approve the Internal Audit Plan for 2006/07.

Report of: Chief Internal Auditor

Subject: INTERNAL AUDIT PLAN 2006/07

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 2006/2007 (Appendix A).

2. BACKGROUND

- 2.1 Under the Accounts and Audit Regulations 2003, 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 is discharged, has been delegated to the Chief Financial Officer.
- 2.2 To accord with the CIPFA Code of Practice 2003 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. Code of Practice criteria within Comprehensive Performance Assessment requires that there is an internal audit plan based on an evidenced assessment of risk and that the plan is reported to Members.
- 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 five-year 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:
- Value of transactions
 - Volume of transactions
 - CPA critical
 - Management and Control environment
 - Relevance to SIC
 - May incur legal penalties
- 2.4 The existing five year Strategic Plan has assisted in the production of the Annual Audit Plan for 2006/2007. Additionally, the audit plan has been tailored to add value to the Council following a process of discussion and consideration with Departmental Heads, of their current operational issues.

- 2.5 Hartlepool Borough Council Internal Audit establishment consists of a Chief Internal Auditor and 8 FTE audit staff.

3. INTERNAL AUDIT RESOURCES 2006/2007

Mainstream Internal Audit

- 3.1 A total of 88 planned audits will form the basis of the mainstream Internal Audit Work for 2006/07. The plan is broken down into the main areas of work undertaken in order to provide an opinion on the control environment in operation at the Council. It includes fundamental systems such as salaries, debtors, creditors, risk management etc., which are identified, for the purpose of the plan, as single audits. However, these will include system and probity audits in each or some of the departments, in support of the main system reviews.

In addition to the planned audit work, advice and support will be provided on an ad hoc basis throughout the financial year together with unplanned reactive work wherever necessary and appropriate.

- 3.2 In addition, for 2006/07, 120 days of audit work will be provided to the Cleveland Fire Authority.
- 3.3 Further details are provided in Appendix A of the focus of coverage across the council.

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 scheduling recommendations, identifying responsibilities and timescales for action
 - Carry out follow up work to monitor the effectiveness of management in actioning audit recommendations
 - Ensure audit recommendations are focused on improving controls and delivering benefits to the Council.
 - Provide feedback to the Chief Financial Officer and Members on progress on the audit plan and the outcomes of audit work.

5 INTEGRATION

- 5.1 Although Internal Audit and the Audit Commission carry out their work with different objectives, it is good professional practice that both parties should work closely together, which is a principle that the Council has always been committed to.
- 5.2 The arrangements for ensuring effective joint working are formalised into a Joint Protocol Agreement, which ensured that the overall audit resources are most effectively focused and duplication is mitigated.

6 RECOMMENDATION

- 6.1 It is recommended that Members approve the 2006/2007 Internal Audit Plan.

Appendix A

ANNUAL PLAN**2006/07**

FUNDAMENTAL SYSTEMS	Days
Asset Register - Capital Accounting	10
Benefits - Housing & Council Tax	25
Budgetary Control	15
Cash/Bank	8
Council Tax	15
Creditors	20
Debtors	10
Loans & Investments	5
Main Accounting	10
NNDR	10
Procurement	25
Salaries	10
Wages	10
 OTHER SYSTEMS	
Attendance Management	10
Contracts:	20
Pre	
Current	
Post	
Fleet Management	20
Health and Safety	5
Mortgages	0
NFI	10
Officers Expenses	0
Performance Management Systems	15
Recruitment, Selection and Retention	10
Redundancies	0
Risk Management	15
Time Management/Flexi Scheme	10
Training	20
V.A.T.	5
 GOVERNANCE ISSUES	
Bichard Report	6
Children's Act	10
DDA	5
DPA	10
FoI	5
Fraud Awareness	15
PIDA	5
PoCA	5
RIPA	5
Contingency	25
 PARTNERSHIPS	
Children's Fund	15
Hartlepool Partnership	10

Housing Hartlepool	10
LPSA	10
SRB/NDC	30
Contingency	15

ANNUAL AUDITS

Best Value Performance Plan	5
Claim Adjustor Reviews	5
Student Awards	5
Supporting People	20
Sure Start Central	15

TWO YEARLY AUDITS

Adoption	0
Brierton Secondary School	10
Building Maintenance	0
Car Parks Income	10
Carlton Centre	0
Catering	10
Community Transport	10
Contracts & Commissioning	10
Direct Payments	10
Dyke House Secondary School	10
Emergency Planning	5
Employees Registers of Interest	5
English Martyrs Secondary School	10
Fostering	0
Free School Meals	0
High Tunstall Secondary	0
Highways	0
Home Care	0
Housing Aid & Asylum Seekers	5
Improvement/Renovation Grants	0
Industrial Estate Lettings/Rental	0
Insurances	0
Manor College Of Technology	10
Members Allowances	5
Members Code of Conduct	0
Milk Grant	0
Millhouse & Eldon Grove Centres	15
Nursing & Residential Accommodation Charges	10
Pensions, Allowances & Client Property	10
Pest Control, Licences, Public Health Income	10
Petty Cash	0
S.E.N. Support	0
Section 17 Payments	0
Springwell Special School	9
St. Hilds	10
Sure Start North	0
Sure Start South	15
Tourism	0
Trading Standards	0
Stores	10

THREE YEARLY AUDITS

Abandoned Vehicles	5
Adult Education	0
Allotment Rentals	0
Assisted Car Purchase	0
Barnard Grove Primary School	0
Book Fund	10
Brooklyn Centre	0
Brougham Primary School	0
Building & Development Control Income	10
Business Support Grants	0
Catcote Special School	0
Cemeteries & Crematoriums	10
Central Land Charges	0
Central Printing	10
Clavering Primary School	9
Cleaning Of Buildings	0
Community Grants	10
Corporate Postages & Franking	10
Court Of Protection	0
Education Development Centre	10
Eldon Grove Primary School	0
Elwick C Of E Primary School	9
Fens Primary School	9
Golden Flatts Primary School	9
Grange Primary School	0
Greatham C Of E Primary School	0
Hackney Carriages	10
Hart Primary School	9
Havelock Day Centre	0
Hire Of Community & Public Halls	0
Holy Trinity C Of E Primary School	9
Jesmond Primary School	0
Kingsley Primary School	0
Libraries	0
Licensing	15
Lynnfield Primary School	0
Market Rents	0
Meals On Wheels	0
Music Service (Joint Arrangement)	0
Owton Manor Primary School	9
Parks Income	0
Placements	0
Playing Fields & Lettings	0
Play schemes (Easter & Summer)	0
Pupil Referral Unit (P.R.U.)	0
Recycling Centre	0
Registrars	10
Registration & Inspection	0
Resource Centres	0
Rift House Primary School	9
Rossmere Primary School	0
Sacred Heart Primary School	0
School Catering Recharges	10

Seaton Carew Nursery	0
St. Aidans Primary School	0
St. Begas Primary School	0
St. Cuthbert's Primary School	0
St. Helens Primary School	0
St. John Vianney Primary School	0
St. Josephs Primary School	9
St. Teresa's	0
Stranton Primary	0
Summerhill	0
Swinburne House	0
The Firs	0
Throston Primary School	0
Trade Refuse/Special Collections	0
Ward Jackson Primary	0
Warden Call	0
Warren Road	0
West Park Primary	0
West View Primary School	0

OTHER PLANNED WORK

BVPI's	30
Computer Audit	60
E - Government Strategy	20
Advice and Support	30
SIC	5