

# AUDIT COMMITTEE AGENDA



**Thursday 5<sup>th</sup> April 2007**

**at 10.00am**

**in Committee Room A**

MEMBERS: AUDIT COMMITTEE:

Councillors: Hall, Preece, Turner, Wallace 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 4<sup>th</sup> January 2007 (*attached*)

**4. ITEMS FOR DISCUSSION/DECISION**

- 4.1 Audit Commission Report – Use of Resources – *Chief Financial Officer*
- 4.2 Internal Audit Plan 2006/07 Update – *Head of Audit and Governance*
- 4.3 Internal Audit Charter – *Head of Audit and Governance*
- 4.4 Internal Audit Strategy – *Head of Audit and Governance*

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

# **AUDIT COMMITTEE**

## **MINUTES AND DECISION RECORD**

4 January 2007

The meeting commenced at 10.00 a.m. in the Municipal Buildings, Hartlepool

**Present:**

Councillor Gerard Hall (In the Chair)

Councillors Arthur Preece and Gerald Wistow

Officers: Chris Little, Assistant Chief Financial Officer  
Noel Adamson, Head of Audit and Governance  
David Cosgrove, Principal Democratic Services Officer

Caroline Tyrrell, Audit Commission

### **13. Apologies for Absence**

None.

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

None.

### **15. Confirmation of the minutes of the meeting held on 5 October 2006**

Confirmed.

### **16. Audit Commission Reports – Data Quality and Your Business at Risk** *(Chief Financial Officer)*

The Audit Commission have, this year, introduced an audit of data quality. This is a new development for the Audit Commission but data quality, due to its importance in demonstrating and measuring success, has always been integrated into the planning and performance management arrangements for the Council. The "Your Business at Risk" report is different from normal Audit Commission reports as it is a summary of a survey for information so there is no formal action plan. The two reports were submitted as appendices.

Caroline Tyrrell from the Audit Commission reported that the Council had adequate arrangements in place. Overall the Council's data quality

management was quite sound and there was only one specific recommendation. This related to the fact there was no Member with overall responsibility for this area. This was to be addressed by the submission of a report to the Performance Management Portfolio Holder.

Members welcomed the report but noted the comments in relation to the lack of consistency across departments. Caroline Tyrrell commented that there was no specific recommendation in relation to this but it had been the subject of discussions. It appeared that the established arrangements were not working as well in some departments as they were in others. The Assistant Chief Financial Officer commented that those departments that were used to dealing with large amounts of data and frequently used it for other inspection purposes did tend to have very strong arrangements in place. Those departments that did not have such a culture that needed to be addressed. The Assistant Chief Executive had been tasked with raising the standards across the authority.

### **Decision**

1. That the reports of the Audit Commission be noted and that Caroline Tyrrell be thanked for her attendance at the meeting.
2. That it was noted that there would be a report to the Performance Management Portfolio holder to address the identified recommendation in the Data Quality report.

## **17. Internal Audit Plan 2006/07** *(Head of Audit and Governance)*

The Head of Audit and Governance updated the Committee on the progress made against the audit plan. Appendix A to the report detailed the pieces of work that have been completed. Appendix B detailed the audits that were ongoing at the time of compiling the report.

As well as completing the listed audits in Appendix A, Internal Audit staff had been involved with the following working groups:

- ISO 17799 Group.
- Procurement Working Group.
- Risk Management Group
- Statement on Internal Control

In order to comply with the requirement that all secondary schools meet the relevant criteria as outlined in the Financial Management Standard in Schools (FMSiS) award, Internal Audit had also been providing support and advice to the schools based on the audits that have previously been carried out in the secondary schools.

### **Decision**

That the report be noted.

## 18. Internal Audit Plan 2007/08 (*Head of Audit and Governance*)

The Head of Audit and Governance reported that the plan set the direction of internal audit activity, and to sought approval of the annual operational Internal Audit Plan for 2007/2008, which was set out at Appendix A.

Eighty-two planned audits will form the basis of the mainstream Internal Audit Work for 2007/08. 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 included fundamental systems such as salaries, debtors, creditors, risk management etc., which were identified, for the purpose of the plan, as single audits. However, these would 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. In addition, for 2007/08, 120 days of audit work will be provided to the Cleveland Fire Authority.

The Committee discussed the auditing of Neighbourhood Renewal Fund (NRF) projects approved by the Hartlepool Partnership where the Council was the accountable body. The Assistant Chief Financial Officer and the Head of Audit and Governance commented that this area was frequently a difficult area to audit. Systems were in place to ensure schemes had been approved through the appropriate route and that all the necessary Government Office returns were completed. The difficulties arose when auditing the achievement of objectives. This could be a simple 'black or white' assessment in the case of providing a building for example. The subjective analysis of the provision of services to target groups could though be very difficult to audit.

Councillor Wistow indicated that he had raised an issue with the Assistant Chief Financial Officer in relation to the delivery of a particular NRF scheme. It was hoped that the matter could be resolved informally, though if this was not the case, Councillor Wistow indicated that he would wish to raise the matter formally through this Committee. The Chair commented that that would be appropriate as long as the Committee's involvement focussed on the systems in place rather than actual 'on the ground' delivery, as this would adhere to the Committee's remit.

The Assistant Chief Financial Officer commented that auditing partnership working was a very complex area and officers in both the Council and Partnership were learning more through each individual audit. Audit officers were working with staff in the Regeneration and Planning Services department on the collection and monitoring of quarterly information. It was suggested that an officer from Regeneration and Planning Services attend a future meeting to inform the Committee of the monitoring that is undertaken.

The Head of Audit and Governance stated that a different aspect of partnerships was audited each year. The Assistant Chief Financial Officer reassured Members that the arrangements within Hartlepool Partnership are

robust. There was frequently a need for the partnership to balance the delivery of programmes to meet the appropriate funding regimes and their time limits.

#### **Decision**

### **19. Review of Financial Procedure Rules** *(Chief Financial Officer)*

The Assistant Chief Financial Officer informed the Audit Committee of the necessity to review the Council's current Financial Procedure Rules (FPRs) as set out in the Constitution. The report set out the changes proposed to FPRs in order to meet the requirements identified when completing the Statement on Internal Control (SIC) for 2005/06. The amendments to the FPRs, as set out in the appendix to the report, would be considered by the Constitution Working Group and Constitution Committee prior to being referred to Council for formal approval.

The Assistant Chief Financial Officer briefly outlined the individual amendments and Members made the following comments.

2.2.6 – references to Directors and Chief Officers should include the Chief Executive specifically in his role as the head of a department.

4.5.6 – "...not exceeding 10% of Departmental budget." Members acknowledged the need to increase this amount for the smaller departments but considered that for the departments with larger budgets, this amount may be too high. Members suggested that a maximum amount should be considered by the Constitution Working Group.

4.5.9 – Members suggested that "with the approval of the Chief Financial Officer" be added.

#### **Decision**

That the comments of the Audit Committee be forwarded to the Constitution Working Group/Committee when considering the amendments to the Financial Procedure Rules.

G HALL

CHAIRMAN

## AUDIT COMMITTEE

5<sup>th</sup> April 2007



**Report of:** Chief Financial Officer

**Subject:** AUDIT COMMISSION REPORT- USE OF RESOURCES.

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### 1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit Committee that arrangements have been made for a representative from the Audit Commission to be in attendance at this meeting, to present the results of the Audit Commissions work on Use of Resources.

### 2. BACKGROUND

- 2.1 The Audit Commission carry out the Use of Resources assessment to evaluate how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 2.2 The evaluation assesses five themes and scores each one either:
- 1- Below minimum requirements – inadequate performance,
  - 2- Only at minimum requirements – adequate performance,
  - 3- Consistently above minimum requirements – performing well,
  - 4- Well above minimum requirements – performing strongly.

### 3. FINDINGS OF THE AUDIT COMMISSION

- 3.1 Attached, as Appendix 1, is the Audit Commission report on Use of Resources. The five scheme scores, as detailed in Table 2 in the Audit Commission report, show that the Council has maintained its scores in four of the five schemes and improved its score in the area of Internal Control. This is despite the 2006 evaluation being more testing than in 2005.

- 3.2 Table 3 within the Audit Commission report highlights improvement opportunities which have been taken into account when developing service plans for 2007/08.

**4. RECOMMENDATIONS**

- 4.1 That the Audit Committee:
- i. note the report of the Audit Commission

# Use of Resources 2006

**Hartlepool Borough Council**



External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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## Introduction

- 1 The annual Use of Resources (UoR) assessment evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes.
- 2 This is the second year of carrying out the assessment and our work has focused on building on our previous year's work and updating it for any changes and improvements to the Council's arrangements.
- 3 Judgements will be made for each theme on the following scale which has been standardised by the Audit Commission across inspection and performance assessment frameworks.

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**Table 1      Standard scale used for assessments and inspections**

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

The overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 1 December 2006.

- 4 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 assessment. In particular, in order to support scores of 3 and above, we need to consider whether relevant arrangements are 'embedded' that is, they have been operating consistently with clear outputs and having an impact. For scores of 4 (performing strongly) we are required to consider whether, in addition to meeting the descriptors/criteria, councils can demonstrate innovation or best practice that can be shared with other authorities. The descriptors/criteria at level 4 have been kept to a minimum so as to avoid them becoming unnecessarily prescriptive and limiting.
- 5 In relation to future assessments, as outlined in the CPA framework documents for 2006 for single tier and county councils, the status of a number of criteria will change to 'must have status'. For information, these criteria have been summarised at Appendix 1. In order for the Council to sustain or to improve upon its current performance at the next assessment, it will need to take these criteria into consideration.

- 6 The five theme scores for Hartlepool Borough Council are outlined overleaf. This summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level**

Key lines of enquiry (KLOEs)	Score 2005	Score 2006
<b>Financial reporting</b>	3	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	3
1.2 The Council promotes external accountability.	2	2
<b>Financial management</b>	2	2
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	2	2
2.2 The Council manages performance against budgets.	2	2
2.3 The Council manages its asset base.	1	2
<b>Financial standing</b>	3	3
3.1 The Council manages its spending within the available resources.	3	3
<b>Internal control</b>	2	3
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	1	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	3
<b>Value for money</b>	3	3
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	2	3

# Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in Table 3.

**Table 3 Summary of findings and conclusions by theme**

<b>Financial reporting</b>	
<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<i>The Council produced its accounts within tighter deadlines and improved its arrangements for reviewing the accuracy of its accounts. The accounts were presented fairly and were subject to member scrutiny. We gave an unqualified opinion on the amended accounts.</i>	
<b>Improvement opportunities</b>	
KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	Improve quality review arrangements for the draft accounts to identify and correct minor errors.
KLOE 1.2 The Council promotes external accountability.	Consult stakeholders on the need to publish an annual report or similar document. An annual report should include the summary accounts produced for the year and an explanation of key financial information, designed to be understandable and informative to members of the public and available in a wide variety of formats in order to meet local user needs.

## Financial management

Theme score 2

### Key findings and conclusions

*The Council has a medium-term financial strategy and has recently combined the capital strategy and asset management plan. Budgets and capital programmes are soundly based.*

### Improvement opportunities

KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.

Develop the links between the corporate business plan, medium term financial strategy, detailed budgets and other Council strategies.

KLOE 2.2 The Council manages performance against budgets.

Develop detailed guidance for budget holders and a training programme for budget holders and members.

<b>Financial standing</b> <b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<i>The Council maintains expenditure within budgets and has reserves to support future plans.</i>	
<b>Improvement opportunities</b>	
KLOE 3.1 The Council manages its spending within the available resources.	Report the opportunity costs of exceeding budgeted levels of reserves

## Internal control

**Theme score 3**

### Key findings and conclusions

*Risk management is embedded and significant improvements have been made in the arrangements for the statement on internal control.*

### Improvement opportunities

KLOE 4.1 The Council manages its significant business risks.	Risks from partnerships should be identified and managed in the same way as other business risks.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	Develop the assurance framework and the role of the Audit Committee
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	Raise the profile of anti fraud and corruption measures within the Council, for example by including fraud in the risk register.



## Value for money

**Theme score 3**

### Key findings and conclusions

*The Council is continuing to produce high quality services and generates high rates of public satisfaction in many areas, despite being the 18<sup>th</sup> most deprived borough in the country. A number of areas of unintended high spending have been identified in the past year and are being successfully addressed. A small amount is made available from the current budget to enable resources to be moved to priority areas, such as the development of health initiatives.*

*The Council has made progress in the way it approaches VfM and is producing a balance of financial savings and service improvements. The Council actively uses a range of benchmarking information to give it clear information on comparative costs.*

### Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

Address those areas where performance falls below required standards eg supporting people

KLOE 5.2 The Council manages and improves value for money.

Benchmark and review services to reduce areas of high spending

## Appendix 1 – Criteria which will gain 'must have' status for the next assessment

### New criteria in bold type ('must have') for 2006/07 assessment

- 1 This table summarises criteria that are currently included in the KLOE but are not in bold type and do not have 'must have' status, but which will have such status for the 2006/07 assessment.

KLOE	Summary of criteria
<b>Financial reporting</b>	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meets the needs of a range of stakeholders is published and their views are considered in deciding whether to publish an annual report.
<b>Financial management</b>	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month-end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.
<b>Financial standing</b>	
3.1	Collection and recovery of material categories of income is monitored.

KLOE	Summary of criteria
<b>Internal control</b>	
4.1	Appropriate staff are trained in risk management.
4.2	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems (new).
4.2	Arrangements for carrying out the functions of an audit committee are effective.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004) (new).
4.2	Governance arrangements are in place for significant partnerships.
4.3	The council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.



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

**Subject:** INTERNAL AUDIT PLAN 2006/07 UPDATE

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**1. PURPOSE OF REPORT**

To inform Members of the progress made to date completing the internal audit plan for 2006/07.

**2. SUMMARY OF CONTENTS**

At the Audit Committee meeting of 25.10.05 it was agreed that the Head of Audit and Governance 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. RELEVANCE TO PORTFOLIO MEMBER**

N/A

**4. TYPE OF DECISION**

Non-key decision.

**5. DECISION MAKING ROUTE**

Audit Committee tasked with considering adequacy of audit coverage.

**6. DECISION(S) REQUIRED**

Members note the contents of this Report.

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

**Subject:** INTERNAL AUDIT PLAN 2006/07 UPDATE

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**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2006/07.

**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 on 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 17799 Group.
  - Procurement Working Group.
  - Risk Management Group
  - Statement on Internal Control

In order to comply with the requirement that all secondary schools meet the relevant criteria as outlined in the Financial Management Standard in Schools (FMSiS) award, Internal Audit have also been providing support and advice to the schools based on the audits that have previously been carried out in the secondary schools.

- 3.3 Appendix B details the audits that were ongoing at the time of compiling the report.

**4 AUDIT PLAN PROGRESS**

- 4.1 The work completed and currently ongoing is in line with expectations at this time of year, and audit coverage to date has allowed the Audit Commission to place reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

**5 RECOMMENDATION**

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

## Appendix A

Audit	Objectives	Recommendations	Agreed
Sure Start South	To ensure that there is adequate financial monitoring and budgetary controls in place, to examine the arrangements for IT data security and the security of cash and assets held and to ensure that the arrangements for procurement and the payment of invoices are in line with Financial Procedure and Contract Procedure Rules. To review the petty cash imprest account, procedures for dealing with Service Level Agreements and reconciliation of income.	<ul style="list-style-type: none"> <li>- All members of staff with access to email and internet facilities must sign a Data Protection Form of Undertaking.</li> <li>- Official orders should be raised to purchase all goods / services except in limited circumstances where it would not be appropriate to do so.</li> <li>- Delivery notes / service sheets should be retained as evidence that goods / services have been received.</li> <li>- In order to comply with the Late Payment of Commercial Debts (Interest) Act 1998, invoices should be paid within 30 working days or in accordance with the payment terms stated on the face of the invoice.</li> <li>- Checks should be made to ensure that contractors employed by the programme have valid CIS documentation and £5M Public Liability Insurance.</li> <li>- All arrears should be identified and transferred onto the new Instant Nursery Manager system. Financial limits should then be set to determine when action is taken to recover debts. A timetable should be established and followed for issuing recovery letters.</li> <li>- A person who is independent of the collection and banking processes should undertake recovery action.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
English Martyrs Secondary	Ensure school financial and governance arrangements are in line with best practice	<ul style="list-style-type: none"> <li>- Implementation of the HCSS 3 year budget forecasting programme.</li> <li>- The HBC Data Protection Policy covering Internet and Email should be available to all staff. All staff should complete a Data Protection Form of Undertaking.</li> <li>- Non-order invoices should be kept to an absolute minimum. When an order is placed the estimated cost should be committed against the appropriate budget allocation in SIMS so that it features in subsequent budget monitoring reports.</li> <li>- School inventory records should include all assets over £500 in value, or assets considered "desirable". Records should detail the asset make, model, serial number, description, location, purchase date and price (if known) and disposal date and price. Records should be continually updated with purchases and disposals.</li> <li>- An annual inventory check should be carried out by 2 people, including 1</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

		member of staff who is independent from the day to day maintenance of the inventory.	
Sure Start Central	To ensure that there is adequate financial monitoring and budgetary controls in place, to examine the arrangements for IT data security and the security of cash and assets held and to ensure that the arrangements for procurement and the payment of invoices are in line with Financial Procedure and Contract Procedure Rules. To review the petty cash imprest account, procedures for dealing with Service Level Agreements and reconciliation of income.	- That all employees complete the Data Protection Forms.	Y
		- That the float is reduced to £200 and petty cash reimbursements made on a more regular basis – this will ensure that budgets are up to date.	Y
		- That orders are raised wherever possible and transactions made through the petty cash limited to amounts under £20 – as the VAT element is not reclaimed on petty cash transactions.	Y
		- That the Finance Officer/Programme Manager authorises transactions above £xx for non order payments.	Y
		- That the use of non order invoicing is limited to agreed occasions (utilities).	Y
		- That invoices are paid promptly.	Y
		- Ensure that evidence of obtaining best price/value for money is obtained and retained.	Y
		- That the arrangements in place for transporting cash are examined.	Y
		- That the inventory is extended to include values and details of disposals and purchases. It should be signed when checked.	Y
Benefits	Ensure that staff processing claims have the knowledge/ability to process subsidy claims accurately and promptly in compliance with relevant legislation/procedures and that accurate levels of subsidies are claimed and are supported by appropriate documentary proof. Review the day-to-day operation of the benefits system to ensure processes are in accordance with the appropriate verification framework regulations and provide sufficient information to enable effective checking and monitoring of claims/performance. Evaluate system processes against objectives to ensure that overpayment of claims are identified and efficiently/effectively recovered and that payment of claims is prompt, accurate, authorised and correctly accounted for. Review controls to ensure that all records and documentation are safeguarded from loss/unauthorised access and that there is an adequate and effective framework in place to prevent/detect fraudulent claims and to investigate all suspect fraud.	None	



Emergency Planning	Ensure that the Emergency Planning service is provided in line with any statutory or legislative requirements and is effectively and efficiently operated. Ensure information and equipment is held securely.	None	
Loans And Investments	To ensure there are clear and concise policies and procedures in place for administering Loans and Investments ensuring that the best possible arrangements are made when managing the cash flow position. Financial Procedure Rules are adhered to when arranging loans and investments. Accurate and reliable records are maintained of all investment and loans and decisions made. Procedures in place allow for an effective and efficient use of resources. Access to process loans and investments is restricted with a division of duties maintained.	<ul style="list-style-type: none"> <li>- A senior officer performs monthly spot checks on the bank reconciliations to ensure accuracy and completion.</li> <li>- Verification of bank reconciliations occurs prior to the subsequent weeks being completed.</li> <li>- Deal tickets should be checked and initialled by an appropriate officer to verify accuracy.</li> </ul>	Y  Y  Y
Cash/Bank	To ensure that secure arrangements exist for the collection & recording of cash, cash collections & all direct bank credits are promptly, completely & accurately brought to account, all collections are promptly banked, all collections are promptly & accurately posted to debtors' or income accounts and a management trail exists.	- A disaster recovery plan is to be put in place for the Cash Receipting function.	Y
Salaries	Ensure Salaries and related costs are incurred only in respect of staff currently employed in authorised posts, are correctly calculated and properly authorised and have been correctly coded. Salaries are properly and accurately recorded and details held securely. Salaries are paid only to those entitled and all expected output is produced, appears reasonable and is distributed on time with confidentiality being maintained.	<ul style="list-style-type: none"> <li>- Staff must ensure that a leavers' status is correctly amended in Prolog when completing the Leaver process.</li> <li>- A procedure for staff to following when they wish to amend their personnel details is drawn up. This should include authorisation instructions and template forms. The process should be made available to all staff members via the Council's Intranet site.</li> </ul>	Y  Y
Wages	Ensure Wages and related costs are incurred only in respect of staff currently employed in authorised posts, are correctly calculated and properly authorised, have been correctly coded and are properly and accurately recorded and details held securely. Wages are paid only to those entitled and all expected output is produced, appears reasonable and is distributed on time with confidentiality being	<ul style="list-style-type: none"> <li>- A procedure for staff to following when they wish to amend their personnel details is drawn up. This should include authorisation instructions and template forms. The process should be made available to all staff members via the Council's Intranet site.</li> <li>- Details on any unsigned leavers form should be checked with an appropriate manager prior to any amendments. A brief description of contact be added to form when actioned.</li> </ul>	Y  Y

	maintained.	- The filing cabinets containing all payroll details, specifically bank details, are locked on an evening and weekend to prevent unauthorised access.	Y
Home Care	To ensure that the procedures for determining the provision of Home Care are adequate; that financial assessments carried out to calculate clients contribution to the cost of Home Care are undertaken in a fair and accurate manner, with periodic reassessments carried out to ensure that changes in circumstances are taken into account, that the care provided is in accordance with the assessment, the charges arising from the provision of care are accurate and adequate quality assurance mechanisms are in place and that all income due is received, correctly recorded, accounted for and promptly paid into the Authority's bank account.	- A statement of resources form should be completed within 5 days of referral.	Y
		- Controls should be implemented to ensure that all referrals passed to UP&F team have been identified and subjected to a financial assessment.	Y
		- An exercise should be undertaken to identify and remedy the difficulties that have prevented the statement process from operating effectively in order that statements can be issued regularly to services users and in a prompt manner.	Y
		- Cashiers should be reminded of the importance of recording unique client reference numbers when payments are received at cash offices via swipe-card.	Y
		- An appropriate system of recovery should be established to recover amounts outstanding from individuals who fail to pay their contribution, once the statement process has been rectified to ensure that the Council maximises the income it is due.	Y
National Non Domestic Rates	To ensure the authority maintains a secure system for recording and monitoring 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 in the authority's area. The authority maintains an accurate list of all hereditaments subject to locally collectable non-domestic rates. All NNDR money collected is promptly posted to the correct account. Relief given for transition, charities and hardship are given in accordance with the regulations and local schemes and all write offs are valid. The authority complies with other legal requirements. All write offs are valid and correctly processed and authorised. Liability for NNDR is accurately assessed and timely bills for the correct amount are sent to the occupiers of all rateable hereditaments in the authority's area. Prompt and effective recovery action is taken on all overdue unpaid amounts. NNDR	- Amounts outstanding at the financial year end should be identified for inclusion in the financial accounts along with an appropriate bad debts provision.	Y
		- Independent checks should be made to confirm that relief awarded are valid.	Y
		- Arrangements should be made to ensure that there is a reconciliation between the refunds processed and those posted on I-world.	Y
		- Managers should examine lists of employees to ensure that the access held is appropriate.	Y
		- A business continuity plan should be in place in the event of IT failure / other disaster.	Y

	transactions are recorded in the authority's accounts.		
Council Tax	All taxable properties are identified, assessed and recorded and these records are accurately maintained. All persons liable for council tax and all discounts, exemptions, benefits and other allowances have been identified and correctly recorded. Amounts due in respect of each taxable property have been correctly calculated and promptly demanded from the person liable. Secure and efficient arrangements exist for all collections, which are promptly posted to the correct taxpayers' accounts. All refunds are authorised and valid. All arrears are promptly identified and effectively pursued, and all write offs are valid and authorised. The billing authority complies with all statutory and other requirements for tax setting and the keeping of accounts.	<ul style="list-style-type: none"> <li>- Composite properties are to be fully recorded in the system to allow a reconciliation to be done to the NNDR list.</li> <li>- Random independent checks on the validity and accuracy of discounts / exemptions awarded should be undertaken on a periodic basis.</li> <li>- All accounts awarded discounts / exemptions should be subject to regular reviews to ensure that they remain valid.</li> <li>- Arrangements should be made to ensure that reconciliation of cash posted to I-world and Integra is brought up to date.</li> <li>- Arrangements should be made to ensure that refunds processed on I-world are reconciled to those processed on Integra.</li> <li>- Managers should examine lists of employees to ensure that the access held is appropriate.</li> <li>- A business continuity plan should be in place in the event of IT failure / other disaster.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>
Central Printing	Examine and evaluate the system and procedures in place for providing a printing and associated services function to the Council.	<ul style="list-style-type: none"> <li>- That Laid down procedures are followed in relation to ordering of goods. i.e. <ul style="list-style-type: none"> <li>- Requisitions are correctly completed for each order.</li> <li>- Orders raised for all goods received.</li> <li>- All delivery notes to be kept and marked as received.</li> <li>- All invoices to be authorised.</li> </ul> </li> <li>- A list of charges should be drawn up to allow cross checking of prices charged.</li> <li>- Stock control records be maintained which record: <ul style="list-style-type: none"> <li>- Goods inwards/deliveries</li> <li>- Usage/issues of materials,</li> <li>- Recording and authorisation of the disposal of waste materials,</li> <li>- Details of periodic/annual stock checks.</li> </ul> </li> <li>- A system to be put in place to set minimum reorder levels and followed to ordering of materials to keep stock from running low.</li> <li>- Stock checks to be carried out on a regular basis to ensure stock is monitored correctly and materials are securely held.</li> <li>- Regular meter readings to be taken and checked to invoices.</li> <li>- Printing requests to be monitored to usage.</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

Catering	Ensure that all income is promptly accounted for, receipted and banked, the procedures in place for the administration of functions is adequate, that the methods of stock control including the receipt, issues and returns to stock are adequate, that stocks are held in a secure location and can be accounted for and purchase orders and payment procedures are effective.	<ul style="list-style-type: none"> <li>- Procedures to be put in place for ordering fresh produce.</li> <li>- Invoices to be paid within 30 days of being received.</li> </ul>	Y Y
Springwell School	Ensure school financial and governance arrangements are in line with best practice.	<ul style="list-style-type: none"> <li>- A medium term plan linked to the school's development plan, should be developed, which demonstrates the effect of higher / lower levels of funding, predicted pupil numbers.</li> <li>- The Governing Body should approve a scheme of delegation detailing the role and responsibilities of the head.</li> <li>- All staff signs the internet and data protection consent forms.</li> <li>- Charitable status for the school fund is obtained as soon as 2 years of accounts have passed.</li> <li>- Once arrears reach £20 these are to be referred to the LEA for invoices to be sent to parents.</li> <li>- Copies of order to be retained in the school.</li> <li>- That all governors should have a completed business interest form.</li> </ul>	Y  Y Y Y Y Y Y

## Appendix B

<b>Audit</b>	<b>Objectives</b>
Car Parks Income	To determine whether regular reviews of the charges are completed ensuring the Authority does not suffer loss of revenue. Where revenue is being generated through non-staff car parks that adequate procedures, policies and security measures have been implemented to protect the Authority from any potential misappropriation, vandalism or fraudulent activity. Costs of the administration, collection and recovery of funds are taken into account before beginning the recovery process for parking fines. Adequate and regular review of income is carried out to monitor budget and reveal possible fraudulent activity. Relevant and up to date procedures exist for the maintenance of the Authority's Staff Parking Scheme.
Health and Safety	To ensure an effective H&S Policy agreed by Members is in place, which sets a clear direction for the organisation to follow. The policy should express best practice and comply with legal standards and guidance issued by the HSC/E. An effective management structure is in place with adequate arrangements for delivering the policy across the authority.
Employees Register of Interest	Ensure all relevant guidance is followed and good governance arrangements are in place.
Dyke House Secondary	Ensure school financial and governance arrangements are in line with best practice.
Fleet Management	Examine and evaluate the system and procedures in place for the procurement of vehicles, hiring out of vehicles, fuel management and workshop procedures.
School Catering Recharges	To ensure Contract Procedure Rules and Financial Procedure Rules are adhered to in arranging contracts, processing creditor payments and payroll documents and the collection of income. The Department efficiently and effectively controls the systems in place for the provision of the School Meals Service. Stocks and income are securely held and accounted for.
Building and Development Control Income	The Authority provides a building and development control service in line with statutory obligations, the Authority's policies & procedures comply with relevant legislation/guidance, complete, accurate and reliable evidence is retained and processed in support of planning and building applications, income received is correctly recorded and paid into the Authority's bank account in a timely manner and cash and documents with a financial/confidential value are held securely and in compliance with any relevant legislation e.g. Data Protection.
Licensing	Ensure policies & procedures comply with relevant legislation/guidance. Income received is correctly recorded and paid into the Authority's bank account in a timely manner.
Debtors	To ensure the responsibility for raising sundry debtor accounts is clearly defined, the debtors system is operated with due regard to economy and effectiveness, debtor's accounts are promptly and correctly raised in respect of all miscellaneous and service charges due to the authority, amounts due are credited to the correct income accounts, administrative procedures ensure that debtor's accounts are dispatched promptly and are followed up when no payment has been received, all write-offs of amounts due from debtors are properly authorised, debtors payments received are processed promptly and are correctly posted to the debtors accounts and correct recording of outstanding sums due in the annual accounts.
Nursing and Residential Accommodation Fees	To ensure the Council receives all income due and makes payment of the correct amounts only to those entitled, calculations and assessments are correct and in accordance with statutory requirements and the Council's agreed policy, all transactions are properly recorded and accounted for, and a clear audit trail exists, supported by adequate documentary evidence and the systems used to calculate and process payments ensure the most effective and efficient use of the Council's resources.

Disabled Discrimination Act	To ensure the HBC approach to implementing DDA is documented, complies with legislation/guidance, follows best practice and has been agreed by the Executive/Management Board. Executive Members and Senior Managers within Directorate are actively involved in the process as well as operational managers delivering services on the ground. A consistent methodology is used to identify services/access rights etc that do not comply with DDA. Areas of non-compliance are reported to management and acted upon as appropriate. Key staff/members receive adequate training/guidance to enable them to discharge their duties in an efficient manner. Appropriate mechanisms are in place to monitor progress against DDA compliance. Risks associated with non-compliance are identified and entered onto the Risk register. The implications of key decisions made by portfolio holder/executive are raised at the time the decision is made.
Direct Payments	To ensure Procedures adopted within Adult & Community Services for the administration and management of the Direct Payments system comply with the criteria laid down within the relevant legislation, any direct payments made are reasonable, accurate and timely and adequate monitoring arrangements are in place.
Contracts and Commissioning  Creditors	To ensure the service is required and is provided in the most appropriate manner, contracts are awarded in line with Financial Procedures / Contract Procedure Rules, adequate procedures are in place to monitor contractor performance and ensure compliance with contract conditions/legislative requirements and that accurate and timely payments are made in line with contract conditions. To ensure Supplies of goods and services are properly authorised and comply with standing orders and Financial Procedure Rules, procedures ensure that payments are only made for goods and services received, controls over input ensure that it is authorised, complete, accurate, not previously processed and timely, processing controls ensure that all data is processed and accounted for and that backup copies of files are taken at appropriate intervals and held securely, all expected output is produced, appears reasonable and is distributed on time with confidentiality being maintained, cheques and data are securely controlled both as blanks and when completed, policies relating to data protection, information classification and information security within the authority should be adhered to and a management trail exists.
Main Accounting System	Correct accounting data is provided, for input into the Council's Final Accounts, Balance Sheets and Statement of Accounts. Council Standing Orders and Financial Procedure Rules are complied with as appropriate. Controls are in place to ensure that data entered to INTEGRA is complete, accurate and can be relied upon for reporting purposes. The administration of the INTEGRA system is carried out effectively without duplication of work. Access to the INTEGRA FM System is adequately controlled.
Community Transport	Any tendering arrangements for contracts with external providers have been made in accordance with the Authority's Contract and Financial Procedure Rules, there are adequate arrangements in place to appropriately assess and register all of the service users, there are adequate procedures in place for the collection, handling and banking of income, adequate monitoring procedures are in place, any statutory obligations have been met.
VAT	Examine and evaluate the systems and procedures in place to administer the council's procedures for dealing with VAT.
Stores	Ensure that systems in place for storing, issuing, ordering and managing stock items are effectively and efficiently controlled.
Pest Control and Public Health Income	Ensure the authority provides members of the public with a pest control facility & receives all income due from that provision, complies with council policies & Statutory Provisions, and provides complete and accurate and reliable evidence in support of pest control activities undertaken and cash collected. Ensure that all stock items are securely held and accountable for and that Health & Safety guidelines are followed. Effectively secures Assets & IT documents with a financial value.

## **AUDIT COMMITTEE**

**5<sup>th</sup> April 2007**



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

**Subject:** INTERNAL AUDIT CHARTER

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

To inform Members of the updated Internal Audit Charter attached as Appendix A to the report.

### **2. BACKGROUND**

2.1 In order to ensure that the purpose, authority and responsibility of Internal Audit is formally defined and consistent with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom, the Head of Audit and Governance must produce an audit charter.

2.2 The charter is effectively the terms of reference for Internal Audit and fulfils the following roles:

- Establishes the responsibilities and objectives of Internal Audit
- Establishes the organisational independence of Internal Audit.
- Establishes the accountability and relationships between the Head of Audit and Governance and those charged with governance.
- Recognises that internal audits remit extends to the entire control environment.
- Require and enables the Head of Audit and Governance to deliver an annual audit opinion.
- Establishes Internal Audits right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

### **3. RECOMMENDATION**

That the Audit Committee approves the Internal Audit Charter.

Appendix A



# HARTLEPOOL BOROUGH COUNCIL

  

## INTERNAL AUDIT CHARTER



## **HARTLEPOOL BOROUGH COUNCIL**

### **INTERNAL AUDIT CHARTER**

#### **1 INTRODUCTION**

- 1.1 This document establishes the role and terms of reference of the Internal Audit function within Hartlepool Borough Council.

It has been framed to provide an effective internal audit service, to meet the needs of the Council and to accord with the requirements and guidelines of;

- Section 151 of the Local Government Act 1972;
- The Accounts and Audit Regulations 2006;
- The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006;
- The Standards of the Institute of Internal Auditors.

- 1.2 It is the intention to review these Terms of Reference annually to ensure their relevance is maintained. Amendments will be subject to the agreement of the Section 151 Officer and Members of the Audit Committee.

#### **2 PURPOSE**

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources (*CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*).

- 2.2 To fulfil this role Internal Audit within Hartlepool Borough Council is required:

- To provide an annual written report to the Audit Committee which includes an opinion on the overall adequacy and effectiveness of the organisations control environment that supports the annual Statement on Internal Control;
- To review, appraise and report regularly on the soundness, adequacy and application of internal controls to management and the Audit Committee;
- To provide Management and Members of the Council with information, analysis, appraisal, recommendations, advice and assurance in order to assist them in the effective discharge of their responsibilities;
- To verify the existence and the means of safeguarding all assets;

- To plan audit work, having regard to this Charter, proper internal audit practices, the council's constitution and relevant statutes and regulations.

### **3 AUTHORITY**

- 3.1 The authority of the Internal Audit function is derived from legislation mentioned in paragraph 1.1 and the Council's Constitution.
- 3.2 The requirement for an internal audit function for Local Authorities is implied by Section 151 of the Local Government Act 1972, which requires that Authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit Regulations 2006 regulation 4, specifically require that "a review of the effectiveness of systems of internal control be considered by a committee of the relevant body" and regulation 6 requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings. Under the Council's constitution the Audit Committee undertakes this role.

### **4 SCOPE**

- 4.1 The scope of Internal Audits remit covers the organisations entire control environment. This includes all of the Council's operations, resources, services and responsibilities in relation to other bodies.
- 4.2 The Head of Audit and Governance determines internal audit's priorities by preparation of a strategic audit plan based on assessed risk. This is translated into annual plans, which are reported to the Section 151 Officer, Corporate Management Team and the Audit Committee. In determining these priorities the Head of Audit and Governance takes into account the organisations assurance and monitoring mechanisms including risk management arrangements.
- 4.3 In order to fulfil its role and be able to carry out their duties effectively, audit staff shall have access at all reasonable times to:
- All assets, documents, accounts, property, vouchers, records, correspondence and other information and data of the Council which are necessary for the proper performance of their duties. Such access shall be granted on demand and not subject to prior notice;
  - Any Council employee or agency employee, to obtain information and explanations deemed necessary to form an opinion on the adequacy of systems and / or controls.
- 4.4 All officers and Members of Borough Council are required to render assistance to internal auditors in the conduct of their audits. These requirements are enshrined within the council's constitution.
- 4.5 It is management's responsibility to maintain the internal control system and to ensure that the Council's resources are properly applied in the manner and on the activities intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.

- 4.6 It is the internal auditor's responsibilities to have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed. This knowledge includes the need to know that characteristics of fraud, the techniques used to commit fraud, and the types of fraud associated with the activities audited. An internal auditor should have regard to the possibility of such malpractice and should seek to identify serious defects in internal control, which might permit the occurrence of such an event.

## **5 INDEPENDENCE**

- 5.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities.
- 5.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Audit and Governance has direct access and freedom to report in his own name and without fear or favour to all officers and members and particularly to those charged with governance.
- 5.3 Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it. The outcome of all recommendations is reported to the Audit Committee for their consideration.

## **6 RESOURCES**

- 6.1 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to this Charter and Standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.
- 6.2 The Head of Audit and Governance is responsible in conjunction with the CFO and ACFO for appointing the staff of the Internal Audit Section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Section maintains an annually updated Training and Development Analysis Plan which sets out an ongoing development programme for Internal Audit staff.
- 6.3 The Head of Audit and Governance is responsible for ensuring that the resources of the Internal Audit Section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report this to the Chief Executive, the Section 151 Officer, and, if the position is not resolved, to the Audit Committee.

## AUDIT COMMITTEE

5<sup>th</sup> April 2007



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

**Subject:** INTERNAL AUDIT STRATEGY

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### 1. PURPOSE OF REPORT

To inform Members of the updated Internal Audit Strategy attached as Appendix A to the report.

### 2. BACKGROUND

- 2.1 In order to comply with the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and the Accounts and Audit Regulations, the Head of Audit and Governance must produce an audit strategy.
- 2.2 The strategy attached updates the previous document and is a high level statement of how the internal audit service will be delivered and developed in accordance with its charter and how it links to organisational objectives and priorities. The strategy is included as part of the Internal Audit Manual and sets the context within which more detailed plans are developed.
- 2.3 The strategy communicates the contribution that Internal Audit makes to the council and includes:
  - Internal Audit objectives and outcomes.
  - How the Head of Audit and Governance will form and evidence the opinion on the control environment.
  - How the service will be provided.
  - The resources and skills required to deliver the strategy.

### 3. RECOMMENDATION

That the Audit Committee approves the Internal Audit Strategy

Appendix A



# HARTLEPOOL BOROUGH COUNCIL

  

## INTERNAL AUDIT STRATEGY

## **AUDIT STRATEGY**

### **Strategy Statement**

The overall Strategy of Internal Audit is:

**“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it.”**

### **1 Statutory basis for Internal Audit**

- 1.1 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit Regulations 2006 regulation 4, specifically require that “a review of the effectiveness of systems of internal control be considered by a committee of the relevant body”

### **2 Definition and Objective**

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources (The control environment includes all authority operations, resources, services, and its responsibilities to other bodies).
- 2.2 To comply with the Accounts and Audit Regulations, the authority completes a Statement on Internal Control to demonstrate the robustness of its arrangements and Internal Audit will form an important part of providing this enhanced assurance. Internal Audit also has a role in advising managers in relation to issues within its remit, e.g. appropriate controls in new projects/developments.

### **3 Status**

- 3.1 Internal Audit is responsible to the ACFO Corporate Finance, for line management purposes, and helps to deliver the statutory financial responsibilities of the CFO (see above). However, Internal Audit is independent in its planning and operation, and has no responsibility for delivering or managing non-audit services.
- 3.2 The Head of Audit and Governance shall have direct access to the Head of Paid Service (Chief Executive), all levels of management and elected members. Internal Auditors shall have the authority to:
- Enter at all reasonable times any Council establishment.
  - Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary.
  - Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.

- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
- Require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control.
- Access records belonging to third parties, such as contractors or partners, when required and appropriate.

#### **4 Delivery of the audit service**

- 4.1 The Head of Audit and Governance is responsible for delivering the audit service in accordance with its Charter. To ensure that this can be achieved, there are appropriate arrangements for:
- Determining and planning the work to be carried out (i.e. an audit plan based on an assessment of the risk);
  - Providing the resources required to deliver the audit plan (principally the level of staff and external input), the necessary skills (both in general audit and technical areas) and support facilities (such as IT facilities, equipment and management and administration processes)
- 4.2 The Internal Audit service will be delivered on the basis of a Strategic Audit Plan, consistent with the current longer term financial planning regime, and a detailed Annual. The plan sets out the number of audit-days required for Internal Audit to adequately review the areas involved, and indicates the priority level for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks (including those identified through the Risk Management process and by the external auditor) and the views of senior management on these issues. Where resources available are not considered by the Head of Audit and Governance to be adequate for such an opinion to be provided, this will be reported to the CFO.
- 4.3 The Plan balances the following requirements:
- The need to ensure the Audit Plan is completed to a good practice level (currently at least 90%);
  - The need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which External Audit will place reliance);
  - The need to appropriately review other strategic and operational arrangements
  - The need to have uncommitted time available to deal with unplanned issues which may need to be investigated e.g. allegations;
  - To enable positive timely input to assist corporate and service developments.
- 4.4 A joint working arrangement with External Audit will be operated in order to ensure that Internal Audit resources are used as effectively as possible.

The Head of Audit and Governance will keep progress against the audit plan, and the content of the plan itself under review, in liaison with the ACFO

Corporate Finance and the CFO, and through monitoring corporate and service developments. Given the length of the Strategic Audit Plan this ongoing review will be particularly important to ensure it continues to tackle topical issues. Where there is a need for material changes to the plan (i.e. affecting over 20% of the planned assignments) a revised plan will be re-submitted to the audit committee for approval. The audit committee will also be advised of performance against the audit plan and on relevant indicators under the performance management framework.

- 4.5 Internal Audit will comply with the Auditing Practices Board's *Guidance for Internal Auditors*, as interpreted by CIPFA's *Code of Practice for Internal Audit in Local Government in the UK*, and staff are expected to comply with any other appropriate professional standards. The Head of Audit and Governance will ensure that there is an up to date *Audit Manual* in place setting out expected standards for the service, and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments. Relevant training will be provided to ensure auditors have the level of skills necessary to undertake their roles.
- 4.6 Where necessary to ensure an adequate, effective and professional audit service is provided; the Head of Audit and Governance will buy in resources from external providers to supplement internal resources. Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.
- 4.7 The reporting approach for Internal Audit is set out in the audit manual and Internal Audit shall comply with this protocol as the most efficient method of delivering the outcomes of its work. In the delivery of each assignment, Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

## 5 Audit Environment

- 5.1 In order to ensure full and adequate audit coverage, the first step of audit planning will be the identification of the audit environment. This assessment will be made using knowledge, experience, discussion among the audit team, and liaising with finance and departmental directors.

## 6 Risk Assessment

- 6.1 Once the audit environment is identified, the Head of Audit and Governance will consider a risk assessment of each element of the environment. The Head of Audit and Governance will start audit planning by considering management's own assessment of risk, having first established that the risk register has been properly compiled and that it is a strong basis upon which to plan work. In order to assess the identified areas in terms of risk, the following factors have been adapted from CIPFA's risk assessment package to better fit the audit environment at Hartlepool:

- **System Factors**  
The stability and complexity of the system.



- **Managerial and Control Environment**

Previous internal audit findings, client track record in responding, external audit comments, division of duties, perceived quality of staff, staff turnover and existence and quality of procedures.

- **Value of Transactions**

The materiality of the total monetary value the population of the auditable area.

- **Volume of Transactions**

The total population of transactions generated by the system.

- **CPA Critical**

The effect the auditable area has on external ratings.

- **Impact on SIC**

The overall impact on the internal control environment.

- **Legal Penalties**

The consequences of weakness leading to legal action.

6.2 Every auditable area will be allocated a mark out of 10 for each factor. The total score for each auditable area will be scored and ranked, with the highest scoring areas being those facing the greatest risk. The following risk scores will dictate whether the auditable areas are subject to audit annually, two yearly or three yearly:

- Score 350 or more: annual coverage
- Score 260 – 349: two yearly coverage
- Score 259 or less: three yearly coverage

## 7 Resourcing the Plan

7.1 The Head of Audit and Governance will calculate the anticipated resources needed for the period under question. The calculation starts with the total available days, based on the number of staff in post and taking account of any staff movements. From this figure, allowances for annual leave, bank holidays and anticipated sickness are deducted to arrive at the number of productive days available.

7.2 Having obtained the results of the risk assessment process and determined the resources at the disposal of the Head of Audit and Governance, an audit plan for the period in question will be prepared. The plan will include a contingency provision to provide for tasks and reviews that were not foreseen when the plan was made or for emerging risks. The Head of Audit and Governance will determine whether the resources available are sufficient to allow a robust opinion on the state of the internal control environment. If, in the opinion of the Head of Audit and Governance, there are insufficient resources available, this will be reported to the CFO and/or the audit committee.

7.3 The likely outcome of such a report might include the provision of additional resources to review the identified risks or an acceptance that an increased level of risk must be borne by the authority. The CFO and Audit Committee will approve the plan.

## **8 Monitoring and Controlling**

- 8.1 Effective management of the delivery of the audit plan is fundamental to ensuring that sufficient audit coverage is achieved. Factors that are taken into account include the timing of specific audits during the course of the year and the allocation of audits to those staff with the appropriate skills and experience to complete the task.
- 8.2 To help monitor and control the plan, all audit staff are instructed to use their individual electronic timesheets held on the shared drive within the audit plan file. The timesheets are to be completed on a daily basis with the work undertaken during that period using the codes identified for each area of work as listed in the annual audit plan. Analysis of staff time is produced by the time recording system, which allows comparison of actual output against the audit plan at individual, team and total level. The Head of Audit and Governance will prepare a summary report for the CFO and audit committee, outlining major variations and their impact on the ability of Internal Audit to complete its planned work for the year, stating clearly what effect this may have on its ability to measure the robustness of the authority's overall internal control environment for the period.